

ESTABLISHMENT OF HOUSING DEVELOPMENT FUND

**Lodged au Greffe on 22nd June 1999
by the Finance and Economics Committee**



STATES OF JERSEY

STATES GREFFE

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PROPOSITION

THE STATES are asked to decide whether they are of opinion -

to refer to their Act dated _____ approving in principle the establishment of a Housing Development Fund to be administered by the Finance and Economics Committee; and

1. to authorise the Finance and Economics Committee to enter into the necessary agreements with lending institutions to enable an appropriate level of finance to be secured to develop the housing units identified by the Planning and Environment Committee in the 'Planning for Homes' report (R.C.10/99) and for future and ongoing developments in accordance with Articles 23 and 24 of the Public Finance (Administration) (Jersey) Law 1967;
2. to approve an annual allocation, as agreed by the Finance and Economics Committee, from the Capital fund to enable financing charges to be met.

FINANCE AND ECONOMICS COMMITTEE

REPORT

Proposed mechanism for the funding of social rented and first-time buyer housing

1. Introduction

This report and proposition should be considered in conjunction with the report and proposition of the Housing Committee, entitled "Social rented and first-time buyer housing: proposals for future funding" (P.74/99).

2. The problem

2.1 The "Planning for Homes" report (R.C.10/99) identifies an estimated social rented housing requirement of 1,140 units in the period 1999-2003, of which funding had only been agreed for 288 units, leaving a shortfall of 852 units for which no specific funding has been identified.

2.2 The report also identifies the requirement for a further 800 first-time buyer dwellings in the same period.

2.3 The cost of providing the properties is largely dependent on the price of acquiring the land, which could range from cheaper rezoned suburban land to more expensive urban area sites, but the cost of providing the required dwellings (including land) has been estimated at between £118m to £162m.

2.4 To date, a number of suitable housing sites have been identified and their purchase progressed through the use of cash balances as an interim measure. A number of other sites are the subject of ongoing negotiations and it is essential that a funding mechanism for the purchase and development of these sites is in place.

2.5 Should requests for funds for Housing development be ranked and considered with other capital bids, the Policy and Resources Committee would need to reconsider the priority of projects within the Capital Programme in future years. The level of funding required to provide for the identified housing shortage would consume all resources earmarked for the Capital Programme for the years 2000-2003.

2.6 The only other method by which the States could fund the required building programme within existing resources would be through the use of funds accumulated in the Strategic Reserve. The Finance and Economics Committee strongly resists the use of this fund for such a purpose. The Committee has clearly stated that the Strategic Reserve represents a long-term strategic investment in the economic future of the Island and a means of protecting core social services should the economy suffer a down turn. This policy has been endorsed by the States.

2.7 It is considered wholly inappropriate to invest such a large proportion of the Strategic Reserve in housing assets, whose value cannot be realised in the short-term, when commercial borrowing can be obtained at a rate currently lower than that realised by the Strategic Reserve.

2.8 Neither funding method provides a viable way forward, and alternative funding arrangements must be identified to enable the proposed housing development to progress.

3. The solution

3.1 The Committee believes that the proposed housing development programme should be funded by the creation of a new Housing Development Fund "HDF" as an extension of the existing Housing Development Scheme Account (Details of the operation of the Fund are contained in the Appendix to this Report).

3.2 The Finance and Economics Committee would be authorised to borrow commercially, through the HDF, to finance the acquisition and development of sites. The borrowing would then be repaid by the rental income gained from the new units to be developed.

3.3 Where the cost of acquisition and development is too high for repayments to be met by this rental income alone, a subsidy would be required. For this reason, the forward financial forecast presented to States' Committees on 20th May 1999 included a preliminary allocation of £10m per annum to be added to the amount available for capital expenditure, to be earmarked for transfer to the HDF.

3.4 Through this innovative scheme, funding will be made available to tackle urgent housing issues without prejudicing either the essential works contained in the Capital Programme or the Strategic Reserve.

- 3.5 At present the States have encouraged the provision of social housing through Housing Associations, who borrow funds for this purpose, but receive subsidies on the site acquisition costs and borrowing costs.
- 3.6 The HDF will provide a flexible mechanism which can accommodate the required building programme, whether it is undertaken by Housing Trusts, the Housing Committee or a combination of both. The HDF will also provide an adaptable and flexible funding mechanism for such future methods of delivering social housing as the States may agree.
- 3.7 The Finance and Economics Committee would wish to see that every opportunity is taken to encourage the private sector to engage in the provision of social housing, and that the involvement of Housing Trusts, or any other such body as the States may agree as suitable to undertake such activities, be welcomed.
- 3.8 Where Housing Trusts or other bodies are involved in the delivery of social rented or first-time buyer properties, release of funds will be dependant on satisfactory safeguards being incorporated within the appropriate constitution or regulatory framework of those organisations. The Housing and Finance and Economics Committees are consulting to ensure that an adequate regulatory framework is put in place to achieve these safeguards.
4. Conclusion
- 4.1 The States are asked to approve the establishment of an innovative and flexible Housing Development Fund with powers to borrow commercially to finance the acquisition and development of sites by Housing Trusts, the Housing Committee or any other such body as the States may agree as suitable to undertake such activities.
- 4.2 The borrowing liability of the fund will be repaid from the rental income gained from the new units, with amounts set aside in the forecast Capital Programme to provide such subsidies as are necessary.
- 4.3 The proposals provide a robust and flexible funding solution to the urgent social and first-time buyer needs of the Island, without jeopardising the States' Capital Programme or Strategic Reserve.

Operation of the Housing Development Fund (HDF)

1. The current Housing Development Scheme is an ongoing fund set up to provide the Housing Committee with bridging finance to develop properties for onward sale. The Scheme bears the cost of land acquisition and development, which is then recovered on the disposal of completed sites.
2. The HDF would extend the Housing Development Scheme to include funding for the development of social rented housing as well as for first-time buyer properties.
3. The HDF would provide a mechanism for funding housing developments undertaken by the States, as well as providing subsidies (where necessary) for developments undertaken by other providers of social rented housing (such as Housing Associations) and, if necessary, for certain private sector "first-time buyer schemes".
4. The nature of the HDF's operation is such that funds would flow out of the account in the early years to be repaid over the longer term, leaving the Fund initially in a deficit position. This deficit would require financing and it is proposed that this is achieved through -
 - refinancing the Dwelling Houses Loans Fund (DHLF), to release cash of some £22m (based on the DHLF's 1998 balance), which could be used in the short-term;
 - direct external borrowing (the extent of this would depend upon the level of involvement from Housing Associations in the development programme).
5. The existing agreement with Housing Trusts provides an interest subsidy that caps the repayment rate for Trust borrowing at four per cent per annum. Capital development subsidies are also made where rental levels are too low to sustain the scheduled repayment. For this reason funding, in addition to that raised from rental income gained on the new housing units, will be required to ensure the fund is fully repaid. It is proposed that these subsidy arrangements are extended to include developments undertaken by the Housing Committee as well as those undertaken by Housing Trusts.
6. The forward financial forecast presented to States' Committees on 20th May 1999 includes a preliminary allocation of £10m per annum to be added to the amount available for capital expenditure. This amount, or such other amount as the Finance and Economics Committee considers appropriate, is to be earmarked for transfer to the HDF.
7. The borrowing liability of the HDF would then need to be repaid. The funding to meet the repayments would be realised from a number of sources -
 - allocations from the Capital Fund as earmarked and referred to in paragraph 6 above;
 - an annual transfer from the Housing Committee Revenue Budget, based on a proportion of the rental income gained from the new units to be developed and added to that Committee's stock;
 - any 'surpluses' from first-time buyer sales. Where a first-time buyer development is undertaken on land already in States' ownership, the sale price for those properties may exceed the cost of development. It is proposed that, in such cases, the net 'surplus' be allocated to the HDF to offset schemes where a development subsidy is required;
 - as the HDF develops, the Finance and Economics Committee would consider such alternative means of funding as may be considered appropriate.