

## Minister for Treasury and Resources

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Senator Sarah Ferguson  
Chairman  
Corporate Services scrutiny Panel  
Scrutiny Office  
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17<sup>th</sup> January 2014

Dear Senator Ferguson,

### **Re: Draft Public Finances (Amendment of Law No.1) (Jersey) Regulations 201- (P.133/2013)**

The following are the updated responses from the Minister for Treasury and Resources following the Scrutiny public hearing on the 14<sup>th</sup> January 2014 in answer to questions put by the Panel on P.133/2013:

#### **1. What is the timetable in respect of borrowing for the Housing Project?**

It is important to emphasise that the need for the States to borrow and then lend for housing purposes is not a new issue and as an illustration below is some detail on the timeline already followed.

Since November 2012 when the States approved the Medium Term Financial Plan States Members have been well aware of Jersey's funding needs to meet the social housing requirements of the Island.

In May 2013 the States approved P33/2013 – The Reform of Social Housing in which the Minister for Treasury and Resources was tasked with taking the necessary action to identify funding arrangements to address the social housing need. At that time the Minister indicated that borrowing of up to £200 million over a 20 year period was an option. This sum could then be made available to the Housing Company at an agreed interest rate slightly above that at which funds are borrowed at to ensure that administration costs are covered.

In December 2013 the States approved the 2014 Budget. A part of this approval authorised the States to borrow up to a maximum £250 million in 2014 for housing purposes and that, the amount borrowed by the States be transferred from the consolidated fund to the Housing Development Fund (a States special fund created to meet the cost of social housing in the Island). It was also agreed that the Housing Development Fund would be permitted to lend money up to a maximum £250 million to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide housing for islanders, on terms and conditions to be agreed, after consultation with the Minister for Housing,

between the Minister for Treasury and Resources, and the aforementioned Housing Trusts/Associations/Companies.

P.133/2013 is merely a consequential amendment from the Budget 2014 and seeks to increase the maximum amount which the States can lend to a third party and implement the commitment given by the Assembly that money could be lent for Social Housing purposes.

All the advice the Treasury has received points to interest rates rising over the coming months. The money to be borrowed will take the form of a bond. The timing of the bond's issuance remains one of the Treasury's main policy objectives.

The Assembly has already sanctioned the borrowing by the States of Jersey for housing purposes in the 2014 Budget Debate. The Minister and his Assistant Minister and the Treasurer have concluded that the Treasury should continue the process to prepare for the bond issuance, in parallel to responding to the called-in proposition and the States determination on the lending limits. The reality is that work has been ongoing on this whole process for over a year and there are still a number of significant steps to be taken before actual issuance.

In the event that the States were not to approve the revised lending limits, the Treasury obviously would not go through with the bond issuance and some minor abortive costs would be incurred. As the Assembly has approved the borrowing (as opposed to the onward lending) already, it is very much hoped that the revised lending limits will be approved.

A detailed timetable has been worked through, with the intent that the process will commence on 20<sup>th</sup> January, 2014, when tenders will be issued for the initial stages of the bond issue – these involve the appointment of a Book runner and Legal Adviser with final completion for the entire transaction scheduled for late April 2014. The bond could not be issued before 21<sup>st</sup> April 2014. However, it is not the intention to officially commence the process until after the Scrutiny Hearing and consultation with the Chief Minister have taken place, and following the States' consideration of P133/2013. Should P.133/2013 fail to gain the support of the Assembly the whole process can be halted at no cost to the States.

This is not a small issue and it needs to be handled with care. Part of the tender process will involve a number of high profile investor briefings in Edinburgh, London and Jersey and we must ensure that we get the process correct and that the States secure finance at the best available deal.

Once decisions have been made all monies borrowed from the market place will be received by the States before they are needed for social housing needs, taking advantage of the current favourable interest rates whilst aiming to minimise the cost of carry. The money gained from the Bond issue will be paid into the Housing Development Fund and will not be available for other purposes.

## **2. What consideration, if any, was given by the Council of Ministers to P.133/2013?**

The principles underlying P.133/2013 have been considered on several occasions by the Council during 2013 as part of briefings and discussions on the Budget 2014.

### **3. How was the lodging of P.133/2013 alongside other Budget propositions overlooked?**

The T&R Ministerial Decision MD-TR-2013-0096, signed on 23<sup>rd</sup> October 2013, requested that the Greffier of the States "arrange to lodge 'au Greffe' the draft Regulations attached to this decision as soon as practicable for debate at the same States session as the Draft 2014 Budget Statement".

As lodging then took place on Thursday 24<sup>th</sup> October, the Greffier took the view that it should be listed for the sitting *following* that which included the Budget 2014, as it was not known at that stage how many days the Budget debate would take. It was therefore listed for the first available sitting with a full six-week lodging period. As it was expected this was an entirely consequential amendment it was envisaged that no significant new issues would be raised that had not been covered in the Budget debate. An alternative approach would have been for the Minister for Treasury and Resources to request of the Assembly that the debate of P133/2013 be brought forward to the Budget sitting. With the benefit of hindsight this may have been a preferable approach.

### **4. What checks and balances currently exist in respect of States lending?**

All lending is ultimately authorised by the States. This can be through general approvals given under the Public Finances Law and Regulations, or by individual enactments creating or amending special or separately constituted funds.

The States have given approval to the Minister for Treasury and Resources to approve minor lending within pre-set parameters. The Minister can only lend up to a maximum £500,000 in any one loan, no more than £3million in any one year and no more than £10 million in total, or within a general category approved by the States.

Once the States have given in principle approval for lending, the Treasury (if the Minister for T&R is the approved lender) develops procedures to ensure lending is prudent and satisfies the States' requirements. Decisions made by the Minister for Treasury and Resources are recorded in public Ministerial Decisions.

The Treasury have since 2006 had in place a financial direction (which is available internally on the Treasury's website) which highlights the relevant approval process which must be followed to control the issuance of loans.

Any loan approved by the Minister has to be reported to the States in the 6 monthly financial update reports.

### **5. What are the current requirements for reporting of States lending to the Assembly?**

The granting of any loan by the Minister is reported in a public Ministerial Decision.

Under the terms of the Public Finances Law the Minister for Treasury and Resources **must** report at periods of no longer than 6 months details of any loans which he / she has approved.

**6. Given the concerns of Members expressed during the debate on P.133/2013, what further measures do you intend to introduce and when will such measures be in place?**

The Minister for Treasury and Resources considers the current system of checks, balances, delegations and public ministerial decisions is sufficient to provide members with assurance over the detail of proposals they have already approved in principle.

However, as indicated in the covering report to P.133/2013 the Minister for Treasury and Resources intends to further strengthen the existing provisions and will ensure that a further financial direction is issued which specifies the procedures to be followed prior to any loan for housing purposes being made.

This financial direction will be in place prior to any loans being made. The Minister is happy to discuss the draft financial direction with Scrutiny prior to its issue, but offers his assurance that the process will involve full consultation with the Minister for Housing and the Council of Ministers before any loan for social housing purposes will be approved by the Treasury and Resources Minister. As is already the case the Minister will ensure that all approved lending is reported to the States on a 6 monthly basis. The intention is that new loans made directly as a consequence of P133/2013 will be included in the quarterly financial information provided to the Council of Ministers and Scrutiny, and in the half-yearly report to the States.

The Minister will of course ensure that there is a rigorous administration process to guarantee that loans are paid to bone fide housing bodies for social housing needs.

**7. What is the current total of States lending?**

As at 30<sup>th</sup> September 2013 the amount of outstanding loans by the States to third parties amounted to £11,394,553.

Of this balance £7,812,867 has been lent from States Special funds – funds created for specific purposes. These include loans to support first time buyers and agricultural loans. These loans were approved either by the States or the Housing Committee.

Of the £11.9 million approximately £1.6 million has been lent by the Minister for Treasury and Resources within powers assigned to the role by the States to lend small amounts of funds within pre-set fixed limits.

**8. Aside from the new Housing Association, who else (if anyone) is set to receive a States loan following the adoption of P.133/2013?**

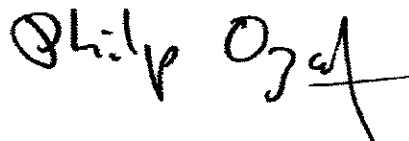
The adoption of P133/2013 merely increases the maximum amount which the States are authorised to lend to third parties, it does not give any authority for sums of money to be lent.

The only loans to be made as a consequence of the adoption of P.133/2013 will be to Housing Trusts/Associations/Companies or bodies with the same purpose registered in Jersey in order that they can provide housing for Islanders in line with

the States decision in the 2014 Budget. The funds borrowed will be held in the Housing Development Fund, which restricts the purpose of use of the funds to housing purposes.

As already stated any further lending will be ultimately authorised by the States, either through general approvals given under the Public Finances Law and Regulations, or by individual Laws creating or amending special or separately constituted funds.

Yours sincerely

A handwritten signature in black ink, appearing to read "Philip Ozouf". The signature is written in a cursive style with a long horizontal stroke at the end.

**Senator Philip Ozouf**  
Minister for Treasury and Resources

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