Les Vaux Housing Trust

c/o Voisin Hunter Ltd
One Esplanade
St. Helier
JE2 3QA

3rd July 2012

Re : Scrutiny review of Housing Transformation programme
FAO : Fiona Scott
Scrutiny Office
Morier House
St Helier
JE1 1DD

Dear Deputy Moore

**Achieving Decent Homes – An Affordable Housing Framework For The Future – White Paper April 2012 – Submission to Scrutiny**

I am writing on behalf of the Members of Les Vaux Housing Trust to enclose a copy of our recent submission to Housing in respect of the White Paper issued earlier this year.

I also enclose a copy of the covering letter.

Should you wish to interview us in person both the Treasurer and myself (with our agent) would be delighted to attend one of your hearings, or at any other time.

A copy of our submission to Housing will be placed on our website in due course.

I have also arranged for 2 other documents to be sent to you separately :

1) a document that provides an overview of the Trust, including its constitution ;

2) a collection of some of the media clippings from when we were formed, which illustrate the very real difficulties being faced by the States and tenants (particularly of Troy Court) at the time, and will help to clarify why we remain very conscious of the reasons as to why we were needed.

If you wish to discuss these comments in greater detail please do not hesitate to contact me.

Yours sincerely

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**Ken Hewitt**
**Chairman of Les Vaux Housing Trust**

Les Vaux Housing Trust

c/o Voisin Hunter Ltd
One Esplanade
St. Helier
JE2 3QA

Housing Transformation programme
Housing Department
PO Box 587
Jubilee Wharf
24 Esplanade
St Helier
JE4 8XT

2nd July 2012

Dear Sirs

**Achieving Decent Homes – An Affordable Housing Framework For The Future – White Paper April 2012 – Response to Consultation**

I am writing on behalf of the Members of Les Vaux Housing Trust to express our views on the White Paper issued earlier this year.

Firstly, I would like to thank you for the opportunity of expressing our views. However whilst we do agree with many of the principles (for example the principle of regulation), we also consider that there are significant flaws in the detail (or lack thereof) – for example the non provision of the business case.

Therefore I do wish to express (on behalf of the Members) our serious concerns at significant parts of these proposals. The views are expressed in detail in the attached document.

I trust you will accept that these views are the views of all of our Members, and are made in the spirit of trying to be helpful to the process.

However we are significantly concerned as to the potential adverse consequences to tenants, possibly the housing market and potentially the tax payer at a time when financial prudence needs to be the bye word in everything we do.

If you wish to discuss these comments in greater detail please do not hesitate to contact me.

Yours faithfully

**Ken Hewitt**
**Chairman**
Enc
CC Andrew Green

COPY

## Les Vaux Housing Trust:

## A Response to the White Paper Consultation 'Achieving Decent Homes'

### 1) Introduction

The future provision of Social Housing in Jersey is an important issue which needs addressing – of this there is no doubt. The more difficult task is finding a solution to the problems which exist and ensuring that this is a workable solution for all Social Housing Providers. Les Vaux Housing Trust and its Members (hereinafter respectively referred to as "the Trust" and "the Trustees") accept that maintaining the status quo is simply not an option for the States Housing Department to be able to tackle the existing problems which they face within the Department itself. To tackle these issues the White Paper suggests four main proposals which will undoubtedly drastically reform Social Housing and the role of its providers.

It is fair to say that Les Vaux Housing Trust welcomes the idea of reform if the idea of reform is to improve efficiencies and effectiveness for the future of Social Housing in Jersey. In this respect the Trust agrees with some of the principles behind certain proposals which suggest a positive step forward in improving efficiencies within the broader context of Social Housing.

For example, the creating of a central waiting list with one application form through the Affordable Housing Gateway will undoubtedly be a positive step forward in terms of the application process for applicants and will also enable a better understanding of the need for social housing without the issue of duplicated applications. Whilst concerns still remain surrounding the current decision not to widen the currently very strict eligibility criteria (which will be discussed further in this response) in principle the idea is very much welcomed as the aim is to improve and enable a more efficient applications process for applicants.

However issues start to arise where certain aspects of the proposals start to infringe on the independence of the Trusts and the efficient manner in which they have operated to date. To this effect the Trust see no necessity in reforming aspects of Social Housing that up until now have been operating efficiently so far as the Trust is concerned. In order to fully understand the implications that these proposals will have on the independence of the Trust and its tenants it is important first of all to understand the origins and history of how Les Vaux Housing Trust came into being in the first instance. In this respect we would like to draw your attention to the Appendix A which gives a detailed understanding of how the Trust originated. This is crucial to the understanding of why it is important that the Trust is able to retain some level of independence free from too much political involvement to enable it to carry on operating in the efficient manner that it has done so for the past 23 years.

In terms of its financial planning, the Trust has operated extremely efficiently. For example the Trust's loans for Vale Court and Valley Court have been paid off and Troy Court is due to be fully repaid within 18 months. This shows that the Trust can work and does work efficiently. Whilst the Trust accepts that during its life the States have provided an interest subsidy totalling £1,591,834, the Trust has also been able to grow and re-develop independent of States funding.

Les Vaux Housing Trust is run by voluntary Trustees and managed professionally by Managing Agents. It is well run and produces accounts which are in the public domain and show a very low percentage of voids and arrears. In addition to this, the Trust does not share the same predicament as States Housing regarding the issue of properties not being maintained to a 'Decent Homes Standard'. The Trust operates efficiently in ensuring that all properties are properly maintained and that provision is made for redevelopment when a property such a Troy Court comes to the end of its lifetime.

The Trustees are proud of the track record of Les Vaux Housing Trust over the past 23 years, and emphasise that it has to look to the long term. The Trustees are very concerned that a number of the proposals in the White Paper threaten the independence and flexibility of the Trust, and will potentially undo much of the good work that has been achieved, to the detriment not only of the Trust, but most importantly to its tenants.

## PROPOSAL 1 -ESTABLISH A STRATEGIC HOUSING UNIT

The opening paragraph of this section states:

> "The establishment of the SHU distinctly separate to the landlord function is one step towards eliminating the existing conflict of interest for the Minister for Housing. Currently the Minister is simultaneously expected to set sector and Island wide housing policy, regulate the activities of other social landlords and provide landlord services to approximately 4,500 homes."

In general, the majority of this section is reasonable. However the following specific concerns arise, particularly with the risk of a significant loss of independence of the Trust in its operations. We are adamant that our independence is critical to our future continued operations, both in financial terms, and also from the perspective of operating in the best interests of our tenants.

Therefore as regards :

4. Managing the Affordable Housing Gateway;

and

10. Proposing the criteria for eligibility for social housing on the Island through the Affordable Housing Gateway;

The Trust accepts the principle (in administration terms) of a 'one stop shop' to manage tenant applications (ie the Affordable Housing Gateway'). However concerns still remain over flexibility within the criteria operated by the Gateway and the Trust's ability to house those who they consider a 'worthy case', but do not necessarily fit within existing criteria. [This goes back to the whole original purpose of why the Trust was created, and is at the heart of how we operate]. Although we have had assurances that criteria will be widened, and our flexibility will not be threatened, these have yet to materialise, and the Trust is very wary of political promises that something will happen in the future. It needs to have certainty over future criteria etc before it commits itself fully to this process.

By way of example we have been presented with a proposed Service Level Agreement ("SLA") that 'needed' to be signed as a matter of urgency. On examination, there was no legal definition of the Gateway, no termination clause (even with appropriate notice), and the Minister was the final adjudicator in any dispute between the Trust and the Housing Department. Whilst this latter position was purportedly temporary, the Trust is very unwilling to put itself in a position where it might end up in a dispute with the Department (even though we presently operate well together), with no means of removing ourselves from that dispute, and no other means of appeal. When this was raised with the Department the Trust was made aware that a cancellation clause was deliberately omitted as the States on approval would enforce new regulations to set the standards as to how Social Housing allocations would be made. An open-ended agreement with no termination clause or certainty as to when Regulation will be enforced is not satisfactory to the Trust.

Indeed it was also proposed that the SLA be entered into with an entity which has no legal existence (ie the Affordable Housing Gateway) whereas it is important to note that the White Paper rightly identifies the Gateway as a <u>process</u>. In our view this is a fundamental that needs clarification.

This has therefore raised some concerns in the minds of the Trustees, who have decided that the Trust needs to have certainty and flexibility before it enters into any arrangements, in order to protect both the legacy of the last 23 years, and also protects the interests of future Trustees and tenants.

The White Paper does not propose any consultation with Housing Trusts over widening the criteria and this is therefore an example of how the proposals may impede the Trusts' independence.

9. Proposing and delivering the social housing rent policy;

It is the view of the Trustees that as a principle the States **should** determine Rent Policy but **only** in determining a *maximum* 'fair rent'. Policy should not force Landlords (in this case the Trust) to *increase* their rents to match the 'fair rent' which is the implication included in this document.

The Trust has to operate on a prudent long term basis. Accordingly it needs a degree of certainty in its forward financial planning. In the past it has faced pressure to reduce certain rents, which it resisted. [This related to a very small number of flats which having started at the then rent rebate ceiling had slowly crept above that ceiling due to a States policy of that day that restricted increases in the rent rebate ceiling below cost of living]. The effect over time being that rents that increased by cost of living became mis aligned with the artificially lower rent rebate ceiling.

This is referred to (as a wider problem) in the consultation document. We recall that this arose because of political decisions taken by politicians of the day. Now it is being suggested that we should artificially, and significantly, increase our charges to our tenants. We are unclear as to whether this is to be an obligation or a suggestion. On the basis of our present financial projections this increase is not needed and is therefore not justified. What is needed is flexibility, and long term stability. Given our past experiences it would seem feasible that if the Trust could be obliged to increase its rents, it could at some future point be obliged to reduce its rents, which could have potentially damaging consequences to our long term borrowing projections.

The Trustees would also seek clarification as to how the SHU will enforce any rent increases, and what the consequences would be for any Trust that did not comply with such direction. The White Paper appears to be silent on this matter.

Finally we note that the SHU is to be resourced by "a senior officer from within the existing establishment…of the Housing department". Given that this whole transformation program offers the exciting opportunity to review overall housing provision it would seem highly desirable that someone with no preconceptions should be employed in this new post, and therefore this role should not be undertaken by existing staff. Additionally, the Trustees would assume that such an important post should be sourced through the process overseen by the Appointments Commission.

## PROPOSAL 2 - CREATE AN AFFORDABLE HOUSING REGULATOR

The principle of regulation has always been welcomed by the Trustees who understand the reasoning behind it. The Trustees agree that regulation should, from the outset, be performed by an independent regulator, able to demonstrate complete independence from the political system.

In the Trustees opinion it should be the Regulator who sets and determines regulation, rather than the SHU. Otherwise there is the potential for politics to play a part in the types of regulation required which (a) will not give the long term stability required, and (b) is surely a conflict of interest similar to that outlined in the very beginning of the document which these proposals are ostensibly held out to be trying to eliminate.

However it is important not to lose track of the original concept behind the Housing Trusts – namely a voluntary body which worked with the States to provide assistance to those in housing need, but operating independently and following private sector best practice.

Obviously the role of Housing Trusts has changed (mainly due to decisions and policies made by the States) to include provision of housing that would have otherwise been provided by the Housing Department itself. Whilst this role is accepted, it must be ensured that we do not lose sight of our original purpose and the Trustees believe that any regulations must be sufficiently flexible to take into account of the diversity of roles played by the various Housing Trusts on the Island.

The Trust is therefore concerned to some extent to note in the White Paper (p.12) that the States of Jersey Strategic Housing Unit (SHU) will be responsible for <u>introducing</u> specific items for <u>enforcement</u> <u>by</u> the Regulator, in particular the use of reserves and surpluses.

The Trustees are in agreement that regulation in this sense should be to <u>monitor</u> the reserves and surpluses of the Housing Trusts to ensure they are not left to increase to a significant amount and that they are utilised for the purpose of either maintaining their properties, refurbishing existing properties or funding the acquisition / development of further units of social housing accommodation. However if it is the intention of the SHU to <u>enforce</u> through regulation that the Trusts pay this to the States Treasury to enable the SHU to distribute between all social housing providers including the new Housing Association, then this is not an acceptable degree of Regulation to the Trust. The Trust should be able to determine the use of its reserves/surpluses and only be regulated in a manner which checks that they are being used for their intended regulatory purpose.

There is also a risk that any Trust that has been prudent and efficient in its operating costs, and has therefore been able to build up reserves, will be penalised by having some or all of those reserves removed to fund a project (undoubtedly worthwhile) being proposed by a Trust that is potentially <u>less</u> efficient, and which has not been able to build up such reserves themselves. Thereby inefficiency will be rewarded, and efficiency will be penalised.

The Trust is also concerned to note from the White Paper that it is only those Trusts which have been in receipt of past or present subsidy/subsidies from the States that will be regulated. Surely regulation should apply to all Social Landlords regardless of subsidy. For example any sheltered housing provided by Parishes should be subject to some form of regulation, as should any other Housing Trust (e.g. Scott Gibaut, or Clos du Paradis).

Otherwise it will be one rule for one, and one rule for another, which cannot be equitable.

We also feel that light touch regulation should apply to the private sector (e.g. Decent Homes standard for non-qualified accommodation) and should also provide an ombudsman role for appeals from private sector tenants or even landlord.

Regulated landlords will have an additional financial burden imposed upon them, but non-regulated landlords will not.

We would like to stress that we already do have an agreement in place with the Housing Department (copy attached – see Appendix B) which does lay down various conditions in respect of tenant nomination, reserves, etc, and this has operated effectively for the last 11 years.

We would also note the following in respect of the cost of our operation to the States of Jersey.

Since 1993 we have received approximately £1.6 million as a total interest subsidy across all of our acquisitions since that date. This relates to a total of 368 units. Tenant nomination rights (for the Housing Department) across the estates range between 50% and 80% depending upon the estate. As a rough guide this equates to the States having nomination rights to 200 units of our stock from the total. If one wants to be very prudent on this number one could just assume that it was a 50% nomination rate for everything which would equate to 184 units.

Thus, based on these figures, in the total period of operation of the Trust (approximately 23 years), an interest subsidy of between £8,000 and £9,000 (conservatively) per unit has been received (or less than £400 per year per unit). To put this another way, the States have had access to approximately 200 units of accommodation for the cost of less than £400 per unit per year. The interest subsidy cost will diminish ultimately to £nil as each estate is paid off. There is no cost of administration or any maintenance liability or potentially any future replacement cost to the States.

The return to the States of Jersey on the loans advanced for Troy Court, Valley Court, Vale Court and Landscape Grove has been maintained at 4% even though interest rates on commercial loans could have been negotiated at a lower rate.

Interest subsidies in the last 3 years have been £nil, and the Trust has made significant efforts to accelerate the repayment schedules on a number of its bank loans. This has been possible due to the total annual repayments on a number of loans being maintained over the past 4 years at the level required when interest rates were much higher than they are now. This has meant much higher levels of capital being repaid over the past 4 years than was originally scheduled.

Obviously one must always be cautious in how such claims are presented, however we think this does serve to demonstrate the financial benefits to the States (and the Public) of the existing Housing Trust model (which appears to be different to that being proposed for the Housing Department).

## PROPOSAL 3 - A NEW WHOLLY STATES OWNED HOUSING ASSOCIATION

As a general principle the Trustees thoroughly agree that the States should not act as a Landlord.

However, given the proposed structure it would seem likely that the new entity (the States Owned Housing Association) will have to be consolidated into the States Accounts, and accordingly the States will show a significant level of debt on its Balance Sheet.

This will be a significant shift away from the long held (and respected) position that the States do not have any borrowings, which is often cited as a prime example of the success, stability and prudence attributable to Island finances.

This consultation does not include the full business case model justifying this option (of a States owned Association) as being the preferable solution.

We would urge that such important financial information should be released as part of the consultation (even if this requires an extension of the consultation period), in order that proper assessment of the financial viability of the proposals can be made.

We would note that since 1989 Housing Trusts have provided over 1,200 units of accommodation, and believe that this represents by far the majority of new social rented housing units created during this time period. As we have noted elsewhere we consider our model to be most efficient in terms of costs to the Public, and we question why this model appears to have been discounted, or is in the process of being discarded.

The White Paper does not make clear the <u>true</u> cost of the homes to be delivered. For example it is unclear whether this takes account of the value of the land. Whilst it will be the case that there is no cash cost to the States if States land is being provided for free, this is NOT the same as there not being any cost to the public.

We attach 3 financial models (see Appendix C) for recent projects undertaken by the Trust as follows :

- David Moon House (26 flats at a cost of £142k each – with a notional States interest subsidy, as well as a land development subsidy of just over £800k);
- Jardin du Haut (14 Houses at a cost of £170k each – no States subsidy) ;
- Clos Lempriere (10 Houses at a cost of £181k each – no States subsidy)

We fully accept that we, as a Trust, HAVE received land subsidies in the past, and the provision of social housing would be difficult without such subsidy, however firstly this is not an insurmountable problem. Secondly, as previously demonstrated, the direct costs to the States of funding such developments through a non States owned Trust is low – our figures show less than £400 per year per unit, without having future maintenance and replacement liabilities.

We also record that in respect of some of our own projects where no States subsidy has been received, we have still provided units to the Department for them to nominate tenants.

It therefore needs to be clearly <u>demonstrated</u> that the proposed option of a State owned Housing Association <u>is</u> the best financial option, as opposed (for example) to the enhanced use of the existing Housing Trusts.

**PROPOSAL 4 - TRANSPARENCY IN RENTS (Increase to 90% market rents)**

The Trust has serious concerns over these proposals, and indeed, has previously circulated its tenants on the White Paper. Comments we received from our tenants include:

**"There are many tenants who until now may have struggled to pay their way without assistance but with these latest proposals would leave little, if any, incentive to do so."**

**"Most tenants that pay full rent are just keeping their heads above water and to add to that they worry about job loss, cost of food, doctors and dentist fees, it just goes on and on, it's as if we are forever being squeezed like a lemon. Does anyone ever take these things into consideration?"**

**"Would an employer ever give a 20% or 40% wage rise, would social security ever give a 20% or 40% rise to pensioners – it would not happen and neither should this rent rise because it will do more harm than good."**

**"Life on this island with its high cost of living is becoming harder not easier. Can the Housing Committee really believe this to be a good time to introduce such drastic proposals?"**

The Trust shares the concerns of its tenants over how these proposals will have a potentially detrimental social and financial impact on its tenants.

A number of questions arise including:

- Is 90% of market rent a fair Social Housing rent in Jersey? Why is it 90% why not 80% (as appears to be the proposal in the UK) and why is it not being stepped up gradually over 5 or 10 years? [For the avoidance of doubt the Trustees consider that their current rents already meet a 'fair rent' for their tenants]. For reference we enclose an additional document which may provide some useful information on this matter – see Appendix D.

- Is it right that the States effectively tell independent Social Housing providers to increase their rents, possibly by as much as 20% to 30% and how can they enforce this should a Trust not agree?

- Professor Whitehead states that "around 85% to 90%" are generally acceptable rates (without justification), but does not recommend how this level should be reached, particularly in a Jersey context. We are concerned that increasing rents so quickly will have a major impact on those of our tenants who do not claim Income Support (approximately 50% of our tenants).

- Fair Rents have fallen behind because of past decisions by the Housing Minister / the Committee at the time. There were some years when no rental increases were permitted. Is it fair to expect the Trust (or its tenants) to be culpable for funding the shortfall that this has created?

- How does one establish a market rent, particularly at a time that rents are falling ?

Whilst it is stated that Housing will 'means test' the Trust's tenants, we do not believe this will give comfort to our long standing residents.

Why should the Housing Department have the overriding decision on what rent should be charged to a Trust's tenant – the Trust should remain independent to charge its tenants what rent it feels appropriate to meet its repairing, maintenance and loan obligations and commitments (subject to Regulatory control).

What kind of sign does this send out to the honest hardworking tenant that if you are solely dependent on Income Support your rent will not increase, however if you are a hardworking low-middle earner struggling with the high costs of Jersey life your rent will be increased in some way or another?

*Mix of tenants* – if more tenants are pushed out of the Trust because they prefer or can afford to rent in the private sector and the difference between the rentals for private and trusts are reduced to say £100 to £150 per month for a 3 bedroom house this will inevitably lead to a situation whereby all social housing tenants are in receipt of income support.

Surely every estate needs a mix of different social tenants i.e. some working etc. Since its formation the Trust has very much acted as a 'halfway house' to house not just those in receipt of income support but also to support the under-dog middle earner who may just fall out of the strict housing criteria and/or eligibility for income support yet however still struggles to pay rent on a home in the private sector. These proposals appear to be very much geared towards a move whereby all social housing tenants should be in receipt of income support if they are to be eligible for social housing. This goes against the fundamental objectives of Les Vaux Housing Trust and its Constitution and the Trust very much believes in a social mix for their estates.

*Implications for private sector income support* – there has to be a huge impact and cost to tax payers arising out of these proposals. The White Paper states that further work is currently being undertaken – this needs close scrutiny. Is it fair that two tenants that claim Income Support, one living in the private sector and the other in social housing both have to contribute different amounts to their rent because there are different fair rent levels set for both in Income Support? This will only add to the burden of existing inequalities in the private sector i.e. lack of regulation and high rents for properties in sub-standard condition.

The White Paper states (page 18) that "the Minister for Social Security will need to propose the most appropriate level of rent for recipients of the housing component of Income Support in the private rented sector". We do not consider that this banal remark fully illustrates the seriousness of this problem. This is very important information.

To go back slightly earlier in this section to page 17, it is stated that "...The subsidy means that the current rentals from social housing are insufficient to cover the costs of maintaining the homes..." [also] "...The capital value of social rented homes is primarily arrived at from the potential yield less necessary expenditure, <u>over a 25 year period</u>...".

We would argue that based on our model that the level of rents <u>IS</u> sufficient. What we would identify is that the 25 year period is purely driven by bank sector lending requirements. If the States was to lend to this new body, it would surely not be inconceivable for the States to lend over a longer period, for example 30 years. This would have a consequential impact on required rent levels.

## FINANCIAL AND RESOURCE IMPLICATIONS

Firstly, could this end up costing the Tax payer millions of pounds ? Secondly it would seem that one could potentially end up with a scenario whereby Landlords in the private sector take into account the increase in social housing rents and increase their rents accordingly. In this event the whole policy will have failed. It is not clear whether this whole picture has been considered or not .

In addition the Trust does have concerns over the potential for increases in rental arrears and / or voids if properties are difficult to let at such an increased rent. It is also unclear what will happen to any rent increases that are not returned to Treasury (if any).

As noted above, the full financial appraisal of this option, compared to other alternatives, and a justification of why this is the better model has not been made available as part of this consultation. This does not engender confidence in the robustness of these proposals. Again, one of the questions that arises is whether there will ultimately be a cost to the tax payer ?

In particular it would appear that the creation of the new Housing Association will cost the Tax Payer some £1.675m in the first year alone.

What is the overall financial impact of these proposals on an annually recurring basis ? Is there a positive contribution to States finances (including any impact arising in relation to income support in the private sector), or is that contribution negative ? It would appear that the operating costs of the proposed new Housing Association are significantly greater (in % terms) than our own. We therefore question the efficacy of the model being proposed.

To an outsider looking in, it would seem that the cost base of the proposed model is expensive. Salaries will presumably be based on civil service salaries at least, presumably retaining the public sector pension scheme and its inherent costs, as well having the additional annual cost of a paid board. This will mean more cash is required to fund this level of bureaucracy, and therefore less cash will be available for the estates. Whilst we understand some comparison has been made with similar organisations in the UK, we would be very interested to see a cost comparison with the local Jersey Trusts and an appraisal of the operating costs of the Trusts versus the proposed model.

One area that should be clarified is the cost of governance at £370,000 (presumably in addition to the cost of the regulator). Is this a one-off cost or an annual cost ? Equally how have the set up costs of £685,000 been calculated. Both of these items appear expensive given our own experience, including our own original costs of formation, which were minimal.

To be clear, we fully accept that the Housing Department cannot continue as it has done, however we believe that other options should have been explored, fully costed, and included as part of this consultation. We believe that such options should include :

- Reduction/Freezing of Housing's return to the Treasury. Tenants were consulted on this following the green paper via the States Tenants Forum whereby one of the options was the funding of the shortfall by freezing the return to the Treasury and allowing the annual rent increases to make up the shortfall over time. Surely tenants would not have been asked for their views on an option that was not financially viable?

- Increase to a fairer 80% of market rent over a period of say 5 years

- Sale of assets to other social providers to include those which require refurbishment. The Whitehead Report does state that it is unusual for the State to have the majority of social housing. Would a balancing out of the number of homes between the States and the Housing Trusts be a better option?

  [In our view this option needs to be rigorously examined and the financial reasons for this NOT being viable should be clearly explained].

Consideration should be given to a combination of all the above i.e. part funding of the shortfall by the sale of States Housing assets and the remainder of the funding by the freezing of the return to Treasury to allow annual rent increase to make up the rest of the shortfall over time.

In addition to this, the enabling of borrowing powers for the new Housing Association will further aid the funding of new developments and to planned maintenance/refurbishment to ensure that provision is made by the States so that it's properties are not neglected due to lack of cash which has been the case up until now. However, the ability to borrow must be carefully considered, in the light of the impact on the Balance Sheet of the States of Jersey as a whole.

An increase to 80% of market rent will still allow for a transparent rent policy but be at a much fairer percentage in view of Jersey's already inflated market rates. Staggering the increase to 80% across the board is a much fairer way of ensuring that rents are increased slowly as to not cause a significant impact on low / middle earners.

Again, the White Paper states (page 21) in relation to surpluses made by the social housing sector that: "Directing the use of such surpluses would be a matter for the SHU, in consultation with the Social Security Department and the Treasury". We are concerned by this statement which implies that the use of any surplus made by the Trust will be subject to outside intervention and the ability of the Trust to plan its future will be severely compromised (we have commented on this more fully in proposal 2.

On the same page, the White Paper says that the Regulated Housing Trusts "...will need to agree.....how they will contribute to the increased cost of Income Support for their Tenants." How will this be done? Also the implication is that non-regulated Housing Trusts will not need to contribute to the increased costs of Income Support, which will lead to inequalities in the system.

Equally, the proposals for de-coupling social housing rents from private sector Income Support levels has been suggested in the White Paper, but no details have been provided. When will the proposals be published ? Again it would seem appropriate for them to have formed part of the White Paper.

On page 22, there is a statement that the move to Association status will provide further efficiencies. It is the view of the Trustees that this is pure speculation. If the existing department officers and staff cannot be more efficient now, how do they propose becoming more efficient in the future? A change of title from Housing Department to Housing Association will not suddenly make the system more efficient than may be the case at present.

## Conclusion

The White Paper represents a significant change to the way in which the Housing Department presently operates. It involves property worth over £500 million, rental income of many millions, and will impact upon the whole rental sector in Jersey. It is thus a very important set of proposals. However, despite the enormity of the proposals, a number of questions remain unanswered.

In particular a full financial business case has not been made at this time, which we feel should have been presented in such a White Paper. We would like the Housing Department / States of Jersey to review the finances and the many other alternatives that are available which have been touched on in this reply. We are certain that there are alternatives that will not be of detriment to the social and financial well-being of the tenants as well as the Trust's right to maintain its independence as a social housing provider.

We are sceptical until the full business case is released as to how the proposed new structures will be more efficient than the existing structure, when, broadly speaking, the same resources are being employed.

The Trust wishes to continue to work with the Department and very much welcomes Regulation to some degree in areas such as the Gateway ; and the creation of further units of accommodation ; and in general matters of transparency and probity. However it is mindful of the history of the reasons why Les Vaux were created and must take into consideration its tenants views (some of which are listed below).

We are concerned that an increase in rental income could simply increase the value of land prices for potential new developments or increase the profits made by developers. Land owners and developers could see that they are able to increase the price of new units of social housing, due to the additional income flow now available to housing trusts. The White Paper does not make any proposals as to how the value of land approved for social housing is to be controlled so that large profits are not made by land owners and developers at the expense of social housing tenants who will indirectly be funding those profits through increased rents.

The White Paper is all about "Affordable Housing". We are concerned that the proposals could make social housing in Jersey unaffordable to a significant number of our tenants at a time when many jobs are at risk and the economic prospects for the Island are not looking very good. We (the States and Housing Trusts) should be doing everything possible to contain rent increases to ease the financial burden on tenants, not trying to work out the maximum rent increases that we can impose, which in effect is what these proposals are.

It is the unanimous view of the Trustees of Les Vaux Housing Trust that the independence and flexibility of the Trust is retained regarding all matters but especially that of rent policy which remains paramount. To threaten such flexibility will be to threaten to undo all of the efforts and good work that we have done in the last 23 years, and risks creating a situation analogous to the very reason that the Trust was created in the first place.

**"I along with many others would like to see Les Vaux Housing Trust remain as it is, independent, it seems to have worked well so far, Housing should not have the monopoly"**

**"...the true reason behind these proposals stems from decades of past neglect and the failure to set aside sufficient funds for repairs to their properties... they now wish to take over the Housing Trusts which are running efficiently.."**

**"...the reasons why the Trusts were formed and in particular Les Vaux Housing Trust... was through the failure of a previous Housing Committee to find a solution for the 96 families that were being evicted... must these tenants once again be disrupted by a Committee that refused help before?"**

**"Having been saved by Les Vaux Housing Trust from eviction many years ago, I cannot understand why the Trust is to amalgamate with the Housing Department."**

**" I do not wish to join or be part of the States of Jersey White Paper Proposals...I am and have always been happy with the services supplied by Les Vaux Housing Trust and hope we remain so."**

We are exceptionally grateful to the tenants who have expressed these views above, and their support for us, and trust you will understand our perspective on the matters raised.

**Appendix A – Les Vaux Housing Trust: A Brief History**

In 1989 substantial problems arose in the housing sector in Jersey. The property of Troy Court (96 flats) was offered up for sale to the States of Jersey to which the States (including the Housing Committee) had voted 40 to 8 not to approve the purchase.

The Housing Committee were quoted as saying that it did not wish to purchase the properties at Troy Court, "...because they would have to spend too much money on refurbishment, because no new units of accommodation for local people would be created, and because many of the tenants of the flats would not normally qualify to be their tenants..." [JEP 13/1/89].

As a result of this the property was eventually sold to a Guernsey businessman. Shortly thereafter, Troy Court tenants were presented with a potential increase in their rents of 70% and some five months later (in June 1989) the tenants of the 96 flats at Troy Court were given notice of their forthcoming evictions.

To add to this, in September 1989 the tenants of Landscape Grove (40 flats) were presented with rent increases of 150% - their property also having recently been sold to a new owner. September 1989 also saw the tenants of Valley Court being presented with imminent rent increases of approximately 80%.

Thus the States of Jersey were faced with a politically embarrassing problem which they were unable to solve. A large number of residents were suddenly facing large rent increases, which they would probably be unable to afford, and thus were facing imminent evictions with no alternative accommodation apparently being forthcoming.

The solution to the Troy Court dilemma was proposed by the late Deputy John N. Le Fondré, who suggested that a Housing Association be created, that would borrow money (at a fixed rate of interest of 4%) from the States of Jersey to purchase the property, and the rents of which would be used to fund loan repayments and maintenance. The Association would consist of a number of honorary Trustees, with an agent to manage the day-to-day administration of the property. The idea was presented as a States loan, but one that was being made to an organisation to fund the acquisition of a large number of properties rather than just to an individual.

On 12 December 1989 the States of Jersey unanimously backed a recommendation by the Finance and Economics Committee to lend the newly created Les Vaux Housing Association £5,600,000 to purchase the properties of Troy Court and Vale Court and thus the Les Vaux Housing Association was created. Over the next few years the Association acquired the properties of Valley Court, Landscape Grove, Berry House, Leonard Norman Close and 6-7 St. Saviour's Crescent.

In October 1993 it was decided to change the name of "Les Vaux" from that incorporating 'Association' to one incorporating the word 'Trust'. The principal reason behind this change was because it was considered that the term 'Association' was a misnomer and wrongly implied a direct comparability to the activity of housing associations in the United Kingdom.

The Trust now owns some 350 units and is founded on and driven by a strong ethos to play an important role in the future provision of Social Housing in Jersey by the development of future housing projects. The Trust prides itself on its ability to offer the role of a 'half-way house' between the private sector landlord and housing in the public sector as well offering security of tenure to its tenants. It is this very ethos along with sound financial planning which has allowed the Trust to grow to what it has today – a capable, effective and dependable Social Housing Provider independent of the States of Jersey that will endeavour to operate in a spirit of co-operation so much as the parameters of its Constitution and Ethos will accommodate.

## Appendix B – Agreement with Housing

This agreement is made the 31st. day of August two thousand and one.

**I The Parties**

Between the Housing Committee of the States of Jersey (hereinafter called "the Housing Committee") and the Finance and Economics Committee of the States of Jersey (together "the Committees") **of the one part**;

And Les Vaux Housing Trust (hereinafter called "the Trust") **of the other part.**

**II The Preamble**

**A.** **Whereas** the Trust is an association incorporated under the provisions of the **Loi (1862) sur les teneures en fideicommis et l'incorporation d'associations** (hereinafter called "the 1862 Law") for the purpose of providing residential accommodation to persons in the Island in need of such accommodation.

**B.** **And whereas** the Committees have provided the Trust with financial subsidies and support for bank borrowings by the Trust in the past;

**C.** **And whereas** the Committees intend to provide further financial subsidies and support to the Trust for bank borrowings in the future;

**D.** **And whereas** the parties consider it desirable that in return for the provision of financial subsidies and support as aforesaid the Committees should be given certain rights in respect of the operation of the Trust;

**III The Terms**

**Now it is agreed as follows:**

**1)** The Committees jointly and severally undertake to the Trust:-

a) to provide or procure the provision of loans at a rate of interest contemplated in the relevant financial models of the Trust agreed with the Committees or such support and undertakings as may be required by lending institutions to fund properties currently owned by the Trust (including their redevelopment) and for the purchase of / or the development of such further properties for social rented housing as the Trust may wish to acquire or build provided that the project for such purchase, development or redevelopment as the case may be has been agreed with the Committees.

b) to pay to the Trust or the financial institutions from which the Trust shall have loans which have been approved by the Committees outstanding a sum equal to the amount by which the annual interest on such loans shall exceed four per cent per annum or otherwise the amount of interest on such loans calculated at the rate specified in the relevant financial models of the Trust agreed by the Committees from time to time.

c) to fund such payments out of the Housing Development Fund and to seek the approval of the States of Jersey to such additional funding as may be required to discharge the foregoing obligations to the extent that it cannot be satisfied from the Housing Development Fund.

2) Subject to the provision of clause 3 and the proviso below, the Trust shall not charge a rent for any unit of accommodation owned or administered by it which exceeds the maximum rent charged by the Housing Committee for a unit of accommodation of equivalent specification provided always that this limitation shall not apply to the rents of units of accommodation owned by the Trust which exceed the relevant Housing Committee maximum rent at the date hereof. For the purposes of this clause, "equivalent specification" shall be determined by reference only to (a) the number of bedrooms in the relevant unit and (b) whether the relevant unit is a flat or a house.

3) The Housing Committee shall review maximum rents which it charges for units of accommodation leased by it on a regular annual basis . The Committee anticipates that it will generally increase maximum rents on an average by no less than 3.5% per annum (the "average increase" shall be defined as follows : for the first 5 years from 1 January 2000, the average increase shall be calculated as the total of rent increases to date divided by the number of years being used. After 1 January 2005, the average rate shall be calculated with reference to the proceeding five years on a rolling basis). In the event that the Housing Committee should not increase maximum rents by the minimum three point five per cent per annum in any one year, the Committee may, at its option, pay to the Trust a sum not exceeding the percentage by which the Committee has failed to raise its rents of the rents currently charged by the Trust (the shortfall). If the Housing Committee does not pay to the Trust the full amount of the shortfall, the Trust shall be entitled to increase its rents above the maximum rents of the Housing Committee by an amount not exceeding three point five per cent per annum after deducting such sum, if any, as the Housing Committee may pay to the Trust in respect of the shortfall, provided always that the Trust shall not increase its rents to such amounts as are inconsistent with the objects of the Trust as approved by the Royal Court from time to time under the provisions of the 1862 Law.

4) The Housing Committee shall have the right to nominate the persons to be accommodated in up to fifty per cent of the vacancies arising on units of accommodation owned by the Trust at the date hereof or which are occupied when acquired by the Trust and up to eighty per cent of the first lettings of the units of accommodation in any property which is developed by the Trust or are vacant when acquired by the Trust and the Trust shall accommodate as tenants all persons so nominated. The Committee may at its discretion reduce its nomination rights to fifty per cent after the first lettings. Provided that and notwithstanding the foregoing :

(i) the Trust shall have the right at its discretion to decline to accommodate any particular person or persons so nominated but such discretion shall be limited to two declinations in respect of each such unit of accommodation on each occasion when the Housing Committee's right of nomination arises in respect of that unit of accommodation.

(ii) persons the subject of any such declination shall not be renominated by the Housing Committee except with the prior agreement of the Trust.

(iii) nominations by the Housing Committee of persons ready and willing to take accommodation offered shall be made in good time so as to avoid units remaining vacant.

(iv) tenants nominated by the Housing Committee shall be required to enter into the standard form of lease agreement utilised by the Trust from time to time and any failure in such respect shall render the nomination of the person concerned null and void.

5) Where a tenant of the Trust (who has been nominated by the Housing Committee under paragraph four above) persistently fails to pay rent on the due dates or who behaves in a way which is disruptive or a nuisance to other tenants or fails to comply with the terms of the tenancy agreement, the Housing Committee at the request of the Trust will in good time either provide alternative accommodation to the tenant or provide to the Trust a statement that it will not provide such accommodation to the tenant and that if the tenant had been a tenant of the Housing Committee it would seek to evict the tenant.

6) The Trust shall, from time to time as requested by the Housing Committee furnish the Housing Committee with a Statement of its policies and procedures for tenant consultation. In the event that any such Statement is regarded by the Housing Committee as falling short of reasonable standards the Housing Committee may request the Trust to reconsider it and the Trust shall after consultation with the Housing Committee amend the said Statement to the extent that it appears necessary and the Trust shall comply with the policies and procedures described in Statements so furnished or amended; provided always that the Housing Committee shall not require the Trust to adopt any policy or procedure which is in conflict with the terms of the constitution of the Trust as approved from time to time by the Royal Court under the provisions of the 1862 Law.

7) The Trust shall deal with any liquid assets identified in its annual accounts as held by and belonging to the Trust in the following way :-

a) The members shall transfer to Designated Reserves such sums as they think fit to make proper and prudent provisions for the debts, commitments, projects and activities of the Trust including provision (by depreciation or otherwise) for the redevelopment of properties owned by the Trust or for the acquisition / development of additional properties for social housing and for contingencies in accordance with the powers for so doing under the terms of its constitution as approved by the Royal Court from time to time under the provisions of the 1862 Law.

b) The members shall make proper provision for working capital as required by the Trust in its day to day activities.

c) In the event that the objects of the Trust have been fulfilled and the need for social housing has been met, any surplus of liquid assets (being cash or cash equivalents as defined under generally accepted accounting principles) which are derived from outstanding subsidised funds remaining after such transfers to Designated Reserves and such provisions for working capital as may be made in accordance with (a) and (b) above shall, in the case of cash, be paid to the Housing Committee forthwith, and in the case of assets other than cash, be either transferred to the Housing Committee, or sold by the Trust and the proceeds paid to the Housing Committee, forthwith.

8) The Committee shall use any payment made to it in pursuance of Clause 7 above for the provision of accommodation for residents of the Island in need of such accommodation and for purposes ancillary thereto, including the provision of financial assistance to enable such persons to obtain such accommodation other than from the Committee and for no other purpose.

9) The benefit and obligations of this agreement shall be binding on the Committees and their successors.

10) This Agreement shall endure for a period of five years from the date hereof and thereafter until terminated by six months written notice given by one party to the other, save and except that it may be determined by one month's written notice by one party to the other, if the other shall commit any material breach of its obligations under this Agreement and if such breach is capable of being made good, shall fail to make good such breach within thirty days of receipt of written notice from the notifying party requiring it so to do. In the event that this agreement is terminated by the Trust, the Trust undertakes to repay any subsidies it has received from the Committees (as adjusted for inflation). The Trust shall be required to record in its annual

accounts a note of any subsidies received from the Committees on a cumulative basis as well as the level of the Jersey Retail Price Index at the end of each period in which the subsidy was received. For the purposes of this paragraph, any amounts transferred to the Committees under paragraph 7(c) above shall be treated as an amount to be offset against any subsidies received from the Committees.

11) Notices may be given by hand, post, facsimile or Internet Email. Notices given by hand, facsimile or Internet Email shall be deemed to have been given contemporaneously and notices sent by post shall be deemed to have been given forty-eight hours after posting.

Signed by ERIC LE RUEZ
For and behalf of the Housing Committee
in the presence of :- EMMA NICHOLSON

Signed by
For and behalf of the Finance and Economics Committee
in the presence of :-

Signed by ALBERT KENNETH HEWITT
For and behalf of the Trust
in the presence of :-

JOHN LE FONDRÉ

# Appendix C – Sample financial models

Les Vaux Housing Trust — David Moon House, St Helier

Projected Cashflow Based on development of 28 flats

| Time Years | Year | Main Outflow | Rental Income | Interest | Agents & other fees | Service Charge* | Maintenance Charge | Voids & Bad debts | Net Period Total | Transfer fm/(to) general funds | Loan repayments | Loan Balance | States Subsidy | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 4.4% | 9.0% | 7.0% | 3.00% | | | | | | |
| Year -1 | 2006 | -179,138 | | | | | | | | | 0 | -179,138 | | |
| Year 0 | 2007 | -1,521,904 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1,701,042 | 0 | Revised to actual figures |
| 1 | 2008 | -1,211,315 | 82,365 | -47,500 | -3,690 | -5,130 | -555 | 0 | 25,490 | -25,490 | 0 | -2,912,357 | 4,909 | Revised to actual figures |
| 2 | 2009 | -54,754 | 208,645 | -54,986 | -9,228 | -19,732 | -6,536 | 0 | 118,163 | -92,424 | 25,739 | -2,941,372 | 0 | Revised to actual figures |
| 3 | 2010 | -695,994 | 214,923 | -46,154 | -9,458 | -20,272 | -8,845 | 0 | 130,194 | -92,828 | 37,366 | -3,600,000 | 0 | Revised to actual figures |
| 4 | 2011 | | 215,534 | -49,868 | -9,492 | -21,379 | -9,312 | 0 | 125,483 | -50,483 | 75,000 | -3,525,000 | 0 | Revised to actual figures |
| Year 5 | 2012 | | 219,851 | -141,000 | -9,673 | -19,787 | -15,390 | -6,596 | 27,406 | 97,594 | 125,000 | -3,400,000 | 0 | |
| 6 | 2013 | | 225,347 | -136,000 | -9,915 | -20,281 | -15,774 | -6,760 | 36,616 | 63,384 | 100,000 | -3,300,000 | 0 | |
| 7 | 2014 | | 230,981 | -132,000 | -10,163 | -20,788 | -16,169 | -6,929 | 44,931 | 135,069 | 180,000 | -3,120,000 | 0 | |
| 8 | 2015 | | 236,755 | -124,800 | -10,417 | -21,308 | -16,573 | -7,103 | 56,555 | 123,445 | 180,000 | -2,940,000 | 0 | |
| 9 | 2016 | | 242,674 | -117,600 | -10,678 | -21,841 | -16,987 | -7,280 | 68,289 | 111,711 | 180,000 | -2,760,000 | 0 | |
| Year 10 | 2017 | | 248,741 | -110,400 | -10,945 | -22,387 | -17,412 | -7,462 | 80,136 | 99,864 | 180,000 | -2,580,000 | 0 | |
| 11 | 2018 | | 254,960 | -103,200 | -11,218 | -22,946 | -17,847 | -7,649 | 92,099 | 87,901 | 180,000 | -2,400,000 | 0 | |
| 12 | 2019 | | 261,334 | -96,000 | -11,499 | -23,520 | -18,293 | -7,840 | 104,182 | 75,818 | 180,000 | -2,220,000 | 0 | |
| 13 | 2020 | | 267,867 | -88,800 | -11,786 | -24,108 | -18,751 | -8,036 | 116,386 | 63,614 | 180,000 | -2,040,000 | 0 | |
| 14 | 2021 | | 274,564 | -81,600 | -12,081 | -24,711 | -19,219 | -8,237 | 128,716 | 51,284 | 180,000 | -1,860,000 | 0 | |
| Year 15 | 2022 | | 281,428 | -74,400 | -12,383 | -25,329 | -19,700 | -8,443 | 141,174 | 38,826 | 180,000 | -1,680,000 | 0 | |
| 16 | 2023 | | 288,464 | -67,200 | -12,692 | -25,962 | -20,192 | -8,654 | 153,763 | 26,237 | 180,000 | -1,500,000 | 0 | |
| 17 | 2024 | | 295,675 | -60,000 | -13,010 | -26,611 | -20,697 | -8,870 | 166,487 | 13,513 | 180,000 | -1,320,000 | 0 | |
| 18 | 2025 | | 303,067 | -52,800 | -13,335 | -27,276 | -21,215 | -9,092 | 179,349 | 651 | 180,000 | -1,140,000 | 0 | |
| 19 | 2026 | | 310,644 | -45,600 | -13,668 | -27,958 | -21,745 | -9,319 | 192,353 | -12,353 | 180,000 | -960,000 | 0 | |
| Year 20 | 2027 | | 318,410 | -38,400 | -14,010 | -28,657 | -22,289 | -9,552 | 205,502 | -25,502 | 180,000 | -780,000 | 0 | |
| 21 | 2028 | | 326,370 | -31,200 | -14,360 | -29,373 | -22,846 | -9,791 | 218,799 | -38,799 | 180,000 | -600,000 | 0 | |
| 22 | 2029 | | 334,529 | -24,000 | -14,719 | -30,108 | -23,417 | -10,036 | 232,249 | -52,249 | 180,000 | -420,000 | 0 | |
| 23 | 2030 | | 342,893 | -16,800 | -15,087 | -30,860 | -24,002 | -10,287 | 245,856 | -65,856 | 180,000 | -240,000 | 0 | |
| 24 | 2031 | | 351,465 | -9,600 | -15,464 | -31,632 | -24,603 | -10,544 | 259,622 | -79,622 | 180,000 | -60,000 | 0 | |
| Year 25 | 2032 | | 360,251 | -2,400 | -15,851 | -32,423 | -25,218 | -10,808 | 273,553 | -213,553 | 60,000 | 0 | 0 | |
| 26 | 2033 | | 369,258 | 0 | -16,247 | -33,233 | -25,848 | -11,078 | 282,851 | -282,851 | | 0 | 0 | |
| 27 | 2034 | | 378,489 | 0 | -16,654 | -34,064 | -26,494 | -11,355 | 289,923 | -289,923 | | 0 | 0 | |
| 28 | 2035 | | 387,951 | 0 | -17,070 | -34,916 | -27,157 | -11,639 | 297,171 | -297,171 | | 0 | 0 | |
| 29 | 2036 | | 397,650 | 0 | -17,497 | -35,789 | -27,836 | -11,930 | 304,600 | -304,600 | | 0 | 0 | |
| 30 | 2037 | | 407,591 | 0 | -17,934 | -36,683 | -28,531 | -12,228 | 312,215 | -312,215 | | 0 | 0 | |
| | | -3,663,105 | 8,638,677 | -1,752,308 | -380,225 | -779,062 | -579,453 | -237,516 | 4,910,113 | -1,247,008 | 3,663,105 | | 4,909 | |

| RENT DETAILS | | | | FINANCIAL DATA | |
|---|---|---|---|---|---|
| Current rent per unit per week | | | | Average Rate of Inflation | 2.50% |
| 1 Bedroom flats | x 26 | £156.34 | £4,064.84 | Interest on Loan - assumed rate for model | 4.00% |
| Annual rent | x 52 | | £211,371.68 | Interest rate subsidy from States above | 4.00% |
| Car parking spaces | x 12 | £360pa | £4,320.00 | Construction costs | 2,774,000 |
| | | | | Connection of services, etc | 37,049 |
| Water rates per month | x 26 | £13.33 | £346.58 | Legal & professional fees | 157,373 |
| Annual charges | x 12 | | £4,158.96 | Finance during development | 151,463 |
| | | | | States pre-contract costs refunded | 559,412 |
| Total annual income | | | £219,850.64 | Other expenses | 2,006 |
| | | | | LVHT contribution | (18,198) |
| Voids & bad debts | | 3.00% | | | |
| *Services charges increased to cover cleaning & water rates | | | | Amount Loaned | £ 3,663,105 |

Les Vaux Housing Trust | Jardin du Haut, St Mary

Projected Cashflow Based on development of 14 life-long homes

| Time Years | Year | Main Outflow | Rental Income | Interest & cap premium | Agents & other fees | Service Charge | Maintenance Charge | Voids & Bad debts | Net Period Total | Transfer fm/(to) general funds | Loan repayments | Loan Balance | States Subsidy | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 4.4% | 3.0% | 7.0% | 3.00% | | | | | | |
| Year 0 | 2011 | -2,179,452 | | -64,500 | | | | | -64,500 | 64,500 | 0 | -2,179,452 | 0 | |
| Year 1 | 2012 | -205,548 | 135,070 | -130,767 | -5,943 | -4,052 | -9,455 | -4,052 | -19,199 | 19,199 | 0 | -2,385,000 | 0 | Estimated rental income for 2012 |
| 2 | 2013 | | 168,372 | -143,100 | -7,408 | -5,051 | -11,786 | -5,051 | -4,025 | 9,025 | 5,000 | -2,380,000 | 0 | |
| 3 | 2014 | | 172,581 | -142,800 | -7,594 | -5,177 | -12,081 | -5,177 | -248 | 100,248 | 100,000 | -2,280,000 | 0 | |
| 4 | 2015 | | 176,896 | -136,800 | -7,783 | -5,307 | -12,383 | -5,307 | 9,316 | 90,684 | 100,000 | -2,180,000 | 0 | |
| Year 5 | 2016 | | 181,318 | -130,800 | -7,978 | -5,440 | -12,692 | -5,440 | 18,969 | 81,031 | 100,000 | -2,080,000 | 0 | |
| 6 | 2017 | | 185,851 | -124,800 | -8,177 | -5,576 | -13,010 | -5,576 | 28,713 | 71,287 | 100,000 | -1,980,000 | 0 | |
| 7 | 2018 | | 190,497 | -118,800 | -8,382 | -5,715 | -13,335 | -5,715 | 38,551 | 61,449 | 100,000 | -1,880,000 | 0 | |
| 8 | 2019 | | 195,260 | -112,800 | -8,591 | -5,858 | -13,668 | -5,858 | 48,485 | 51,515 | 100,000 | -1,780,000 | 0 | |
| 9 | 2020 | | 200,141 | -106,800 | -8,806 | -6,004 | -14,010 | -6,004 | 58,517 | 41,483 | 100,000 | -1,680,000 | 0 | |
| Year 10 | 2021 | | 205,145 | -100,800 | -9,026 | -6,154 | -14,360 | -6,154 | 68,650 | 31,350 | 100,000 | -1,580,000 | 0 | |
| 11 | 2022 | | 210,274 | -94,800 | -9,252 | -6,308 | -14,719 | -6,308 | 78,886 | 21,114 | 100,000 | -1,480,000 | 0 | |
| 12 | 2023 | | 215,530 | -88,800 | -9,483 | -6,466 | -15,087 | -6,466 | 89,228 | 10,772 | 100,000 | -1,380,000 | 0 | |
| 13 | 2024 | | 220,919 | -82,800 | -9,720 | -6,628 | -15,464 | -6,628 | 99,679 | 321 | 100,000 | -1,280,000 | 0 | |
| 14 | 2025 | | 226,442 | -76,800 | -9,963 | -6,793 | -15,851 | -6,793 | 110,241 | -10,241 | 100,000 | -1,180,000 | 0 | |
| Year 15 | 2026 | | 232,103 | -70,800 | -10,213 | -6,963 | -16,247 | -6,963 | 120,917 | -20,917 | 100,000 | -1,080,000 | 0 | |
| 16 | 2027 | | 237,905 | -64,800 | -10,468 | -7,137 | -16,653 | -7,137 | 131,710 | -31,710 | 100,000 | -980,000 | 0 | |
| 17 | 2028 | | 243,853 | -58,800 | -10,730 | -7,316 | -17,070 | -7,316 | 142,622 | -42,622 | 100,000 | -880,000 | 0 | |
| 18 | 2029 | | 249,949 | -52,800 | -10,998 | -7,498 | -17,496 | -7,498 | 153,658 | -53,658 | 100,000 | -780,000 | 0 | |
| 19 | 2030 | | 256,198 | -46,800 | -11,273 | -7,686 | -17,934 | -7,686 | 164,819 | -64,819 | 100,000 | -680,000 | 0 | |
| Year 20 | 2031 | | 262,603 | -40,800 | -11,555 | -7,878 | -18,382 | -7,878 | 176,110 | -76,110 | 100,000 | -580,000 | 0 | |
| 21 | 2032 | | 269,168 | -34,800 | -11,843 | -8,075 | -18,842 | -8,075 | 187,533 | -87,533 | 100,000 | -480,000 | 0 | |
| 22 | 2033 | | 275,897 | -28,800 | -12,139 | -8,277 | -19,313 | -8,277 | 199,091 | -99,091 | 100,000 | -380,000 | 0 | |
| 23 | 2034 | | 282,795 | -22,800 | -12,443 | -8,484 | -19,796 | -8,484 | 210,788 | -110,788 | 100,000 | -280,000 | 0 | |
| 24 | 2035 | | 289,864 | -16,800 | -12,754 | -8,696 | -20,291 | -8,696 | 222,628 | -122,628 | 100,000 | -180,000 | 0 | |
| Year 25 | 2036 | | 297,111 | -10,800 | -13,073 | -8,913 | -20,798 | -8,913 | 234,614 | -134,614 | 100,000 | -80,000 | 0 | |
| 26 | 2037 | | 304,539 | -4,800 | -13,400 | -9,136 | -21,318 | -9,136 | 246,749 | -166,749 | 80,000 | 0 | 0 | |
| 27 | 2038 | | 312,152 | 0 | -13,735 | -9,365 | -21,851 | -9,365 | 257,838 | -257,838 | | 0 | 0 | |
| 28 | 2039 | | 319,956 | 0 | -14,078 | -9,599 | -22,397 | -9,599 | 264,284 | -264,284 | | 0 | 0 | |
| 29 | 2040 | | 327,955 | 0 | -14,430 | -9,839 | -22,957 | -9,839 | 270,891 | -270,891 | | 0 | 0 | |
| 30 | 2041 | | 336,154 | 0 | -14,791 | -10,085 | -23,531 | -10,085 | 277,963 | -277,963 | | 0 | 0 | |
| | | -2,385,000 | 7,182,498 | -2,109,567 | -316,030 | -215,475 | -502,775 | -215,475 | 3,823,176 | -1,438,176 | 2,385,000 | | 0 | |

RENT DETAILS

| | | | |
|---|---|---|---|
| Current rent per unit per week | | | |
| 2 Bedroom houses | x 14 | £231.28 | £3,237.92 |
| Annual rent | x 52 | | £168,371.84 |
| Voids & bad debts | | 3.00% | |

FINANCIAL DATA

| | | | | |
|---|---|---|---|---|
| Average Rate of Inflation | | | 2.50% | |
| Interest on Loan - assumed rate for model | | | 6.00% | |
| Interest rate capped for five years to 30 September 2017 | | | 6.50% | |
| Purchase per house | 161,700 | 14 | 2,263,800 | 14 x 2 bed houses |
| Legal & professional fees | | | 44,768 | |
| Finance during development | | | 61,195 | |
| Decennial Insurance | | | 10,073 | |
| Provision for further expenses | | | 5,164 | |
| Initial contribution from LVHT general funds | | | 0 | |
| Amount Loaned | | | £2,385,000 | |
| Total loan facility | | | £2,405,000 | |

Les Vaux Housing Trust — Clos Lempriere, St Clement

Projected Cashflow Based on development of 10 houses

| Time Years | Year | Main Outflow | Rental Income | Interest & cap premium | Agents & other fees | Service Charge | Maintenance Charge | Voids & Bad debts | Net Period Total | Transfer fm/(to) general funds | Loan repayments | Loan Balance | States Subsidy | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 4.4% | 3.0% | 7.0% | 3.00% | | | | | | |
| Year 0 | 2007 | -1,362,578 | | | | | | | | | 0 | -1,362,578 | | |
| Year 1 | 2008 | -460,578 | 20,748 | -27,931 | -1,177 | -4,139 | -4,545 | 0 | -17,044 | 17,044 | 0 | -1,823,156 | 0 | Revised to actual figures |
| 2 | 2009 | | 128,478 | -34,297 | -5,688 | -3,626 | -4,683 | 0 | 80,184 | -65,454 | 14,730 | -1,808,426 | 0 | Revised to actual figures |
| 3 | 2010 | | 130,564 | -32,268 | -5,943 | -3,557 | -8,910 | 0 | 78,886 | 229,540 | 308,426 | -1,500,000 | 0 | Revised to actual figures |
| 4 | 2011 | | 131,417 | -65,304 | -5,789 | -4,230 | -3,961 | 0 | 52,133 | -2,133 | 50,000 | -1,450,000 | 0 | Revised to actual figures |
| Year 5 | 2012 | | 134,144 | -87,000 | -5,902 | -4,024 | -9,390 | -4,024 | 23,803 | 38,697 | 62,500 | -1,387,500 | 0 | |
| 6 | 2013 | | 137,498 | -83,250 | -6,050 | -4,125 | -9,625 | -4,125 | 30,323 | 19,677 | 50,000 | -1,337,500 | 0 | |
| 7 | 2014 | | 140,935 | -80,250 | -6,201 | -4,228 | -9,865 | -4,228 | 36,162 | 13,838 | 50,000 | -1,287,500 | 0 | |
| 8 | 2015 | | 144,458 | -77,250 | -6,356 | -4,334 | -10,112 | -4,334 | 42,073 | 7,927 | 50,000 | -1,237,500 | 0 | |
| 9 | 2016 | | 148,070 | -74,250 | -6,515 | -4,442 | -10,365 | -4,442 | 48,056 | 1,944 | 50,000 | -1,187,500 | 0 | |
| Year 10 | 2017 | | 151,772 | -71,250 | -6,678 | -4,553 | -10,624 | -4,553 | 54,113 | 10,887 | 65,000 | -1,122,500 | 0 | |
| 11 | 2018 | | 155,566 | -67,350 | -6,845 | -4,667 | -10,890 | -4,667 | 61,147 | 18,853 | 80,000 | -1,042,500 | 0 | |
| 12 | 2019 | | 159,455 | -62,550 | -7,016 | -4,784 | -11,162 | -4,784 | 69,160 | 10,840 | 80,000 | -962,500 | 0 | |
| 13 | 2020 | | 163,441 | -57,750 | -7,191 | -4,903 | -11,441 | -4,903 | 77,253 | 2,747 | 80,000 | -882,500 | 0 | |
| 14 | 2021 | | 167,527 | -52,950 | -7,371 | -5,026 | -11,727 | -5,026 | 85,428 | -5,428 | 80,000 | -802,500 | 0 | |
| Year 15 | 2022 | | 171,716 | -48,150 | -7,555 | -5,151 | -12,020 | -5,151 | 93,687 | -13,687 | 80,000 | -722,500 | 0 | |
| 16 | 2023 | | 176,009 | -43,350 | -7,744 | -5,280 | -12,321 | -5,280 | 102,033 | -22,033 | 80,000 | -642,500 | 0 | |
| 17 | 2024 | | 180,409 | -38,550 | -7,938 | -5,412 | -12,629 | -5,412 | 110,468 | -30,468 | 80,000 | -562,500 | 0 | |
| 18 | 2025 | | 184,919 | -33,750 | -8,136 | -5,548 | -12,944 | -5,548 | 118,993 | -38,993 | 80,000 | -482,500 | 0 | |
| 19 | 2026 | | 189,542 | -28,950 | -8,340 | -5,686 | -13,268 | -5,686 | 127,612 | -47,612 | 80,000 | -402,500 | 0 | |
| Year 20 | 2027 | | 194,281 | -24,150 | -8,548 | -5,828 | -13,600 | -5,828 | 136,326 | -56,326 | 80,000 | -322,500 | 0 | |
| 21 | 2028 | | 199,138 | -19,350 | -8,762 | -5,974 | -13,940 | -5,974 | 145,138 | -65,138 | 80,000 | -242,500 | 0 | |
| 22 | 2029 | | 204,116 | -14,550 | -8,981 | -6,123 | -14,288 | -6,123 | 154,050 | -74,050 | 80,000 | -162,500 | 0 | |
| 23 | 2030 | | 209,219 | -9,750 | -9,206 | -6,277 | -14,645 | -6,277 | 163,065 | -83,065 | 80,000 | -82,500 | 0 | |
| 24 | 2031 | | 214,449 | -4,950 | -9,436 | -6,433 | -15,011 | -6,433 | 172,185 | -92,185 | 80,000 | -2,500 | 0 | |
| Year 25 | 2032 | | 219,811 | -150 | -9,672 | -6,594 | -15,387 | -6,594 | 181,414 | -178,914 | 2,500 | 0 | 0 | |
| 26 | 2033 | | 225,306 | 0 | -9,913 | -6,759 | -15,771 | -6,759 | 186,103 | -186,103 | | 0 | 0 | |
| 27 | 2034 | | 230,938 | 0 | -10,161 | -6,928 | -16,166 | -6,928 | 190,755 | -190,755 | | 0 | 0 | |
| 28 | 2035 | | 236,712 | 0 | -10,415 | -7,101 | -16,570 | -7,101 | 195,524 | -195,524 | | 0 | 0 | |
| 29 | 2036 | | 242,630 | 0 | -10,676 | -7,279 | -16,984 | -7,279 | 200,412 | -200,412 | | 0 | 0 | |
| 30 | 2037 | | 248,695 | 0 | -10,943 | -7,461 | -17,409 | -7,461 | 205,422 | -205,422 | | 0 | 0 | |
| | | -1,823,156 | 5,241,962 | -1,139,300 | -232,150 | -160,475 | -360,252 | -144,923 | 3,204,862 | -1,381,706 | 1,823,156 | | 0 | |

**RENT DETAILS**

| | | | |
|---|---|---|---|
| Current rent per unit per week | | | |
| 3 Bedroom houses | x 10 | £257.97 | £2,579.70 |
| Annual rent | x 52 | | £134,144.40 |
| Voids & bad debts | | 3.00% | |

**FINANCIAL DATA**

| | | | |
|---|---|---|---|
| Average Rate of Inflation | | | 2.50% |
| Interest on Loan - assumed rate for model | | | 6.00% |
| Interest rate capped for five years to 1 June 2016 | | | 6.50% |
| Purchase per house | 167,000 | 10 | 1,670,000 10 x 3 bed houses |
| Legal & professional fees | | | 39,413 |
| Finance during development | | | 124,203 |
| Initial contribution from LVHT general funds | | | (10,460) |
| Amount Loaned | | | £ 1,823,156 |

**Appendix D – Barclays – outlook for UK Social Housing**

BARCLAYS

Corporate Banking

# UK Social Housing

## Sector outlook

First quarter 2012

# Summary

- With 1.8 million households on the waiting list, demand for social housing is strong. The increase in RPI, as well as changes to the rent model that will allow housing associations to charge new tenants up to 80% of market rates, will give the sector greater flexibility to increase rents.
- However, a reduction in benefit payments and capacity constraints (hampered by a reduction in government funding and falling surpluses from property sales) will weigh on sector income, although the impact of these changes will vary, depending on the nature of the 'tenant population' of individual housing associations.
- Looking to the longer term (15-25 years), with rents ultimately closer to market rates, and assuming that private sector funding continues to support an increasing proportion of investment, the social housing sector may migrate gradually to become more akin to the wider residential market.

## UK Social Housing overview

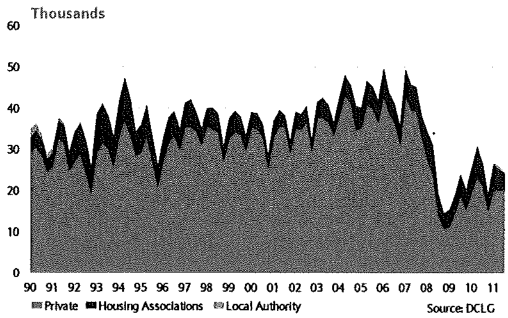
- The social housing budget was cut by more than 50% to £4.4 billion as part of the 2010 Comprehensive Spending Review. The government aims to offset this reduction partly via a move to revenue financing, with a new affordable rent model, which allows operators to charge new tenants up to 80% of the local market rent (compared to 50% previously).
- Demand for social housing continues to grow. Waiting lists have increased by almost 80% over the past decade from 1.0 million households in 2001 to 1.8 million (or 8.2% of all households) in 2011. The increase is due to a lack of new homes being built and a shortage of affordable homes - trends which seem set to continue. Homes and Community Agency (HCA) figures show a sharp drop in affordable housing starts on site in England from 35,735 in 2010-11 (Oct-Mar) to 454 in 2011-12 (Apr to Sept). The HCA expects the Oct-Mar 2011-12 rate of delivery to increase and attributes some of the fall to the transition between programmes.
- The HCA has launched a £1.8 billion Affordable Homes Programme (AHP), aimed at delivering 80,000 affordable homes by 2015. The average grant so far has been £22,000 per unit, down from an average of £89,000 in London and £52,000 in the rest of England in 2010. Most homes are to be built in London and the South of England, where affordability issues are greatest. Housing Associations are expected to build around 85% of affordable properties.
- Social housing policy has shifted since 2010 to providing more rental properties and less home ownership. Some 79% of the AHP is for affordable rent, with the remaining 21% allocated to affordable home ownership. Affordable rental homes are expected to be made available to tenants at, or close to, the new 80% of local market rent limit to minimise government funding. Allocation of social housing will remain unchanged, but the government has

**Key financials of registered providers of social housing**

| FY Ending | 2008-09 | 2009-10 |
|---|---|---|
| Turnover (£m) | 11565 | 12,280 |
| Operating costs and costs of sales (£m) | 9,922 | 10,056 |
| Operating surplus (£m) | 1,643 | 2,224 |
| Surplus on social housing lettings (£m) | 1,644 | 2,242 |
| Net interest payable (£m) | 1,891 | 1,895 |
| Profit on sales of assets (£m) | 336 | 347 |
| Surplus for the year (£m) | 203 | 609 |
| Operating margin (%) | 14 | 18 |
| EBITDA interest cover (%) | 105 | 139 |
| Growth in turnover (%) | 15 | 6 |
| Growth in total assets (%) | 12 | 6 |
| Debt per unit (£) | 16,588 | 17,034 |
| Management cost per unit (£) | 893 | 884 |
| Maintenance per unit | 987 | 1011 |

Source: Global Accounts of Housing Providers - TSA

**Housing starts by sector in England**




Source: DCLG

removed the requirement to offer lifetime tenancies and landlords will be able to offer flexible tenancies with a minimum tenancy of 2years. Landlords must be Tenant Services Authority (TSA) registered providers.

- There are concerns that tenants, particularly those in high cost areas (such as London), may not be able to afford higher rents as a result of the imposition of a £26,000 cap on household benefits, following the enactment of the Welfare Reform Bill, and cuts to housing benefit. This could lead to an increase in arrears and could mean some households stay longer in their current homes to protect existing tenancies. There are several changes planned to Housing Benefit over the next few years, including reductions for people living in accommodation bigger than their household size. Single people between 25 and 35 will only receive a shared accommodation rate and deductions will rise for those with an adult living in their property for whom they do not claim Housing Benefit. Furthermore, rents are likely to see above-inflation increases, although rent rises will be capped at RPI plus 0.5% plus £2 a week. Under the national social rent policy, a formula rent is set for each property based on property values, size and local earnings. By 2015-16, all social landlords are to bring rents in line with this formula. Currently most housing associations set rents at, or close to, the formula rate, but council rents are typically around 8% below it.

- The government is making a number of changes relating to the funding, management and regulation of social housing. The social housing regulator, the Tenant Services Authority (TSA), is being abolished in April 2012 and its regulatory functions will be transferred to the HCA. The Mayor of London will assume responsibility for housing and regeneration in London from April 2012. As part of the government's localism agenda, local authorities (LAs) will commence self-financing for council housing from April 2012 and the centralised Housing Revenue Account (HRA) subsidy system will be abolished. As part of this change, stock-owning LAs will take on a share of the national housing debt, totalling £21.4 billion. Most stock-owning LAs will have to make large payments to central government but 33 LAs will receive payments from the government to reduce their debts. LAs can finance this payment by applying for loans from the Public Works Loan Board (PWLB), or the market. Alternatively, they can fund it from other sources, such as reserves or investments. The vast majority is expected to be funded via the PWLB, which has temporarily cut its interest rate from January to enable LAs to finance the one-off payments needed to leave the HRA system. The government will limit the amount of borrowing for council housing in each LA on an on-going basis, to prevent them from building up excessive debts.

- The TSA estimates that around 1,500 social housing providers own or manage 2.5 million homes. Housing associations made more than £1 billion in net surpluses in 2010-11, a record for the sector. This included a £140 million gain from changes to staff pension schemes, resulting from the switch from RPI to CPI-linked schemes, according to Social Housing magazine. The sector had an operating margin of 21%, with a net margin of 8%. Loans increased by £2.7 billion to £47.5 billion, whilst total assets rose to £111 billion. However, ratings agency Moody's downgraded the credit ratings outlook of 14 housing associations from stable to negative in February.

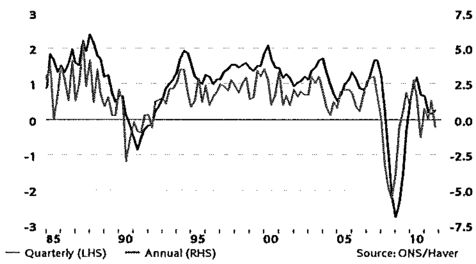
- Trading conditions in the sector are likely to be mixed. Demand for social housing is increasing and associations are able to increase rents above inflation and to a higher proportion of the prevailing private market rate. However, sector income will come under pressure from a reduction in benefit payments and the benefits cap, especially in London, while gearing levels will rise from the shift from grant funding to revenue funding in affordable rents.

# Appendix 1 – Summary of macroeconomic overview

- Official data suggest that the UK economy contracted by 0.2% q/q in Q4 2011, following growth of 0.5% in Q3. The distortionary impact of events, such as the Japanese earthquake, the Royal Wedding and the associated extra bank holiday, resulted in an uneven pattern of quarterly GDP growth during 2011 (events, such as the Olympics and Diamond Jubilee holiday, will result in similar distortions in 2012). However, over the year as a whole, growth slowed to just 0.8%, compared to 2.1% in 2010, with concerns about the pace of the global economic recovery and the escalating eurozone sovereign debt crisis weighing heavily on activity and confidence in the UK (and across the advanced economies), particularly in the second half of the year.

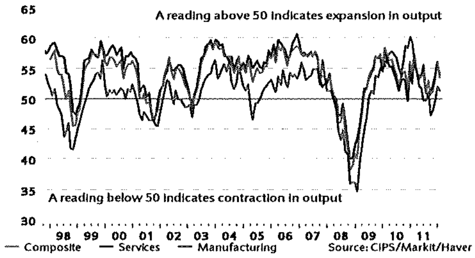
**UK: Gross domestic product**

% change




- Large-scale, long-term ECB liquidity provision and progress on a new support package for Greece appear to have eased eurozone tensions, for now, with the more positive tone of recent data from the US further bolstering confidence. Business surveys also suggest that UK economic activity has picked up once more (albeit modestly). However, whilst improving, confidence remains fragile and events in Europe continue to cast a shadow over both the UK and wider global economic outlook.

**Purchasing managers' survey**




- The unemployment rate rose to 8.4%, with some 2.67 million people unemployed in the UK, in the three months to December 2011. Weak growth in private sector employment has failed to offset public sector job cuts over the past year and a continued rise in 'involuntary' part-time and temporary employment (by those seeking full-time, permanent posts) suggests that the degree of slack in the labour market is greater than the headline unemployment figures indicate.

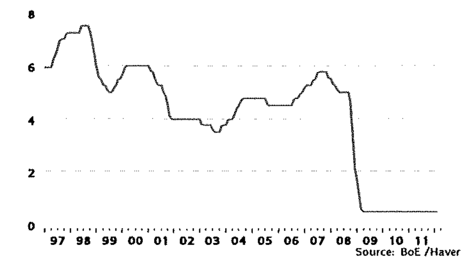
**Inflation (CPI)**

Annual % change


- At 3.6%, inflation remains well above the 2% target rate, but has slowed markedly from its recent peak of 5.2%. With domestic inflationary pressures relatively subdued, and the temporary factors that contributed to high inflation last year (such as the increase in VAT and earlier rise in fuel and energy costs) set to fall out of the annual comparison, it is expected to continue to decline, although the recent rise in oil prices highlights the potential risks to this scenario.

**UK interest rates**

Base rate, per cent




- Allied to the weak prospects for the economy, the benign inflationary outlook has seen the MPC maintain interest rates at their historic low of 0.5%. In February, the MPC also sanctioned a further £50 billion of quantitative easing (QE), raising the limit on the Bank's asset purchase facility to £325 billion. Whilst financial markets now expect the MPC to pause QE, Bank Rate is expected to remain on hold during 2012-13.

- Despite a brief pick-up in the quarterly data in Q4, official figures show that consumers' expenditure declined by 0.8% during 2011. Falling inflation should gradually begin to ease some of the downward pressure on real disposable income (RDI). However, consumer spending is likely to remain weak over the next 12 months, as households remain heavily indebted, confidence remains weak and, with wage growth likely to remain below the rate of inflation, RDI is likely to continue to decline (albeit more slowly) in the near term.

- Fiscal tightening will also continue to bear down on the economy. Although official data suggest that the 2011-12 fiscal deficit will be lower than originally forecast, the Chancellor's Autumn Statement revealed significant downward revisions to the Office for Budget Responsibility's (OBR) medium-term economic forecasts. As a result, the Chancellor has stated that there will be no loosening of fiscal policy in the forthcoming Budget, which will be fiscally neutral. Indeed, the OBR's revised forecasts suggest that the austerity programme will likely have to be extended to 2016-17 to meet the government's medium-term fiscal targets.

- Business investment was volatile last year, but declined once more in Q4 (by 5.6% q/q and by 2% y/y), resulting in growth of just 0.2% over the year as a whole. The corporate sector has been running a sizeable aggregate financial surplus, raising hopes that investment would provide a catalyst for both the recovery and the rebalancing of the UK economy. However, firms have adopted a more cautious approach as a result of spare capacity and/or the increasingly uncertain outlook.

- Bolstered by the earlier sharp depreciation of sterling, the weak domestic UK performance was offset by a relatively strong contribution (1.2% points) to GDP growth from net trade last year. However, growth prospects for the UK's key European export partners have deteriorated markedly as a result of the eurozone sovereign debt crisis.

- Industrial production declined once more in 2011, with the pace of decline deepening as the year progressed. Following a period of robust annual growth at the beginning of the year, manufacturing activity stalled in Q4. Mining and oil extraction output also fell sharply (by 15.5%) in 2011, partly due to extra maintenance work in the North Sea, where production is now in long-term decline. Utilities output also declined last year, with relatively mild winter weather resulting in a particularly steep fall (10.9% y/y) in Q4. Annual growth in construction output also slowed markedly in the second half of 2011.

- Annual growth in services activity, which accounts for around 75% of UK GDP, proved more stable in 2011, although the quarterly pattern of growth was somewhat uneven. Growth in activity in this sector accelerated to 1.8% y/y in Q4, resulting in 1.6% growth during the year as a whole. However, performance was highly variable across the service industry's various sub-sectors, with business-oriented sub-sectors generally out-performing consumer-facing sub-sectors.

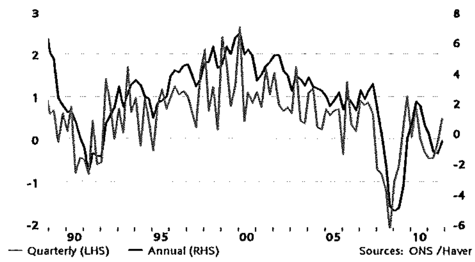
- UK economic forecasts have been revised downwards, with growth of just 0.5% expected this year and 1.8% next. As a result, recovery is likely to be protracted and weak, with risks weighted on the

**Unemployment & claimant count rates**

% of workforce (quarterly, SA)

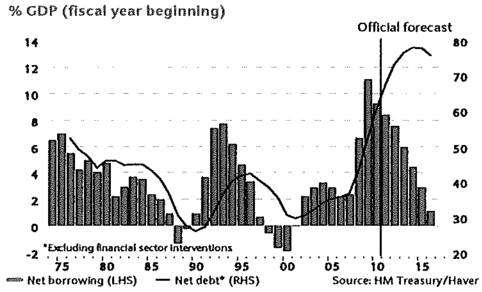

**Consumers' expenditure**

% change



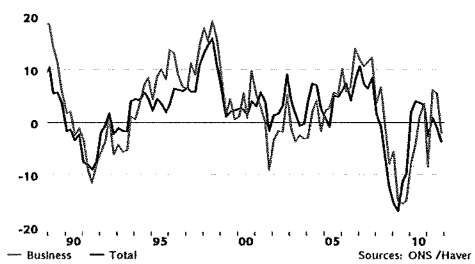

**Public sector finances**

% GDP (fiscal year beginning)




**Investment**

Annual % change

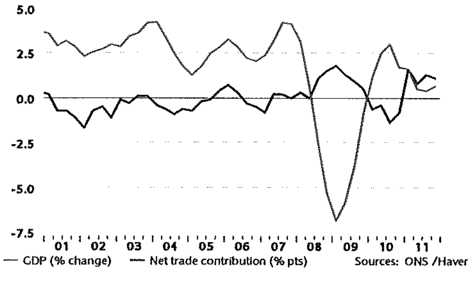


downside, given continued concerns over events in the eurozone, tensions in the Middle East(and the actual and potential impact of these tensions on oil prices) and signs of slowing growth in key Asian economies.

- Although expected to gradually pick up, as pressures on RDI gradually ease, consumer spending is forecast to remain subdued, from a longer-term perspective, during 2012-13, while fiscal tightening will see public sector activity and demand fall. Net trade is expected to continue to make a positive contribution to growth, but weak prospects for the eurozone are likely to see this diminish. However, investment should gradually pick up as economic growth accelerates.

- Unemployment is likely to continue to rise, as a result of further public sector job losses and cautious private sector job creation, but slowing inflation should, in the absence of unforeseen price shocks, enable the Bank of England to keep interest rates low.

**Annual GDP growth and net trade contribution**



Sources: ONS /Haver

**UK consensus economic forecasts: February 2012**

| Annual % change (unless otherwise stated) | 2009 | 2010 | 2011 | 2012f | 2013f |
|---|---|---|---|---|---|
| Real GDP | -4.4 | 2.1 | 0.8 | 0.5 | 1.8 |
| Consumer spending | -3.5 | 1.2 | -0.8 | 0.2 | 1.6 |
| Government consumption | -0.1 | 1.5 | 0.3 | -0.4 | -1.0 |
| Investment (total GFCF) | -13.4 | 3.1 | -1.7 | 0.9 | 4.0 |
| Stockbuilding (contribution to GDP growth) | -1.0 | 1.3 | -0.1 | 0.0 | 0.1 |
| Net trade (contribution to GDP growth) | 1.1 | -0.8 | 1.2 | 0.3 | 0.3 |
| Unemployment rate % | 7.6 | 7.9 | 8.1 | 8.8 | 9.2 |
| Consumer prices (CPI) | 2.2 | 3.3 | 4.5 | 2.0 | 2.1 |
| Base rate (end period) | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |

Sources: HM Treasury; Bank of England; ONS; Barclays Corporate Economics

Prepared by Economics Team, Client Capital Management, Corporate Banking, Barclays Bank PLC.

All data and factual information referred to in this report were correct as of March 2012.

Source of ONS data: National Statistics website: www.statistics.gov.uk
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