

# STATES OF JERSEY



## HOUSING DEVELOPMENT FUND: COST/BENEFIT ANALYSIS

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Lodged au Greffe on 12th May 2010  
by Senator A. Breckon

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STATES GREFFE

## **PROPOSITION**

**THE STATES are asked to decide whether they are of opinion –**

to request the Minister for Treasury and Resources, in conjunction with the Minister for Housing, to produce and present to the States within 3 months full detailed accounts and a cost/benefit analysis of the establishment, operation and ongoing costs of the Housing Development Fund and its use and application for the benefit of Housing Trusts and Associations, with the analysis to show also the full level of financing and subsidies provided to these Trusts and Associations from the Housing Development Fund and any other source of public funding.

SENATOR A. BRECKON

## REPORT

### Background

Over the years I have taken an active interest in Housing issues – quality, availability and affordability for both purchase and rent – have been at the centre of my concerns. While “new and innovative” schemes appear to be occupying the minds of some Ministers, I believe it is important to revisit what is already in place in the shape of a Housing Development Fund (HDF) to examine in some detail what it has actually achieved, over what period, at what cost and for whose benefit.

I seek to do this for a number of reasons, because in the not then too-distant future I will be seeking States support for a proposal that will seek to –

- (a) Make better use of the States property portfolio.
- (b) Combine this for the benefit, care and housing of older residents, especially by working with the Parish Constables.
- (c) Request the States to act as guarantor for borrowings.

A few years ago I requested some historic information from the Housing Minister/ Department regarding areas of funding and how money was spent and accounted for – I was told that “we don’t have or keep that kind of information”.

So I set about obtaining this information myself. I obtained copies of States Reports and Accounts from 1985 to 2005 and extracted some facts and figures pertaining to “Housing”.

My initial reason for doing this was I knew that the maintenance budget had disappeared, and I suspected it had gone in 2 directions.

1. The Housing Development Fund  
and
2. Private Sector Rent Rebate

The content of this Report suggested that this is proven.

I have looked briefly at the HDF and set out some details in this Report. I have done this, so that those who may have no prior knowledge of the HDF, may get a “flavour” for what has or has not been achieved and then be able to make an informed decision on its effectiveness and cost.

Also those that may have had, or now have, responsibility, can be both accountable for their past actions and fairly certain of the future benefit.

Also, paragraph 4.1 of P.84 of 1999 said: *“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”*; therefore it may be said that there is already a mechanism in place to fund the provision of Social Housing?

## **The workings of the Housing Development Fund raise a number of questions**

The establishment of the Housing Development Fund was done with States approval. However, they were due to develop satisfactory safeguards and a regulatory framework to govern it. Has this been done? – If not why not?

Another question that arises is that the year-on-year spending decisions would have been agreed as part of the annual process of approving the budget and the annual accounts. Has this process included satisfactory monitoring procedures?

Also, the establishment of the HDF was a solution to a major problem at the time and was assessed by the Audit Committee as having met their needs. However, would it now be appropriate for a review of the situation to be undertaken to check that the fund is still delivering the purposes intended in the most effective way? And also what it has delivered to date and at what cost.

Also, now that the Committee structures have been replaced by the Ministerial arrangements, are there sufficient checks and balances in place over the management decisions and operation of significant funds such as the HDF and the associated capital and financial expenditure? – Also, what guarantees does the public purse have set against the monies given to Housing Trust and Associations?

In 2005 the HDF accounts were re-stated to include a sum in excess of £8 million – why was this? (see accounts attached on final page of this Report).

### **Proposition P.74/99: ‘Social rented and first-time buyer housing: proposals for future funding’**

Proposition P.74/99: ‘Social rented and first-time buyer housing: proposals for future funding’ was lodged ‘au Greffe’ on 25th May 1999 by the Housing Committee. In it, the Committee recommended the setting-up of a Housing Development Fund as a flexible means of funding the housing development programme. It referred to previous reports P.201/98 and R.C.10/99 regarding the identification of housing needs.

The Housing Strategy Report (P.201/98) had proposed making maximum use of Housing Trusts and private sector finance to provide the majority of the required additional units of social rented housing up to 2003 and to meet the funding of development subsidies and some direct development by the Committee. The Housing Strategy Report (September 1998) outlined the considerable requirement for additional social rented and first-time buyer housing, and this requirement was updated in the document ‘Planning for Homes’ (R.C.10/99).

The ‘Planning for Homes’ Report (presented to the States on 30th March 1999 by the Planning and Environment Committee as R.C.10/99) assessed the future housing needs of the Islanders and identified ways in which these needs could be met. It had identified an estimated social rented housing requirement of 1,140 units, leaving a shortfall of 852 units for which funding was not identified. The requirement for first-time buyers was estimated at 800 additional dwellings over the same period.

P.74/99 was considered by the States on 7th July 1999. The minutes of the States meeting of 7th July 1999 include the following extract –

**“Social rented and first-time buyer housing: proposals for future funding – P.74/99**

**Comments – P.74/99 Com.; Com.(2); Com.(3)**

THE STATES commenced consideration of a proposition of the Housing Committee on social rented and first-time buyer housing: proposals for future funding, and, adopting paragraphs (1) and (2) –

1. approved, in principle, the establishment of a Housing Development Fund, to be managed by the Finance and Economics Committee;
2. authorised the Housing Committee, subject to the approval of the Finance and Economics Committee, to utilise the Housing Development Fund to provide sufficient dwellings, both directly and indirectly through Housing Trusts, to meet the need for both social rented and first-time buyer housing identified in the Housing Committee’s report and proposition “Housing Strategy 1998-2003” (P.201/98) and subsequently updated in the report “Planning for Homes” (R.C.10/99).

THE STATES acceded to the request of Deputy Alan Breckon of St. Saviour that consideration of paragraphs (3) and (4) of the proposition be deferred to a later date.”

[Note: The Paragraphs (3) and (4) referred to above were in respect of agreeing that Westley Court and Westley Lodge should be retained in public ownership, and that the property Maison le Fondré (formerly known as 9–11 Don Road) should not be sold to a Housing Trust – therefore did not relate directly to the establishment of the Housing Development Fund.]

**P.84/99: ‘Establishment of Housing Development Fund’**

At the same States meeting on 7th July 1999, proposition P.84/99: ‘Establishment of Housing Development Fund’ was considered – which had been lodged au Greffe on 22nd June 1999. This proposition was to be considered in conjunction with P.74/99 on ‘Social rented and first-time buyer housing: proposals for future funding’. The Report on P.84/99 reiterated the problem identified in ‘Planning for Homes’ (R.C.10/99) and **the shortfall of housing units for which no specific funding had been identified.**

The Report stated that the level of funding required to provide for the identified housing shortage would consume all of the resources earmarked for the Capital Programme for the years 2000–2003. 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 resisted the use of the Fund for such a purpose, as 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 downturn. **Therefore neither funding method provided a viable way forward**

**and alternative arrangements needed to be identified to enable the proposed housing development to progress.**

The proposed solution was that the 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. **In other words, this became someone else's problem – not Housing's.** 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. 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 £10 million per annum to be added to the amount available for capital expenditure, to be earmarked for transfer to the HDF.

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

The States had encouraged the provision of social housing through Housing Associations who borrow funds for this purpose, but received subsidies on the site acquisition costs and borrowing costs. The HDF would provide a flexible mechanism which could accommodate the required building programme whether it is undertaken by Housing Trusts, the Housing Committee or a combination of both. The HDF would also provide an adaptable and flexible funding mechanism for such future methods of delivering social housing as the States may agree.

The Finance and Economics Committee had wished to see that every opportunity was 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. Where Housing Trusts or other bodies are involved in the delivery of social rented or first-time buyer properties, release of funds was supposed to be dependent on satisfactory safeguards being incorporated within the appropriate constitution or regulatory framework of those organisations. The Housing and Finance and Economics Committees were consulting to ensure that an adequate regulatory framework is put in place to achieve these safeguards.

The conclusion to the Report stated –

- *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.*
- *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.*

- *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.*

At the end of this Report are some details relating to the operation of the Housing Development Fund, however it is not up-to-date.

The establishment of the Housing Development Fund was agreed by the States at its meeting on 7th July 1999. The minute is as reproduced below:

#### **“Establishment of Housing Development Fund – P.84/99**

THE STATES, adopting a proposition of the Finance and Economics Committee, referred to their Act dated 7th July 1999 approving in principle the establishment of a Housing Development Fund to be administered by the Finance and Economics Committee; and –

1. authorised 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 report ‘Planning for Homes’ (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. approved an annual allocation, as agreed by the Finance and Economics Committee, from the Capital fund to enable financing charges to be met.”

Although this received the approval of the States, the evidence I have seen does NOT demonstrate effective monitoring and reporting. Also if the H.D.F. was accountable it is NOT apparent to me to exactly whom? Concerns were expressed at an early stage as demonstrated below.

#### **Audit Committee Review of Housing Development Fund**

[Note – the following minutes of the meeting on 5th March 2001 are in the ‘A’ section of the agenda and are therefore publicly available.]

The minutes of the Finance and Economics Committee meeting of 5th March 2001 refer to discussion with the Value for Money Audit Manager of a report on the Audit Committee’s review of the Housing Development Fund. The minute (A7) states –

*“The Committee noted that the Audit Committee had concluded, as follows:*

- (a) That the Housing Development Fund was an effective mechanism for providing a flexible means of funding the Housing development programme, and was meeting the overall strategic aim of providing social rented and first-time buyer housing;*

- (b) That, however, **the expenditure needed to be more closely monitored** as, currently, schemes were approved on an individual basis, with the total expenditure to date being provided annually (although this had not yet occurred) to the Finance and Economics Committee. Also, for internal developments, all expenditure was included, although most of it would be recovered in the long term from rental income;
- (c) That, further, the Fund had only been fully operational for ten months and as such no approved scheme had yet been completed. **A procedure needed to be approved and applied so as to ensure that appropriate ongoing monitoring arrangements were in place, both internally and over Housing Trusts as the use of the Fund expanded.**”

The Audit Committee had also suggested that in the longer term, consideration should be given to setting up a body akin to the United Kingdom Housing Corporation to oversee the provision of social housing. The Committee approved the various recommendations which the Audit Committee had made, which addressed a range of issues. In addition, the Committee noted that the Housing Committee was currently examining the possibility of introducing ‘shared equity’ arrangements in order to safeguard the States’ interest in relation to the subsidy element of financial support.

**In minute A8 of the same meeting on 5th March 2001, a Treasury paper dated 22nd February 2001 was considered which set out an action plan relating to the activity of the Housing Development Fund arising from recommendations in the Audit Report. The Committee (Finance and Economics) approved the following recommendations:**

- (a) **Terms of Reference and Management Arrangements** – that the Head of Corporate Capital, in conjunction with the Housing Department, should develop the terms of reference, together with a robust set of procedures, to be reviewed by the States’ Audit and Risk Management Division;
- (b) **Recording Effectiveness** – that the schedules comprising the updated version of the initial comprehensive forecast building programme should be used to form the programme ‘base data’ position and be updated on a six-monthly basis in order to monitor the overall effectiveness of the programme;
- (c) **Appraisal Assumptions** – that for each development, the standard model should be adjusted and three versions produced (i.e. ‘best’, ‘worst’ and ‘middle’ case scenarios) in order to provide for sensitivity analysis in respect of interest rates and rental assumptions;
- (d) **Monitoring Developments** – that monitoring procedures should be developed as part of the implementation plan flowing from the findings of the Institute of Public Finances (IPF) review of control of capital expenditure;
- (e) **Housing Trust Arrangements** – that in relation to the possibility that the current climate of low and falling interest rates in the short to medium term might assist in moving away from the current position, the Housing Committee should raise the issue of who bears the interest rate risk in its ongoing dialogue with the Housing Trusts;



- (f) **Feasibility Parameters** – that the Housing Task Force should develop feasibility parameter guidelines in respect of potential development sites and that such guidelines should be agreed by the Finance and Economics Committee;
- (g) **Accounting System** – that the Head of the Corporate Capital should develop the appropriate accounting structure in conjunction with the States Auditors.

The Treasurer of the States was directed to take the necessary action and the Greffier of the States was directed to send a copy of this Act to the Housing Committee.

#### **Finance and Economics Committee meeting on 18th September 2002**

Minute B4 (**Confidential**) of the Finance and Economics Committee meeting on 18th September 2002 records that the Committee referred to its Act No. A8 of March 2001 (i.e. above) and recalled that it had requested that detailed terms of reference be drawn up in respect of the operation of the Housing Development Fund. The Committee received and considered the terms of reference which had been produced in consultation with officers of the Housing Task Force and agreed to endorse them.

#### **Finance and Economics Committee meeting on 5th February 2004**

Item B1 (**Confidential**) of the Finance and Economics Committee meeting on 5th February 2004 considered a Treasury paper dated 27th January 2004 concerning proposals for eliminating the current exposure to interest rate risk inherent in the Housing Development Fund (HDF). The Committee recognised that the HDF provided a mechanism for the funding housing developments through providing interest rate subsidy and development subsidy (where necessary) for Housing Trusts in order to enable them to raise the necessary finance and undertake developments. It was noted that the HDF supported existing borrowings of Housing Trusts and had provided funding for an additional 504 completed units of accommodation with a further 151 units in the planning and development phases.

Having noted the various options available regarding action which could be taken, and taking into consideration the potential substantial costs involved in some of them, the Committee agreed that the present arrangements should be maintained; however the officers were directed to keep the position under review and to explore further possible alternative arrangements and to report back to the Committee in due course.

#### **Extract from 2005 Accounts**

The Housing Development Fund is reported separately within the 2005 accounts at page 92 under the heading ‘Separately Constituted Funds’. It includes the following narrative –

*“The States approved P74/99 and P84/99 on 7 July 1999 and thereby the creation of the Housing Development Fund to be administered by the Finance and Economics Committee.*

*The rationale for the Housing Development Fund is to help meet the requirements for the development of social rented and first time buyer homes as identified in the ‘Planning for Homes’ Report (RC 10/99).*

*The Housing Development Fund does not fund the whole cost of a housing scheme but provides development and interest subsidy to enable the cost of the scheme to be repaid from its rental stream or sale receipts in the case of first-time buyer properties.*

*The Housing Development Fund, therefore, provides for developments whose overall value is many times that of the Fund.*

*The Housing Development Fund provides interest subsidy for those Housing Trust properties acquired under the former Housing Development Schemes Account and supports the development of social rented housing on rezoned sites by capping the interest liability of Housing Trusts to a maximum of 6% (changed to 4%).”*

It then set out details of the developments that were in the course of construction (203 units in 2005) and projects those that were in planning stages at 31st December 2005. The accounts for the previous years include details of completed developments: e.g. 276 units completed in 2002 and 228 units in 2003.

## **Guarantees and Commitments**

### **Letters of Comfort**

Notes to the Financial Accounts for 2005 page xxxv states:

*‘The Housing and Finance and Economics Committee have agreed to provide financial support to various Housing Trusts in respect of bank loans. The Finance & Economics Committee issues ‘letter of comfort’ to the banks in respect of bank loans. These letters of comfort do not constitute guarantees. As at the year end, letters of comfort in respect of loans totalling £125.7 million were in issue.’*

A review of the Minutes of the Finance and Economics Committee for 1995 and 1996 has confirmed that the Finance and Economics Committee gave consideration to the content of Letters of Comfort and decided that it would be unwise, and possibly also illegal, to ‘guarantee’ the loans made to the Housing Trusts. A compromise wording was agreed (meeting of 27th November 1995).

There is evidence within the minutes that the Finance and Economics Committee ‘approves’ the issue of Letters of Comfort and is made aware of which Housing schemes the loans relate to. Subsequent minutes refer back to the meeting of 27th November 1995 when the compromise wording of the Letter of Comfort was agreed.

**Extract from the States minutes dated 22nd July 2003 in response to a question asked about borrowings:**

*“Furthermore, the Housing Development Fund advances sums for the development of social rented or first time buyer property, which are repaid through the sale of these properties to first time buyers or to Housing Trusts, through rentals achieved from the completed developments or through allocations to the Fund provided through the Capital Fund. The balance of properties that are awaiting transfer to Housing Trust or are in the administration of the Housing Committee amounted to £35,679,896 as at 31st December 2002.*

*Whilst not amounting to borrowing, as disclosed in note 19 page xxxv of the Financial Report and Accounts 2002, the States have provided guarantees up to a maximum of £20.2 million as at 31st December 2002 to financial institutions in respect of the borrowings of Jersey New Waterworks Company Limited and up to a maximum of £5.5 million in respect of the borrowings of Jersey Arts Trust in connection with the renovation of the Opera House.*

*Whilst also not amounting to borrowing the Housing and Finance and Economics Committees have agreed to provide financial support to various Housing Trusts in respect of their bank loans entered into in connection with the Trusts’ development of social rented housing. The Finance and Economics Committee issues ‘letters of comfort’ to the banks in respect of such loans. These letters of comfort do not constitute guarantees. As at 31st December 2002, letters of comfort, in respect of loans totalling £80.3 million were in issue.”*

[Note: by the end of 2005 this had risen to £125.7 million.]

In the present economic climate I believe that it is important that we revisit systems and financing from the most recent past to see if they are still “fit for purpose” and can be utilised for the future – or have serious mistakes been made? The only way to find out is to put the Housing Development Fund under the microscope – something that I alone am not resourced to do.

**Financial and manpower implications**

In my opinion the background knowledge and information is held internally, therefore the Report should be produced “in house” by Officers of Housing, Treasury and Property Services, therefore the cost should be restricted to officer time only – in my opinion if any assistance is required, the Comptroller and Auditor General can be requested to advise.

**APPENDIX**

**Housing Development Fund**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005 Restated</b>	<b>2006</b>
<b>Income</b>							
Rental from sites	479,265	468,365	473,055	590,986	623,644	630,651	617,530
Interest on accumulated fund	491,133	411,340					
Decrease in provision for loss on sale	291,379	7,275,534	1,625,000				152,014
Sale of stock		400,000		480,000	1,622,518	1,622,518	795,054
Over Provision for loss on sale		1,179,439					
Other provision for loss on sale				224,076			
<b>Total Income</b>	<b>1,261,777</b>	<b>9,734,678</b>	<b>2,098,055</b>	<b>1,295,062</b>	<b>2,246,162</b>	<b>2,253,169</b>	<b>1,564,598</b>
<b>Expenditure</b>							
Development subsidy paid	2,880,301	228,983	1,482,211	327,405	439,762	8,794,762	0
Interest on temporary advances from Capital Fund	1,986,850	1,913,452	553,698		45,826	45,826	376,447
Interest subsidy paid	917,646	522,608	475,275	1,224,117	1,351,483	1,351,483	1,489,218
Administration expenses/recharges		1,400	1,700	1,900	1,647	1,648	2,268
Depreciation of completed works			795,854	199,498	308,189	308,188	233,314
Management Charge			18,624	26,075	25,862	25,862	26,299
Maintenance Charge			55,871	78,224	77,586	77,586	78,896
<b>Total Expenditure</b>	<b>5,712,797</b>	<b>2,666,443</b>	<b>3,383,233</b>	<b>1,857,219</b>	<b>2,250,355</b>	<b>10,605,355</b>	<b>2,196,442</b>
<b>Surplus (Deficit) for year</b>	<b>-4,451,020</b>	<b>7,068,235</b>	<b>-1,285,178</b>	<b>-562,157</b>	<b>-4,193</b>	<b>-8,352,186</b>	<b>631,844</b>

**Note 1:** The 2002 actuals were restated in 2003 accounts to net off the Interest Income against the Interest Expenditure to give a net figure of £1,502,122. No Interest income shown in 2003 so assumed to have been netted off against expenditure.

**Note 2:** The working paper shows restated figures for 2005.