STATES OF JERSEY

SOCIAL HOUSING SCHEMES: FUNDING (P.40/2012) – COMMENTS

Presented to the States on 25th May 2012
by the Corporate Services Scrutiny Panel

STATES GREFFE

COMMENTS

Introduction

1. On 11th April 2012, the Corporate Services Scrutiny Panel was briefed by the Minister for Treasury and Resources and the Minister for Housing on the proposals subsequently outlined in *Social Housing Schemes: funding* (P.40/2012). Following the briefing, the Panel researched the matter and included questions on the subject when it received the Minister for Treasury and Resources at a Quarterly Public Hearing on 17th May 2012.

2. It is ultimately a matter for Members as to whether they support P.40/2012 and the rationale behind it. On the basis of its work, however, the Panel has agreed to present these comments in order to highlight matters that require consideration. It is of paramount importance that the use of public funds and the implications thereof are clearly understood. Decisions taken by the States Assembly should be done so on as informed a basis as possible. It is apparent that there are some areas where further clarification or explanation from the Minister would be beneficial.

Ministerial Responsibility

3. The first question we considered was why the proposition had been lodged by the Minister for Treasury and Resources and not by the Minister for Housing. Given P.40/2012 relates to the Housing remit, it appeared that it would have been more appropriate for the Minister for Housing to have lodged it for debate.

4. We understand that, under the *Public Finances (Transitional Arrangements) (Jersey) Order 2011*, only the Minister for Treasury and Resources could have lodged P.40/2012. For the sake of clarity, the relevant paragraph of Article 2 reads as follows –

> "***2 Application of Law from 1st January 2012***
>
> …
>
> *(4) Notwithstanding the repeal of Article 11(8) of the Law as it was in force before 1st January 2012, the States may, at any time in 2012, amend a head of expenditure on a proposition lodged by the Minister on the grounds that –*
>
> *(a) there is an urgent need for expenditure; and*
>
> *(b) no expenditure approval is available.*
>
> … *"*[1]

5. It is apparent, therefore, that P.40/2012 is effectively an '11(8) Request', notwithstanding the amendments to the *Public Finances (Jersey) Law 2005* agreed by the Assembly in 2011. Interestingly, at the time of the debate on those amendments, the Minister made the following comment –

[1] Public Finances (Transitional Arrangements) (Jersey) Order 2011 (R&O.172/2011)

> "*Effectively it is going to be pretty difficult to bring forward an Article 11(8) request [under the new arrangements]. The first call for an unforeseen expenditure is going to be the contingency. The second call will be if the contingency is exhausted then the Minister for Treasury and Resources will go shopping in relation to the existing heads of expenditure for other departments and it is only under the extreme events that are set out, which we will go on to debate, I think it is in Article 20 and Article 9 of the issue of a potential state of emergency. That is the only ability to amend the Medium Term Financial Plan and we will come on to discuss how that Medium Term Financial Plan will be capable of amendment.*"[2]

6. Nevertheless, the Assembly is being asked to accede to an '11(8) Request', albeit such a request will seemingly be unfeasible from 2013 onwards. This raises the question of how the Minister would address a situation (such as that which P.40/2012 seeks to address) under the new arrangements of the Medium Term Financial Plan (MTFP).

7. **The Minister should therefore clarify whether, under the new arrangements of the MTFP, fiscal stimulus of the type proposed in P.40/2012 would be possible and, if so, how it would be possible.**

Use of £27.1 million from the Consolidated Fund

8. The Panel acknowledges that the Minister has consulted the Fiscal Policy Panel (FPP) on the proposition and we note the FPP's support, subject to the conditions of fiscal stimulus being met: that the stimulus be timely, targeted and temporary. In particular, however, we have noted the following piece of advice to the Minister by the FPP –

> "*If economic conditions had not deteriorated since our last report our advice would have been to transfer all these funds into the Stabilisation Fund*."[3]

9. This is particularly significant given the Minister's own statement in his initial request to the FPP –

> "*If the States agrees to the [proposition] the balance [of the Stabilisation Fund] would effectively be 0 in 2011 through 2013 but return to £10m as forecast when the £27.1m investment will be made by the Currency Fund, allowing the £10m to be repaid to the Stabilisation Fund on 1 January 2014.*"[4]

10. Further clarification of the impact of adopting P.40/2012 on the Stabilisation Fund would be beneficial and **the Minister should therefore explain what impact there would be on the Stabilisation Fund.**

[2] Hansard, 19th July 2011, Section 4.1.15
[3] Letter from the Fiscal Policy Panel to the Minister for Treasury and Resources, 4th May 2012
[4] Letter from the Minister for Treasury and Resources to the Fiscal Policy Panel, 12th April 2012

11. Ultimately, some of the £27.1 million would be put towards projects for which funding was identified in the 2012 Annual Business Plan (namely, the first 3 projects listed in the report accompanying P.40/2012). For clarity, the following tables (taken from the Annexe to the 2012 Annual Business Plan) indicate the Housing Social Works Programme that was envisaged at the time for 2012 to 2014.

Scheme	**2012 Programme (£'000)**	**2013 Programme (£'000)**	**2014 Programme (£'000)**
Le Squez Phase 2c	4,658		
La Collette Phase 1	4,838		
Journeaux Street 2–4	1,308		
Journeaux Court Intensification		536	3,899
Ann Court		536	2,228
De Quetteville Court High Rise			557
Osborne Court			334
Acquisitions of Life-long homes		12,983	6,684
Total of Proposed Projects	10,804	14,055	13,702

Funding Streams	**2012 Programme (£'000)**	**2013 Programme (£'000)**	**2014 Programme (£'000)**
Capital Balance Brought Forward	2,974	3,125	6,896
Capital Receipts Applied	4,989	4,307	3,773
Repayments			(2,713)
Other Social Housing Funding	5,966	13,519	8,912
Total Funding Available	13,929	20,951	16,868
Less: Total of Proposed Projects	(10,804)	(14,055)	(13,702)
Capital Balance Carried Forward	3,125	6,896	3,166

[5]

12. Given the 2012 Annual Business Plan provided a breakdown of the individual costs of each project, it is noteworthy that the report accompanying P.40/2012 does not do likewise. **The Minister should therefore provide a breakdown of how the £27.1 million of funding would be used across the 6 projects. The Minister should also provide further explanation of the sixth project which, in the accompanying report, is described as the "*purchase of life-long homes*."**

13. The report accompanying P.40/2012 highlights that the Department of Housing no longer receives an annual capital allocation but instead relies upon the sales of existing stock (in accordance with *Social Housing Property Plan 2007 – 2016* (P.6/2007). The report states that "*the funding sources assumed [for the projects at La Collette, Le Squez and Journeaux Street] are now unlikely to materialise*." Nevertheless, the report also states that "*it is unlikely that sales of existing stock will yield more than £5 million in 2012*." If

[5] Annex to Annual Business Plan 2012, p.176

£5 million were indeed to be raised, that would appear to represent almost half of the expenditure approval agreed in the Annual Business Plan for 2012.

14. There is therefore the potential for confusion as to whether the Department of Housing is likely to receive any of the £10,804,000 anticipated in the 2012 Annual Business Plan and, if so, to what use that funding will be put. We understand that the £27.1 million withdrawn from the Consolidated Fund would cover the entirety of the costs of the 6 projects described in P.40/2012. Any yield from the sale of existing stock would appear to be additional to that. For instance, if a yield of £5 million were secured, this raises the question of whether only £22.1 million would be required from the Consolidated Fund rather than the full amount proposed in P.40/2012. In that regard, we have noted that £27.1 million from the Consolidated Fund would be additional to the expenditure approval provided in the 2012 Annual Business Plan and that the total approval for the Social Housing Programme would rise to £37,904,000.

15. **The Minister should clarify what yield from the sale of existing stock is expected to arise in 2012 and what use would be made of the resultant funding.**

16. Ultimately, part of the rationale behind P.40/2012 is to address concerns that the construction industry will face a lack of new work and the proposals are therefore designed to bolster the industry. We have considered the question of what capacity there is in the construction industry.

17. The report accompanying the proposition cites announcements from the industry itself and evidence from tenders to the Department of Housing in 2011. We asked what other information there might be to indicate capacity and were advised that it is very difficult to estimate capacity (a difficulty encountered in other, larger jurisdictions). Nevertheless, we were directed towards the Business Tendency Survey which, in March 2012, had indicated that less than 10% of firms were reporting to be working above capacity; with the majority reporting that they were working either at capacity or below capacity.

Future Implications

18. P.40/2012 states that "*the funding of £27.1 million will be repayable by Housing upon incorporation on 1st January 2014 when an investment will be made by the Currency Fund in the new organisation. Of this repayment £10 million will be reimbursed to the Stabilisation Fund*."

19. There are 2 matters arising from this statement which we would highlight. The first is to stress that the Assembly has yet to agree to the Housing Transformation Programme. There is consequently no guarantee at present that £27.1 million will be returned in the way described above.

20. Secondly, the Panel has noted the proposed use of the Currency Fund. It is accepted that P.40/2012 would not in itself lead to the Currency Fund being used. Nevertheless, it is a significant proposal and one on which further explanation will be required. For example, it is not apparent in the proposition how much investment from the Currency Fund it is envisaged would be

required and **the Minister should therefore ensure that the Assembly and Panel are kept appropriately informed of plans in relation to the Currency Fund.**

21. The assets of the Currency Fund represent the value of the currency in circulation. Investments are held in near cash assets so that liquid funds would be available should these be required for the redemption of Jersey currency. The intention is to "invest" funds from the Currency Fund in the Housing projects. **The Minister should ensure that the proposed actions are explained and clarification is provided that there is a margin of safety retained in the Currency Fund.**

Conclusion

22. As we have stated, it is for Members to decide whether they approve of the Minister's proposal to use £27.1 million from the Consolidated Fund to assist both the Department of Housing and the Construction Industry. It is apparent, however, that some additional information and advice from the Minister for Treasury and Resources is required to ensure that the Assembly's decision on P.40/2012 is made on an informed basis.