

STATES OF JERSEY

Health, Social Security and Housing Sub-Panel

Social Housing Property Plan Review

THURSDAY, 3rd MAY 2007

Panel:

Deputy S. Power of St. Brelade (Chairman)

Deputy A. Breckon of St. Saviour

Connétable G.F. Butcher of St. John

Connétable S.A. Yates of St. Martin

Deputy R.G. Le Hérissier of St. Saviour

Witnesses:

Senator T.A. Le Sueur (The Minister for Treasury and Resources)

Deputy J.A.N. Le Fondre of St. Lawrence (Assistant Minister for Treasury and Resources)

Mr. E. Le Ruez (Director, Property Holdings)

Mr. R. Foster (Assistant Director, Property Holdings)

Deputy S. Power of St. Brelade (Chairman):

Good morning, everyone, and welcome. My name is Sean Power and I am Chairman of the sub-panel review, part of the Health, Social Security and Housing Panel. I would like to welcome you all here this morning and let me introduce the sub-panel. As I said, my name is Sean Power.

Deputy A. Breckon of St. Saviour:

I am Alan Breckon and I am Chairman of the main panel and a member of this sub-panel.

Connétable G.F. Butcher of St. John:

Graeme Butcher, Constable of St. John and I am a member of the sub-panel.

Deputy R.G. Le Hérissier of St. Saviour:

Roy Le Hérissier, sub-panel.

Connétable S.A. Yates of St. Martin:

Silva Yates, Constable of St. Martin, member of the sub-panel.

Deputy S. Power:

Can I ask you all to introduce yourselves for purposes of transcribing and the administrator?

Senator T.A. Le Sueur:

I will start with myself. I am the Treasury and Resources Minister, Senator Le Sueur.

Mr. R. Foster:

I am Ray Foster. I am currently Assistant Director, Finance and Strategy at the Property Holdings Department of Treasury and Resources. During the property plan I was Acting Deputy Treasurer when the plan was put together.

Mr. E. Le Ruez:

Eric Le Ruez, Director of Property Holdings.

Deputy S. Power:

Okay, for the purposes of keeping everything legal I shall read a convening notice. States Members will be aware of this, but for those of you that are not States Members I have to read this. It is important that you fully understand the conditions under which you are appearing at this hearing. Maybe I will just hold up for a second and welcome the Assistant Minister. John, would you like to sit beside Eric. You can share that microphone or you can sit here. I have just introduced the sub-panel, John, and everyone else has introduced themselves. Can I ask you to do that for the sake of transcription purposes.

Deputy J.A.N. Le Fondre of St Lawrence:

John Le Fondre, Assistant Minister for Treasury and Resources.

Deputy S. Power:

Thank you. I will start and read the convening notice again. It is important that you fully understand the conditions under which you are appearing at this hearing. The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, PAC and PPC) (Jersey) Regulations 2006 and witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something that they know to be untrue. This protection is given to witnesses to ensure they can speak freely and openly to the panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The panel would like you to bear this in mind when answering questions. The proceedings are being recorded and transcriptions will be made available on the scrutiny website. Okay, having got the legals out of the way, we have a series of questions which we have given you a preview of, so what I think I will do is start and get straight to the point and I will let you all decide as to how and who wants to reply. I will lead off with the first question which is for the Treasury Minister and his department. What is the Treasury Minister's view of the Housing Department's request for an

exemption to previously stated policy that capital receipts should not be used for revenue purposes and, linked to that, has the Treasury agreed to a specific exemption in this case and, if so, for what reasons?

Senator T.A. Le Sueur:

Can I preface this by saying that, as far as I am concerned, scrutiny should normally be decisions of political policy and the question should normally be addressed to the Minister unless there are particular reasons why it needs to be one of the officers, and I am happy to answer in any case because this is a policy issue. In general terms it has been agreed States policy that capital receipts should go into the consolidated fund and be available for general use. I appreciate that policy, but I think we also need to understand the reasoning behind it, that really what we have to do is to use the assets of the States, the assets of the public, in the best interests of the public. It is unrealistic for any one department to hang on to assets that they do not need when other departments, other parts of the States organisation, might be in need. So that, for example, where a school building like Rouge Bouillon School became redundant to the school, it could be used for police purposes; when the JCG (Jersey College for Girls) became redundant as a school, it could be used for community purposes, and so on. I think in that sense properties should be owned for the benefit of the public as a whole, but I think social housing maybe falls into a different category. We are not going to convert social house accommodation into a police station or bus station. It will be unlikely States policy. So, I think you can look at social housing as a sort of ring-fenced entity and, if you look at it on that basis, I think it is quite reasonable to have exemptions to the policy so that capital receipts for the whole of housing strategy should be regarded as self-contained entity and, therefore, the receipts that housing might achieve from properties which are no longer relevant should be used either for replacement buildings or to make sure that the existing buildings are maintained up to scratch, because it may well be better to renovate or refurbish an existing building rather than knock it down and build a new one. I think in the past they seemed to be knocking down buildings and building new ones, without thinking: "Well, is it better to refurbish?" So, yes, I think this is a reasonable exception to States policy and would I approve of it? Yes, with that specific reason, not in general terms for all State properties, but for social housing properties, yes.

Deputy S. Power:

Can I just ask a quick supplementary on that? How much actual discussion did it take between Treasury and Housing to reach that agreement and that exemption?

Senator T.A. Le Sueur:

Not a great deal of discussion, I think, because we were in broad agreement.

Deputy S. Power:

Okay. Alan?

Deputy A. Breckon:

Can I just ask you to comment on the fact that that is outside the strategic plan and outside the business plan; therefore, this is, in effect, a private agreement for a lot of money.

Senator T.A. Le Sueur:

I would not say it is outside the strategic plan or outside the business plan. I think the --

Deputy A. Breckon:

It is not included.

Senator T.A. Le Sueur:

It may not have been included specifically, but I think the general thrust of the strategic plan is to ensure that the population of the Island who need decent accommodation to the extent that we can provide it should be providing it, and I think if we fail to maintain our housing stock, again, that contradicts another part of the strategic plan that we should be looking after our resources. So, I do not see any conflict whatsoever with the strategic plan. I think even if it is not specifically spelt out, it may be not spelt out because it is self-evident.

Deputy A. Breckon:

Under the same heading, how would that be reported and how would it be accounted for, bearing in mind it is outside the business plan and strategic plan and there is nothing we can find that says: "This is the reporting structure, this is how the money is gathered and how it is spent"? Are you comfortable with that?

Senator T.A. Le Sueur:

At the moment what we have in the proposition is a sort of policy in the course of development. As a result of approving this policy, then we will need to put in place the structure to ensure that it is properly accounted for.

Deputy A. Breckon:

So, what you are saying is: "We do not know. We should trust everybody"?

Senator T.A. Le Sueur:

No, I think we now have a situation where the Chief Officer of the Housing Department is an accounting officer for Public Finances law and he is obliged to make sure that he acts in the best interests of the States and in accordance with the law -- he acts in accordance with the law and in accordance with the agreed States policy. So, if he or she does anything contrary to that, then he or she falls foul to the Public Finances law.

Deputy A. Breckon:

But should the social housing plan not give some indication of how that might help at this stage or is it -- where are we with the finances of this?

Senator T.A. Le Sueur:

The finances of this are set out in a proposal here, and I think you may want to discuss the finances as a separate issue. There is a financial plan here and we would expect the Housing Minister and his department to work to that plan.

Deputy S. Power:

I think, Alan, there are a number of questions that deal with that in some detail further down the line. Rather than deal with all parts of the property plan right now, can we move on to the next question? Alan, if you can read out the next question and then we will deal with that, we will get back to that as the questions progress.

Deputy A. Breckon:

Yes, to some extent this overlaps a little bit. The plan proposes that receipts from the sale of properties be ring-fenced for the purposes of Housing's proposed refurbishment and maintenance programme and that any surplus amounts should be credited to the department's revenue account. Can the Minister comment on this?

Senator T.A. Le Sueur:

That I think is a sensible plan. Clearly, what it does is give the Housing Minister a degree of flexibility that he has got in some cases a 10-year plan, in other cases a 20-year plan for the development, maintenance and refurbishment of properties. I think he has to have some certainty over that 20-year period of a programme and, unless he has the ability to set up these sort of financial arrangements, I do not think he would have the certainty which he would require in order to deliver that programme efficiently and effectively.

Deputy A. Breckon:

Did you not say - can I remind you - that capital receipts should return to the centre?

Senator T.A. Le Sueur:

Except in the particular circumstances which I just, I thought, I explained.

Deputy A. Breckon:

So, is there a danger of allowing ring-fencing here that it could happen in other areas, if Education have

buildings for sale and they want to use it for revenue?

Senator T.A. Le Sueur:

No, because I made it quite clear that I felt that social housing had a specific use whereas properties owned by other departments of the States generally had a multitude of uses and were not necessarily always going to be used for the same purpose. It could be in many years to come that we have such a surplus of social housing that we say: "Oh, this is a waste of time, we should knock down houses, they can build a runway" but I do not see that happening in the near future.

Deputy S. Power:

I think also it might be fair to say that the way Housing is structured at the moment is not necessarily the way Housing is going to remain in the future, the Housing Department, and we know that there is another housing policy document in the pipe and about to come down the line and I think, perhaps, some or all of that will be addressed in the future, would you not agree?

Senator T.A. Le Sueur:

Well, today I am addressing what we have before us, which is a proposition, not a thing which might come to a proposition in years to come or months to come.

Deputy S. Power:

Exactly. Roy?

Deputy R.G. Le Hérissier:

Minister, I wonder if I could ask you, has the Housing Department held discussions with your Treasury regarding other possible means of funding their plan and, in answering that, could you tell us what other options were seriously considered by the Treasury to finance the refurbishment programme?

Senator T.A. Le Sueur:

Yes, we have had discussions both with the department and, if you like, at Council of Ministers. The fact is that the options are relatively simple and unappealing.

Deputy R.G. Le Hérissier:

Could you outline those options?

Senator T.A. Le Sueur:

Yes, certainly. The clear requirement, as indicated from the plan, is the need for additional money to be spent on maintenance and refurbishment. It is clear, I think, from the plan that over the last few years Housing have been under-spending on their property maintenance because of budgetary constraints.

Now, in order to overcome that you can do it in I think 3 ways and we have looked at all 3 ways. The first way is to increase the level of housing rents and generate more income. Now, Housing at the moment have a split role. They are a housing provider and they are a benefit agency and that I think probably does not sit very easily -- it would not sit very easily with me as a Housing Minister. I think it is far better to have clarity of purpose and that is why in future the benefit agency element will sit with Social Security as part of income support and the landlord function will remain with Housing. But at the present time the prospect of raising rentals further was not necessarily very appealing to a Housing Minister with that role. The second alternative would be to raise tax, raise additional revenue in order to divert more funds to the Housing Minister or Housing Department. Given some of the comments that are made in other quarters about the growth of State spending and the need to keep spending under control, the prospect of me proposing an additional tax measure in order to fund more States expenditure would, I think, not be particularly attractive at the present time. A third alternative would be to divert expenditure from areas such as Home Affairs, Health, Education, some of the major spending departments of the States, give them less money and give Housing more money. That is a political decision, but the difficulty of under-funding Health or Education is just as damaging as the problem of under-funding Housing. On that basis, I believe that this is the most appropriate, most economic, most efficient way of funding the housing property plan.

Deputy R.G. Le Hérissier:

You said, Minister, they are not a benefit agency. Are we to infer from that that the argument they use - that the rent rebate system has essentially run out of control and has put enormous financial stress upon them - that that problem is about to come to an end and you are going to handle the financing, or via Social Security, of the rent rebate system separately and this idea that we have heard that we are paying out so much rent rebate that we cannot do basic maintenance for you, this will now be consigned to the dustbin of history?

Senator T.A. Le Sueur:

Certainly what it will do is give the Housing Department clarity of purpose and a budget which they know is delivered almost exclusively by rental incomes. It may also have some element of interest from capital sales in the short term, but primarily from rental receipts. The problem does not go away. It would be nice if we could wave a magic wand and the problem goes away. The problem gets transferred to Social Security because they have to maintain an income support system in terms of property rentals, but they do that in the context of an overall income support policy, whereas the Housing Department have to look at the housing and the rent rebate scheme in isolation.

Deputy R.G. Le Hérissier:

Will you also be recommending that the actual cost of rent abatement, which, of course, is a paper transaction as opposed to a sort of an actual physical transaction, will you also be recommending that as

part of the removal of the benefit type role that is recompense to Housing?

Senator T.A. Le Sueur:

That is already agreed that when Housing transfer the -- they have the rent rebate, rent abatement scheme for Social Security, that budget moves across to social security as well. So, Housing are then left purely with the income from the rental properties and they run that as a commercial operation to maintain and enhance those properties.

Deputy R.G. Le Hérissier:

So, just to get it clearer, Minister, in order to put Housing on a sound financial footing, when they offer a rent abatement to a tenant, Social Security will give them the financial value of that abatement?

Senator T.A. Le Sueur:

No, no. Housing will not offer a rent abatement to a tenant. Housing will charge whatever rentals they charge in the marketplace to their tenants uniformly and Social Security will assess the needs of their tenant, will give a tenant a rebate according to his or her requirement. How the mechanics of that work, whether Housing charges the rent gross and then Social Security pay the tenant and pay his housing, I do not know. I think it will be simpler simply for Housing, having assessed the rental, and Social Security, having assessed the rental component of the income support, to set one off against the other and Housing meet the difference. That is a matter of the financial arrangements. What we are talking about here is the policy.

Deputy S. Power:

Alan, did you want to come in quickly on that point?

Deputy A. Breckon:

Yes, can I just come back to the question -- part of the question was discussions with the Treasury regarding other possible means of funding the plan, and you mentioned earlier, Minister, about Housing being split to be the provider and a benefit agency -- the provider of housing and a benefit agency. I wonder if any consideration was given to an arm's length management organisation as an option to making the social housing thing happen.

Senator T.A. Le Sueur:

The idea of Housing being a self-contained entity, be it a housing agency or a separate limited company, I think has been thought about for some time, but that is a policy primarily for the Housing Minister to decide what is the best way of running his operation and I am not going to second guess that. From a financial point of view, it is unlikely to make very little difference unless it were a question that an outside organisation might be able to come to different funding arrangements other than the States. That

is a separate issue which is not addressed in this property plan and maybe is outside your terms of reference.

Deputy A. Breckon:

The reason I say that is it is an alternative means of funding and it is commonplace elsewhere. Local authorities do not manage their own housing, it is done by somebody else, on an arm's length basis.

Senator T.A. Le Sueur:

One cannot conjure additional funding out of the air by magic. Funding comes at a cost in some way or another. There is no free money.

Deputy A. Breckon:

But can I come back to something, Minister? You mentioned Housing competing for capital with Health and everything else, whatever it might be. It takes it out of that equation; that is the reason they have done it. It then becomes an agency of the States, owned by the States, which can do things in a commercial manner. Therefore, the funding arrangement is different. I wonder if you could comment on that.

Senator T.A. Le Sueur:

That is a principle which has been done in the present time using housing trusts where the capital costing is taken outside the States arrangement. It is not quite the same, but I think in terms of the principle, if you are talking about having the ability to raise funding outside the States capital cycle, that is a way in which it can be done.

Deputy R.G. Le Hérissier:

Just looking at another option, Minister, it may be comparable to the way Ministry of Defence houses were sold in England to a private company; Newmara(?) I think was the name. Have there been any discussions among your options of self-funding using housing stock as collateral?

Senator T.A. Le Sueur:

I am not sure what you mean by self-funding. It sounds a nice cosy solution of conjuring money out of thin air. In effect, if you use existing property as collateral, yes, you may well have the ability to go along to an institution and borrow money, but that borrowing, firstly, it costs interest which you have got to service and, secondly, requires capital to be repaid at some stage in the future. Now, unless you go on to a stage of everlasting borrowing or ongoing capital debt, you are no better off.

Deputy R.G. Le Hérissier:

Just quickly, have you factored in the cost of the lost rentals when you arrived at that conclusion, the lost

rental income by having sold off these 600, 800 houses?

Senator T.A. Le Sueur:

No, the question you asked me was about using existing assets as collateral for self-funding purposes. That would not require selling off any assets. That maintains the same income stream, but that income stream has to fund the interest element of the borrowing. In terms of selling States properties in the property plan, yes, the reduced rentals flow has been factored into future calculations.

The Connétable of St. Martin:

Following on from the last question, Minister, is the Housing Department permitted to borrow funds?

Senator T.A. Le Sueur:

No, the States is permitted to borrow funds.

The Connétable of St. Martin:

And the Housing Department is not permitted to borrow funds?

Senator T.A. Le Sueur:

Departments do not borrow. In any case, it would be the Minister, but no, any borrowing is done through the medium of the Treasury.

The Connétable of St. John:

Minister, has the Treasury received a valuation of the total housing stock social?

Senator T.A. Le Sueur:

The valuation is in the course of being done. I looked at the appendices to the property plan and did a few figures on the back of an envelope, but officers have done figures on the back of a bigger envelope and have come up with a reasonable expectation. I think a proper commercial valuation is being done, but that takes time and costs money. It is, I think, a useful thing to have in terms of evaluating how efficient the department is, what sort of property maintenance costs there might be in relation to the capital assets, but it is for information purposes really, it does not help in terms of raising additional money or making use of that money. But we will in any case need those valuations and it is one of the difficulties I find in terms of producing what is called a GAAP (Generally Accepted Accounting Principles) account, GAAP compliant accounts that are in accordance with generally accepted accounting principles. All the States assets, not just the Housing properties, but all the States assets need to be identified and valued. Identifying them is the first difficulty, getting a list of them all and then valuing them is a second and even more difficult exercise, but it has to be done anyway. But even without that exercise being complete, I have got a fair idea of what the housing stock is and I am sure

the Housing Minister equally has.

Deputy S. Power:

Can I just come in on that, Minister? Do you think it would have been helpful to Treasury if a stock valuation report had been available when you had to consider this plan in draft form last year? Do you think it should have been part of the discussion with you, or do you think it was supplementary information afterwards? It seems to me that the portfolio is quite large and the figures involved right now are quite large.

Senator T.A. Le Sueur:

The portfolio is large. As I say, I needed quite a large envelope on the back of which to do my sums. But having considered it, it is large. Yes, we know that and I think that is inferred in the plan itself. Whether the housing stock value is, shall we say, 200 million or 220 million, what is the difference in terms of the policy? I think it is definitely significant. I think the figure, by the way, is more than that, probably.

The Connétable of St. John:

Minister, has there been any discussions in terms of the costs of bringing the social stock up to decent home standards?

Senator T.A. Le Sueur:

Yes, I think the plan looks at that in considerable detail and that is really the remit of the Housing Minister to see what that schedule might involve. But if you look at Appendix A of the document it sets out a 20-year plan and Appendix B I think sets out some of the financial implications of that.

Deputy R.G. Le Hérisier:

Building on the Constable's question, do you think, Minister, that by inheriting a department which is self-confessably running with some quite poorly maintained houses, do you think that this will affect the valuation and the sell-off? Would you prefer to sell off or seesaw off well maintained houses or houses that basically need a lot of work done to them?

Senator T.A. Le Sueur:

I think it is going to be a matter of, to some extent, horses for courses. In order to increase the quality of the housing potentially being sold you have to spend money, invest money to bring them up to standard. That initially takes resources, that takes money, I think it takes time and if you look at the list of properties there, what sort of timescale could we do this over and how could it be managed? So, I think in some cases it will involve bringing houses up to standard. In other cases it may well be that you are saying that we are to sell them in their present condition. It is horses for courses and it will be up to the

Housing Minister to decide when is an appropriate time or when we might need to spend additional monies. What the plan does is give the Minister the opportunity, once the scheme gets going, to have a capital fund available in order to plan out that maintenance and refurbishment programme over a reasonable length of time.

Deputy S. Power:

I will just come in here on a question on that, Minister. There are many, many precedents in other jurisdictions, particularly in the UK, whereby social rented housing stock is sold at a discount for the very reason that it needs some work doing to it. We have a proposal here whereby Housing will bring them up to decent home standard, and if you will do some calculations on the back of my envelope, say you spend an average of £30,000 over so many hundred units, say 800 units, that is £24 million. I am wondering how much discussion took place between Treasury and the Housing Department on whether they should be sold as is or whether they should keep the ball park figure.

Senator T.A. Le Sueur:

I think you start from a wrong premise in that I do not think councils in the UK have sold houses at a discount because of the need to spend additional money on refurbishment. They were selling at a discount in order to encourage people to buy them. So, whether you sell a house worth £200,000 that is up to standard at £200,000, or you sell a house at £160,000 because it needs £40,000 to bring it up to the £200,000 standard, is a matter of judgment for that particular sale.

The Connétable of St. Martin:

I would like a little bit of clarification because I think that this perhaps is a question we should be asking the Minister for Housing, but I am a little bit confused in a way, because looking at perhaps in a state type house of which there has been an offer for sale, they might be on an estate of 30 or 40 houses, maybe a 5 sale take-up, so am I thinking that the Housing will do up the 5 houses beautifully, because I have seen some that are absolutely wonderful work they do, absolutely wonderful, and leave the rest until a programme following on, or will the whole estate be refurbished in order to sell the 5, particularly where you have got terraced houses. I think we ought to -- perhaps I am asking the right question to the wrong person.

Senator T.A. Le Sueur:

I think firstly, yes, you probably should direct the question at the Housing Minister.

The Connétable of St. Martin:

I thought I might have to, yes.

Senator T.A. Le Sueur:

I would have thought that you could look at examples that have taken place at Le Squez where the whole estate was redeveloped. I would think in the normal course of events it would not make economic or practical sense in, as you say, a row of terraced houses just to refurbish numbers 1, 7 and 9 and leave the rest in a state of disrepair.

The Connétable of St. Martin:

You understand my feeling is you would pay £30,000 a pop for the refurbishment and you have got probably 5 sales of --

Senator T.A. Le Sueur:

I think you plan a bit better than that and you make sure you have got enough in the pot to do an appropriate size of estate in an appropriate way, but that is a question for the Housing Minister.

The Connétable of St. Martin:

I have another question which changes the subject slightly. Have discussions been held regarding the financial and legal implications of the proposed shared equity model, and will legislative changes be needed to introduce shared equity and, if so, how long may this take?

Senator T.A. Le Sueur:

As far as the legal side is concerned, I bow to superior **[Laughter]** persons' advice. If this is an evidence-based situation, you need to get that evidence from the people with the relevant experience. As far as the financial implications are concerned, yes, they have been discussed and shared equity is a model which is I think a mixture of financial and social benefit. One of these strategic objectives is to increase home ownership. Now, if you want to achieve that objective, you may have to invest something in it and that investment, in this case, would tend to be in the terms of deferred receipts of capital; in other words you would sell probably at less than the full market value as an incentive to the person to acquire it and then you would regain that capital receipt in the future when the property is sold. I think in general terms for housing, properties tend to be sold every 6 or 7 years, I think. It may well be that on social housing the timescale is longer, but realistically there will come a time in any situation where houses change hands, people die, people emigrate. So, if you like --

The Connétable of St. Martin:

Or do all 3.

Senator T.A. Le Sueur:

Right. There is receipt at some stage in the future and all it means is that the States will then benefit from the capital uplift of their share and the owner will benefit in capital uplift to the extent of his or her share and we have to factor in the loss of capital in the meantime. But, as I say, that achieves a strategic

objective at some financial cost, but it is not a pure financial loss because we have got to remember that, having sold the properties, we also have the element of not getting the rental stream from that, but conversely we do not have the maintenance costs of that. So, it is a more complex arrangement than simply the capital element, but I think in terms of an overall picture, it is one which I am satisfied with.

The Connétable of St. Martin:

Could I just ask you to confirm that the discussions regarding this proposed shared equity have been made, the discussions? The legal implications are a question to ask another person and the possible legislative changes are a question to ask another party.

Senator T.A. Le Sueur:

Certainly I am not competent to answer them. I think as far as the shared equity model is concerned, it has been modelled primarily at officer level in accordance with principles agreed by myself and the Housing Minister. In terms of the detail of the calculations, I do not trust my slide rule that well and I do not know if the Housing Minister's slide rule still works.

Deputy R.G. Le Hérisier:

Just building on Silva's question again, when you accepted the shared equity model, presumably you accepted there was going to be much more risk because you were bringing people into the ambit of a home ownership who might be older, for example, might have to look at 2 generational mortgages and you were definitely moving into a higher risk area, so how was that factored in? Secondly, if home ownership was the way forward, could it have been achieved by other social objectives or did it have to be achieved by the sell-off policy?

Senator T.A. Le Sueur:

I think you have got 2 different questions there. Firstly, the risk. There is a risk to the States and there is a risk to the property owner if the property owner was unable to meet their repayment requirements of the bank to get a mortgage. That is a matter which the person would have to consider quite carefully before they entered into the arrangements, but of course if they did, say, in 5 or 10 years' time, for unforeseen circumstances, find themselves unable to continue their repayments, they would at least have had 10 years rent-free occupation and they will have the 10-year benefit of uplift in the capital value, if it is an uplift which one presumes it might well be. So, I think even though a repossession in that situation would be unfortunate, at least the owner until then would get hopefully some financial recompense from the capital uplift. I think that risk is something which needs to be identified by the Housing Minister and by the purchasers, and clearly what you would not want to do is to have a policy which simply was sales willy nilly irrespective of whether the purchasers were in a position really to meet that. The Housing Minister would have to act responsibly and the prospective purchasers would need to act responsibly, and I am sure equally the lenders will not lend irresponsibly because the last

thing the banks want to do is repossess residential property.

Deputy A. Breckon:

I think you have covered that question on -- I am not sure really if you will be able to comment on the repossessions again, that would be a legal thing if there was a shared equity sale where the States would stand in recovery if people reneged on their loan.

Senator T.A. Le Sueur:

In the normal course of events I would not expect the capital value of a property to go down unless it had been very badly neglected and left to go to waste, and people who own their property or are buying from a mortgage tend if they can to maintain that property and make sure it does not deteriorate because they know it is their asset and they will share in the benefits of its appreciation and good maintenance. So, I think the risk is perhaps reduced in that respect, compared with what the Housing Department may now have to face in terms of tenants who will let their property deteriorate and incur the Housing Minister substantial maintenance costs. Yes, it would be nice to think that we only had good property owners and good property tenants, but this is a social problem not confined to one particular sector. I think, as I say, property owners tend to have a greater interest in making sure their property is maintained and that they have a lifestyle and work ethic, if you like, to encourage them to look after it and perhaps enhance their house.

Deputy S. Power:

I think it is probably fair to say that when the property plan moves forward that this will be a very small issue.

Senator T.A. Le Sueur:

I cannot tell that, that is -- I would think so in terms of risk assessment, if you like. I would work on the assumption that it needs to be a small risk and very much a minority situation. I think if one looks around generally at residential repossessions, I think in a situation where the Island has relatively full employment and prosperity, repossession is quite rare.

The Connétable of St. Martin:

Just following on the same question, one presumes that a States tenant buys the property that he is occupying and he is very keen to do it and gets a mortgage, something goes wrong in the future and the property has got to be repossessed, but the mortgage or the bank will hold the first charge and the States would hold the second charge surely? The banks will get their money back.

Senator T.A. Le Sueur:

The legal arrangements of shared equity are a matter outside my direct concern. You will need to see

how that is structured, but I would say the bank will no doubt give a mortgage up to the level of the owner's share of the equity. In other words, if I try to put it in numerical terms, you have a property worth £200,000 and you have a shared equity with the States to retain £50,000 and the purchaser takes £150,000, so 75 per cent/25 per cent. The bank will only lend up to £150,000. They would not lend the purchaser £200,000 when the purchaser is only paying the States £150,000. So, the bank's maximum exposure to capital at that stage is £150,000. In the subsequent years the owner will pay off to the bank a mixture of capital and interest, so that the bank's capital expenditure is unlikely to exceed £150,000 and should be reduced. There may in the short term be arrears of interest, but you are still talking about that £150,000 maximum. So, in the event of things going wrong, yes, the bank will have a first charge and they will recover their £150,000. The States will be left with the residue of a property still worth £200,000 or £250,000 at that time. So, I do not think that the States are in any significant level of risk.

Deputy S. Power:

The next question, Minister, in the inter-departmental discussion between Treasury and Housing, was there ever any consideration of resuming a programme of loans to encourage home ownership as previously happened under the States loan scheme and, if not, what other options exist to promote home ownership targeted by this proposal?

Senator T.A. Le Sueur:

I think one has to look back at the history of the States loan scheme and say: "Was it a success?" It was a success in that when it first came in it enabled people to borrow when banks were not lending particularly in the domestic market. What it did when the banks came into the domestic market meant that government was competing with the banks for no great benefit, because what would happen then is that there is a commercial rate for borrowing and if the States rate is below the commercial rate all we are doing is subsidising, giving free money to particular people who manage to get on to that particular market. It became a bit of a lottery when the supply of housing was less than demand and you were getting this free money which simply pushed up the price of houses. So, you had a States loan house and I can remember various ones at Miladi Farm and some of those at St. Brelade, and the States loaned a maximum of £42,500 I think it was at the time. You could buy it one day for that price and sell it the following week for £60,000 because that was its effective market value because it is supply and demand. Now, a States loan scheme, subsidised loan scheme, in that sort of situation does not do the market or land owners any good at all. So what would be the purpose of the States going back into the States loan scheme when banks and mortgage providers these days are providing in plenty to borrowers at reasonable rates of interest? If you look around the interest rates, even at the moment with rates rising, you are talking in the 5 or 6 per cent mark. If government was to provide subsidies to house purchasers, you might say: "Well, what is the social merit of that?" That is perhaps not a Treasury Minister's question so much as a general social one. Certainly from a Treasury point of view, I cannot see any merit in providing effectively grants to a selected number of lucky people in the community. It

is almost like a lottery and it is not necessarily targeted to those in need, it is targeted to those who happen to draw the right lottery ticket.

Deputy S. Power:

The reason for the question is not so much lottery-based. The reason for the question was that perhaps there are a percentage of States tenants who will not be able to raise a mortgage with the associated banks or with the mortgage providers. There may be States tenants who may just slip below the radar on this who may not quite meet the financial criteria for mortgages or banks, and sometimes there are what is called mortgage providers who provide slightly softer terms to get them into home ownership. That was really one of the reasons behind the question. There is some evidence coming to the sub-panel that there may be a pool of States tenants who may just be below the radar and that is what I meant.

Senator T.A. Le Sueur:

As you say, there are mortgage providers who are flexible in their arrangements and will maybe deal with particular odd circumstances quite effectively, but I would say that the person who might have difficulty in meeting mortgage requirements might be the sort of person who would be at risk of repossession if he went into that sort of operation. Now, with a shared equity scheme, where typically the person would only have to put three-quarters of the money, I think they have more chance if your level of radar or your --

Deputy S. Power:

Horizon.

Senator T.A. Le Sueur:

-- your horizon, your target line can be lower. So, I think when shared equity is in the interests of those people who might fall below the normal situation, I think it gives them a greater degree of flexibility, but I think if they are still below that level they need to assess quite carefully the risk element to themselves in taking on such a commitment.

Deputy R.G. Le Hérissier:

Just to finish that area, Minister, and it is slightly Housing policy but you have raised the issue, the one of randomness. Do you think it is fair that if you happen to be an incumbent of a States house that you should get precedence in applying for the purchase of that house, or would you want it to be offered to the whole States tenant group or indeed to the general public?

Senator T.A. Le Sueur:

That is a matter of Housing policy rather than financial policy, but I think if you ask me as an individual rather than a Treasury Minister, I think you have got a social obligation here. Where a person has

become a member of a particular community for a number of years living, we will say, at Le Squez or something like that, then they have a natural affinity to buy a house that they have been living in for years or near where they have been living. So, I can understand them having a moral precedence over other States tenants for that particular property. But if there came the situation where there were properties vacant and nobody in that area wanted to have that property, then I can well see the Housing Minister saying: "Okay, well, someone from somewhere else could step in." That is a matter of Housing policy; it does not affect the financial situation, but I think from a social point of view you try to encourage those people to stay in their own homes.

Deputy R.G. Le Hérisier:

A new question which you have partly dealt with, Minister, how does the Treasury expect the budget for rent abatement and rent subsidy, how does it expect it will be affected by the shift in responsibility for these schemes to Social Security?

Senator T.A. Le Sueur:

Budgeting is relatively straightforward. We have a budget of money for rent rebate and rent abatement. We have a budget of money for the Housing Department. What you do is shift that budget mathematically from one department to another. It does not, as I say, affect the amount of money available. What you may find in the future is some cost variations and the cost variations of maintenance will be a matter under Housing's control. The social welfare cost implications will be a matter for the Social Security Minister under the income support proposals. So while you transfer a neutral budget on day one, I cannot guarantee that it will be the same neutral budget in year 5, just as the parishes, for example, have transferred a welfare burden of £9 million this year, I have got no guarantee it will be £9 million in 5 years' time. I think the Constables may think it will have gone up in that time and they are happy to pass the burden over, but that is another issue.

Deputy S. Power:

I think there is another question down the line which we will tease a bit of that out in detail a little later. Alan, do you want to move on to the next one?

The Connétable of St. Martin:

I have got a question here. Does the Minister have any concerns about levels of rental income and the overall net return from social housing?

Senator T.A. Le Sueur:

I do not have any main concerns over rental income and yet, as far as the level is concerned, I would not like the level to be significantly below market rate. I would expect Housing in this new role as a landlord to set rentals to a level which was appropriate for the properties and the need to maintain those

properties. I think the good thing, as far as I can see, is that the Housing Department appear to have a relatively small level of voids and so that their rental income stream is fairly reliable. It is then a matter for the Housing Minister to manage that portfolio to ensure that the rental scheme -- the rental income and the maintenance costs can remain in some sort of balance.

Deputy R.G. Le Hérisier:

As you probably know, Mr. Minister, the rental is fixed at 80 per cent of the market rate. You are happy with that as a level, are you?

Senator T.A. Le Sueur:

No, I think the rental income is currently fixed at 80 per cent of the market rate because the Housing Minister current at the time has this dual role of a benefit agent and a landlord. I think when the Housing Minister is there purely as a landlord, not as a social landlord, not as a Rackman(?) type landlord [**Laughter**] the Housing Minister will then be able to set rents at an appropriate level to deal with his particular needs and he has got to accept, just as I would accept as a private landlord, that rents can fluctuate depending on supply and demand and he, as any other landlord, has to look at the state of the market.

Deputy A. Breckon:

Just touching on that, do you know, Minister, if there is a rental policy - I know there was the 3 year reviews and I think it was 90 per cent of the market was a target - but do you know if that is still in place and if that is a longer term plan in a rental policy?

Senator T.A. Le Sueur:

You will have to ask the Housing Minister what his long-term rental policy is. I would hope that it would be a rental stream appropriate to maintain his properties and the sort of scheme adopted by a prudent commercial landlord.

Deputy A. Breckon:

How would that fit in with inflation at 2½ per cent in that sort of policy from the States?

Senator T.A. Le Sueur:

I think we have got to get away from Housing being a benefit agency and I think this question of 2½ per cent, or anything like that, is probably irrelevant. I will take off my Treasury Minister's hat for a moment and put on my private landlord's hat for a moment. On some of my properties I have not increased the rent for 2 or 3 years, but that is because of market levels and market demand. Other occasions I might increase rentals by RPI (Retail Price Index) and RPI might be 5 per cent. But you look at the market place, you look at the particular situation and you look at your own funding

requirements. Maybe as an individual I can be a soft landlord, maybe as a Housing Minister he has got to look after his responsibility to the wider community and act as a responsible landlord. But to suggest that rentals must go up year by year by 2½ per cent strikes me as being a very restricted and dangerous policy, and I say that part as a Treasury Minister.

Deputy A. Breckon:

How should social housing be coupled to the market then? Is it not people who cannot afford to rent in the open market; that is why the subsidy element is so high?

Senator T.A. Le Sueur:

The Housing Minister needs to be a provider of accommodation to those in a situation where there might otherwise not be accommodation available. I think we have a government obligation to ensure that the population of the Island is adequately housed. Now, I think to the extent that that can be done by the private sector, there is no particular need for government to get involved, given that the private sector can deliver that as efficiently or more efficiently than government can, and I say that even if the former Housing Chief Officer may feel uncomfortable. This is a normal situation. Commercial operations can run a thing more efficiently because they run it on purely commercial lines, not with any social implications necessarily involved. In a situation where the market is imperfect, there will be an occasion where government needs to intervene and act as a landlord, but if your suggestion that that landlord should be such a magnanimous landlord that he does not run his business properly, I think that is the wrong approach. What we have tried to do I think and what we are doing and what we have agreed to do as States policy is to move the social character element, if you like - I do not like using the word "character" - the social benefit arrangement away from Housing and to give that to Social Security, in order that there is a clear line of responsibility for benefits and for maintaining property and for providing maintained property.

Deputy A. Breckon:

Would you like to comment on whether you think there is attention needed in the Jersey market between the need for social housing and affordability of it?

Senator T.A. Le Sueur:

I think what we have to do and what the Housing Minister is doing is making sure that the balance in the market is about right and that balance changes from decade to decade, generation to generation. We have seen increasingly a demand for sheltered housing and accommodation for the more senior citizens. We have seen a mismatch, perhaps, in the number of 1 and 2-bedroom units compared with the demand for those. This is going to be an ongoing variation and one of the reasons why I think the Housing Minister has to have the ability to dispose of properties which are no longer relevant to his portfolio and re-invest in properties which are more appropriate to a forthcoming future portfolio. Without this sort of

property plan he has at least one hand tied behind his back.

Deputy S. Power:

Okay, we are going to skip the next question because it is to a large extent covered, so can we move on to you, Constable?

The Connétable of St. Martin:

The sub-panel has heard comments to the effect that the rebate system is too generous. Is the Treasury aware of any plans to change this?

Senator T.A. Le Sueur:

I am aware of the plans of the Social Security Minister in the new income support scheme which will come before the House shortly and certainly there is a mismatch between the eligibility for benefits available under the rent rebate and rent abatement schemes and the eligibility for benefits under some other benefits provided by parishes at the present time or Social Security or Education or anyone else. That mismatch works in 2 ways. Firstly, I think the housing scheme is more generous to people on higher incomes than other benefits such as the Social Security ones. On the other hand, the residential qualifications for housing benefits are more stringent than those of Social Security and at the moment you have got a 12-year residential rule before you can qualify, so it is swings and roundabouts, but certainly there is a mismatch.

The Connétable of St. Martin:

I think the underlying thoughts behind this question is that we seem to have alleged examples of private landlords keeping the levels of their private rentals high because they know that their tenants can claim rental rebate. I think basically is there going to be anything planned to deal with the situation, an artificial level of private rentals?

Senator T.A. Le Sueur:

I think private landlords tend to work on their basis of supply and demand and, if the supply of property exceeds demand, then rental levels tend to come down and the other way round conversely. Equally, if government subsidises rentals across the board, virtually to any tenant of any means whatsoever, all that does, as you say, is push private rentals up to the level where governments will subsidise and all that does is distort and increase the rental market and increases the inflationary pressure on the economy. So, providing subsidies to those who do not need it is not good economic policy. How you define who needs it and who does not need it is another matter and that is something which we will have 53 different views on it in the States, I am sure. All I am saying is from a general economic point of view providing to those that do not need it does not do the market any benefit whether from rental income or the States loans.

The Connétable of St. Martin:

I would like to make a comment because I was fortunate enough to have a little tour of some of the States social housing last week. I saw some of the houses that had not been renovated and some that had, and I must say they were an absolutely wonderful standard of work and I would have thought that the States rentals would have had some effect on private -- I mean, what a bargain for a States tenant to live in that sort of house. Wonderful! I just wonder whether any study is worth doing on the effect of the quality of the States housing on the private rental market. It has got to have some impact. It must bring the private rentals down, I should think, but it is really, really good. I congratulate the Housing Department doing that work.

Senator T.A. Le Sueur:

Well, I do, too. I do not know if that is necessarily a matter for me as Treasury Minister to address the Scrutiny Panel on, but to the extent that Housing can provide accommodation to a good standard, then the private market has to react to that and will set its rents accordingly. Equally, if the Housing Department maintains its properties very poorly then people would be encouraged to leave the States sector and go into the private sector at a higher rent and then look for greater benefits, and all that will distort the market. So it is a complex issue, if you like, and I think why the Housing Department has a policy of trying to maintain an improved standard and maintain them at a decent home standard. Although I am not aware of the finer details, I do believe the Housing Department sets different levels of rental for properties which are in a poorer state compared to those which are in a good state. Whether they match the market conditions and market price absolutely I do not know, but at least I think there is the principle that property which is requiring maintenance would not necessarily command the same rental as if it had been brought fully up to standard. That is a matter you would have to ask the Housing Minister.

Deputy R.G. Le Hérissier:

Just building on from this question about the rent rebate, I am trying to sort of tease out your views. Are you saying that a rent rebate system much more tightly controlled than the one we have at the moment is necessary and could be made to work without distorting the economy to any extent, or are you saying *per se* that rent rebate systems ultimately have a distorting effect and should only be used in the most extreme of circumstances?

Senator T.A. Le Sueur:

The reason I am hesitating here is that you are asking me a question really as an individual rather than as a Treasury Minister, I think, and I certainly have personal views but I am trying to respond to you in a Scrutiny Panel as strictly Minister and not as Senator Terry Le Sueur.

Deputy R.G. Le Hérisier:

The reason I ask, Minister, is that as I said at the beginning the rent rebate system is being used as possibly one of the excuses why Housing has to move to a new sort of funding model, so to speak. You have argued that it is now going to be removed from them and that kind of stress is going to be removed, but the pressure still remains on the public purse in one form or another, does it not?

Senator T.A. Le Sueur:

The pressure remains on the public purse, which I think the purpose in my view of the property plan here is the pressure on Housing's maintenance budget and the present arrangements do not allow Housing sufficient revenues to maintain their properties effectively up to standard. Now, you could argue that you could give them extra revenue by doing away with rent subsidies and, yes, from a pure housing point of view you could do. You could say every tenant irrespective of means, irrespective of any circumstances, would pay market rent. That would give the Housing Minister absolute freedom then to set his own rentals. It would not be socially desirable, I suggest, but everyone, even though they are unable to pay, would have to pay market rentals. The effect would simply be to make dozens of families homeless.

Deputy S. Power:

You will be pleased to know we are on the home straight now. This question refers to one of our umbrella terms of reference and it is a question about housing trusts. Some of the housing trusts are now coming close to paying off a lot of their loans. Does Treasury have a view on the accruing financial reserves of housing trusts and what about uncommitted funds that they may accrue? Do you have a view as Treasury Minister?

Senator T.A. Le Sueur:

I have a view about housing trusts. They are set up on a long-term basis and, yes, there will come a time when the capital funding has reached the stage where they can start to accumulate funds, though I suspect that as with any prudent landlord one has to look at the life cycle of a building, and to simply say: "Well, those funds could be spent or reinvested again back to the States" ignores the fact that over a period of time those properties are going to need updating and renovating just as the States properties are. So, it is only reasonable for housing trusts to build up certain funds to maintain that ongoing programme. If there comes a stage where the ongoing programme does not require all their capital, then there is the opportunity for those trusts to repatriate some of the funds back to the States, but at the present time I think their primary objective must be to maintain their properties in a good state of repair and I think what it will require - this is perhaps a semi-personal judgment - is that there may be an expectation that the need for housing trusts will continue in the future so that they have got this ongoing programme. I am not sure it is likely, but if the demand for social housing were to drop by 50 per cent then I think there is political will to say: "Okay, so should the States come out of the market to the

extent of that 50 per cent? Should housing trusts come out of the market to the extent of that 50 per cent or should it be a mixture of the 2?" I think the general situation there is if the housing trusts are running then as efficiently as they are now, I would be happier letting the housing trusts run the market rather than government. I think the general view is that government does not need to intervene when someone else is doing the job better.

Deputy S. Power:

We will leave it there. I would just hazard a comment to say that I think the prospect of a drop of 50 per cent is probably unlikely in the next --

Senator T.A. Le Sueur:

Perhaps I said that tongue-in-cheek, but just as an indication that the need for housing trusts will continue.

Deputy S. Power:

That leads us neatly on to you, Roy.

Deputy R.G. Le Hérissier:

What are your views, Minister, on the provision of newly built housing by the department, as opposed to having them built by housing trusts in the future?

Senator T.A. Le Sueur:

It has been States policy for some time now to use our capital funds to the most effective means and where there are other ways of providing new capital expenditure outside the States' spending envelope, they should be encouraged. So from that point of view, from a purely financial point of view, housing trusts give the opportunity for additional capital spending outside the States programme. Now, that may or may not be a good thing because you could put such pressure on the building market that it could be inflationary. Equally, it could stimulate the building industry in times of recession but, thirdly and I think perhaps more importantly, it enables social housing to be done at a time when it is needed, not at a time when the States have surplus funds. So I think housing trusts are a far more flexible means of funding ongoing capital development than maybe the States themselves can achieve under their present policies.

Deputy R.G. Le Hérissier:

You did indicate earlier that they operate more in the market, so to speak, but have you come to the conclusion that because they do receive through the rent rebate system what essentially amounts to a considerable degree of States revenue funding, that in a sort of perverse way they become very dependent on another source of States funding?

Senator T.A. Le Sueur:

No, I think it is getting to the idea that housing trusts expect to receive a fair market type rental for its property. Now, it will get that either from the tenant or from a combination of the tenant and the rent rebate. In the future, it will get it from a combination of the tenants or the tenants and the income support scheme. It may well be that some of their tenants who at present have been receiving large rent rebates will in future get smaller levels of income support and that may have the effect in the longer term of reducing rental values. But that rental value is dependent on a number of things, primarily the demand that there is for social accommodation. I think you would have to ask the trusts themselves, but I would suggest that they might now be questioning the extent to which further housing trust accommodation can be guaranteed 100 per cent occupancy, because unless they have a high occupancy rate and few voids, then housing trusts are not effective. So I think they will not want to take on more and more development willy-nilly; they will want to look at it in a fully commercial way and I think that is, from their point of view and the Island's point of view, reasonable because it then means they look at this in a purely pragmatic way.

The Connétable of St. Martin:

Could I just go back to the funding side of it? During our tour round last week we did see several blocks of flats - which were the low rise ones, not the high rise ones - which were scheduled for demolition. Where is the funding coming from for new housing including shelter housing? I know the Housing Minister would like Constables to get involved and find some money as well, but that may not be as easy as he seems to think.

Senator T.A. Le Sueur:

No. I think to that extent there may well be an ongoing need for housing trusts. On the basis that the States' capital programme is fully committed for the next 5 years with other projects, it has not been the policy to any large extent for the States' capital programme to be involved in new housing developments. That is why we have used housing trusts and it may well be if there is a demonstrable ongoing demand for sheltered housing and an ongoing rental stream from sheltered housing, that housing trusts will shift their focus away from their present accommodation streams more towards sheltered housing, and that is perfectly reasonable. It simply means that housing trusts react to marketplace changes and can do that. But equally, going back to an earlier question from the Chairman, that is why they may need a capital fund available in order to reposition themselves.

Deputy S. Power:

Does Treasury have any comparative information as to the effectiveness or overall performance of housing trusts as compared to the Housing Department in terms of how they perform?

Senator T.A. Le Sueur:

I would have said that the Treasury and the Housing Department worked fairly closely together and I do not think there is any question of one of us being better informed than the other.

Deputy R.G. Le Hérissier:

I do apologise that we are getting on to broader housing policy but it is very difficult to wrestle with this specific issue without knowing what the broader policy is, and we have struggled with that throughout this study. We are waiting for the big study and looking at an aspect of it.

Senator T.A. Le Sueur:

That may well be but I can only advise you here on what is before us and what policies have been presented. I am not going to second guess the Housing Minister's policies.

Deputy R.G. Le Hérissier:

Absolutely, but do you have any information? No, sorry. Do you have any information on whether housing trusts economically are a better deal for the States in the type of housing that they are required to provide than the Housing Department itself? Have you ever managed to get to the bottom of that issue?

Senator T.A. Le Sueur:

Certainly as Treasury Minister it has not taken up a lot of my thinking time. For the reasons which I have explained over the last half hour, I would suggest to you that housing trusts are quite an efficient operating model. Now, they do, if you like, have certain risks in terms of interest rate caps and in terms of duty or rental income streams. That is a risk which the housing trusts are fully aware of and which they consider when deciding whether or not to take on any particular development. So in terms of whether they are more efficient than the Housing Department might be, I do not think it has to be a matter of efficiency as much as (?) having a focused approach, and I think that focused approach may well be easier for them. Bear in mind that housing trusts can pick and choose whether or not they provide additional units of social housing. The Housing Minister has an obligation to ensure that the population of the Island is adequately housed.

Deputy S. Power:

I think the reason for some of these questions, which might appear slightly amorphous in that they overlap in some areas, is that we struggle sometimes to follow the remit of the property plan because there is a much bigger picture following up behind. So all 5 of us would agree that to a certain extent - we have used this phrase many times - we are being used as a bit of a Trojan horse; we are not sure. But I think that was the reasoning behind some of these questions which compare Housing's own role, and you use the phrase very effectively and called the landlord a sympathetic benevolent agency. So we are

struggling with some of the issues on this and that was the reason for that.

Senator T.A. Le Sueur:

I am not sure to what extent this panel should be a Trojan horse. A Trojan horse is normally used by somebody as a means of stealth, and I do not think - maybe I am wrong - but I do not imagine that the Housing Minister has used you as a means of stealth.

Deputy S. Power:

No. I think to some extent part of the property plan is like a moving target. We first saw the document right on Christmas and then we formed this panel at the end of January, beginning of February. A number of things have changed in the interim period. The whole question of the need for sheltered housing and the numbers and the volume of sheltered housing have come in, so it is subsequent to this. So we feel in some ways we are dealing with a Trojan house, so you would have to bear with us if some of the questions appear to be slightly wider than what you would interpret as our terms of reference. I just wanted to say that.

The Connétable of St. John:

We spoke earlier about valuations that are in hand at the moment. Does the Treasury agree that housing stock can be sold off cheaply?

Senator T.A. Le Sueur:

I would need a lot of convincing to be persuaded that the housing stock should be sold off cheaply. I think housing stock can be sold off in stages as per shared equity arrangements. I do not necessarily regard that as cheaply. I think it may be a question of deferring full benefits but maybe, if you like, sharing in the risk of increased capital appreciation. Now, whether governments should share risk or if the government should takes risks is a matter in which people may have different views, but I think if we want to have an efficient operation then government has to take some acceptable level of risk.

Deputy S. Power:

I think part of the reason for that is that if one were to look at the whole question of return on social rented housing, obviously on the hierarchy of returns it is probably down there fairly low, so when Treasury does, with the Housing Department, get into selling off obviously it must be a concern.

Senator T.A. Le Sueur:

I think if the Treasury has to operate solely to maximise its returns on every part of the States organisation, I can do that quite effectively by doing away with things like schools and hospitals but I do not think that is particularly appropriate for a government to do.

Deputy S. Power:

Or particularly popular.

Senator T.A. Le Sueur:

Social housing falls into that category as well. So that is something that the government has to do and accept the fact that there will be low rate of return and maybe a negative rate of return because of the social obligations. Treasury is well aware of that.

Mr. E. Le Reuz:

Just a point of information about valuations; you talk about selling off the stock cheaply. The valuation of the housing stock can be done in 3 ways. You could value it as social rented housing, which would be the lowest value, but in that property plan it is indicated that some properties will be sold on the open market, in which case they will be sold at full category B market value. There will be other properties which have first time buyer designation which will be sold at category A first time buyer value. That again is higher than social rented value.

Deputy S. Power:

The sub-panel do acknowledge completely, I think, that there is a list of 22 or 23 properties in Appendix C which obviously fall outside the remit. I do not think any of us have a problem at all with that. Thank you for clarifying that.

Deputy A. Breckon:

There are 2 areas I want to move on to. One is the housing development fund and the other one is about the letters of comfort. On the housing department fund, as you might remember, it was approved by the States on 7 July 1999. There was a subsequent Audit Committee report in early 2001 and that said, among other things, that expenditure needed to be more closely monitored. There was a series of recommendations from that report and an action plan was agreed to be drawn up and there was a listing of headings. Can I ask you, Minister, if that in fact was done and, if it was, could you supply a copy of it to this panel and can you give us the latest and the accounts flowing from this fund?

Senator T.A. Le Sueur:

I feel rather like in the States being asked a supplementary question which had nothing to do with the main question. I am not sure to what extent the housing development fund is relevant to the scrutiny of this particular property plan. So, to that extent I am afraid I am not as well briefed as you might expect me to be and I cannot give you a factual answer at the moment. All I can do is waffle. Rather than do that, I am advised by officers that accounts are available and they are audited every year, so presumably if the auditors felt that we were not complying with the obligations they would say so. That is the best I can give you at this stage on an issue which I did not expect to discuss in terms of the present property

plan.

Deputy A. Breckon:

Well, it is part of that because it was part of what the States agreed would be part of an element of subsidy system to trusts on others and there would be capital write-offs and things like that. You mentioned earlier how effective trusts may be against the Housing Department, but again this facility was not available to the Housing Department as a housing provider. So you are saying that we will be provided with that information?

Senator T.A. Le Sueur:

I think what I suggest that you do is put your question in writing to my officers and they will be able to supply you with the information if that is available.

Deputy S. Power:

If that is okay, what I think we will do is write to you through the scrutiny officer and follow up on that.

Deputy A. Breckon:

Can I come on to letters of comfort and this is something that perhaps should not surprise us. It was in the financial accounts for 2005 at page xix. It stated that the Housing, Finance and Economics Committee have agreed to provide financial support to various housing trusts in respect of bank loans. The Finance and Economics Committee issues letters of comfort to the banks in respect of bank loans. The letters of comfort do not constitute guarantees. As at the year end - that is the year end of 2005 - letters of comfort in respect of loans totalling £125.7 million were an issue. I wonder, Minister, if you would like to comment on how this complies with the former Public Finance Law and the current Public Accounts Law?

Senator T.A. Le Sueur:

Letters of comfort comply with the Public Finance Law and comply with the previous Public Finance Law and had they not done so, I am sure the States' auditors would have made that comment quite, quite clear in their comments on the accounts. Letters of comfort, if you like, are a way of covering a risk or sharing a risk. Clearly any housing trust entering into commercial operations of that nature is subject to the risk of interest rate fluctuations and they may not be able to offset those interest rate fluctuations entirely by rental charges when they are, if you like, acting with the interests of social housing at heart. So there are various ways in which we could do this. We could do it by a letter of comfort. I could purchase an interest rate cap from a bank year by year. I could purchase an insurance policy. There are various ways in which this can be achieved. In my view, comparing the cost of various alternatives and the relative risks of either of them, I believe - and at the time the Finance and Economics Committee equally believed - that a letter of comfort was the most cost effective way of giving trusts the security

they need in order to deliver States objectives.

Deputy A. Breckon:

Would you agree, Minister, perhaps as Minister and also as an accountant, that this could be seen as off balance sheet borrowing?

Senator T.A. Le Sueur:

Yes.

Deputy A. Breckon:

Therefore, again, could we have some details of what is involved in this £125.7 million because it was contained in that statement and I do not recall seeing it anywhere else.

Senator T.A. Le Sueur:

Right. I am equally sure that if your scrutiny officer writes to the Treasury or the Property Holding Department we can give you details of how that £125.7 million is made up.

Deputy A. Breckon:

I would just like to comment that I do believe it is relevant to the social property plan because it is part of the reason that we are where we are.

Deputy S. Power:

I am going to ask one question. As Treasury Minister, do you believe that the housing property plan is financially robust?

Senator T.A. Le Sueur:

It is robust. It is financially robust. It depends on certain assumptions. I think the assumptions which are made in the plan are reasonable assumptions and to the extent that those assumptions are achieved, the plan is financially robust. However, I cannot say that everything will necessarily pan out absolutely because there is many a slip in a complicated plan like this. The general principles are robust. The assumptions are reasonable and so it ought to stack up. I cannot guarantee it is bound to stack up come what may because I cannot foresee the future.

Deputy S. Power:

But in a situation where a number of variables are introduced into the way the property plan was delivered, it could adversely affect its financial robustness?

Senator T.A. Le Sueur:

It could to some degree. I think there are risks whichever method we adopt of trying to maintain our housing stock into the future. I do not think the risks of following this plan are as severe as the risks there might be of going in a different direction. So to the extent that this plan is 99 per cent financially robust rather than 100 per cent financially robust, well, I say the other options might only be 60 or 80 per cent robust.

Deputy S. Power:

But at the moment your department is comfortable that it is financially robust if it follows a certain path?

Senator T.A. Le Sueur:

Yes.

Deputy S. Power:

And that if it were to vary too much from that path it may not, it may lose its ability to stay as integrated as a robust plan?

Senator T.A. Le Sueur:

Obviously.

Deputy R.G. Le Hérissier:

Just moving into another area but one that does relate to the tenants' ability to buy and an area which you may have felt had been nicely buried in the past. Does the Minister have any comments on the effectiveness of mortgage interest tax relief and are there any proposals to change this in the future, and what effect might this have particularly on this potential buying group?

Senator T.A. Le Sueur:

My views on mortgage interest tax relief I thought had been explained at the last budget and various -- but in any case, mortgage interest tax relief remains available for people paying tax on capital of only up to £300,000. Now, the sort of properties envisaged in the housing property plan and the sort of people that we are trying to help through the Housing Department and through this property plan, in my view, are likely to take on mortgages of less than £300,000. So I do not see any mismatch between this plan and the availability of mortgage interest tax relief to tax payers who are paying tax. Indeed, I think the continuing availability of mortgage interest tax relief up to the level of £300,000 will be an encouragement to people to take on shared equity and so on and indeed the plan itself, if you look at the financial modelling of it in various (?) examples, assumes that the borrower, who is going to be paying more under the interest charged by the bank than he would have been paying on the rentals, will get the benefit of tax relief to offset that. So, clearly if I were to change the policy in terms of mortgage interest tax relief that would have an adverse effect on the property plan. I think probably an unstated

assumption in there but one which the Housing Minister is fully entitled to rely on is that the level of mortgage interest tax relief would not go down in the period of this plan.

Deputy S. Power:

I am conscious that it is now 11.03 a.m. and we have more or less covered what we wanted to cover. Can I thank everyone including you, Minister, from Treasury and the Assistant Minister for indulging us with your time for an hour and a half. As I said, there will be a full transcript available to you as soon as possible. Thank you very much for coming.

Senator T.A. Le Sueur:

Thank you.