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CLERK TO COMMITTEE FOR SOCIAL DEVELOPMENT

Mr Peter McCallion
Room 412
Parliament Buildings
BELFAST
BT4 3XX

12 January 2011

Dear *Peter*

RE: UPDATE TO SOCIAL DEVELOPMENT COMMITTEE ON ISSUES RAISED AT 16 DECEMBER MEETING

1. Following the meeting mentioned above, the Committee sought further information via your letter to the Department's Assembly Liaison Officer (DALO) of 22 December. I think it would be helpful to outline the current position on each as set out in the following paragraphs.

Savings Delivery Plan

2. Following the publication of the Draft Budget, work on completing the Department's Savings Delivery Plan is ongoing. Responding to a Priority Written Assembly Question on 22 December (AQW 3140/11), our Minister has advised that there are a series of unknowns around the budget and its complex proposals, all of which require to be addressed. These are being worked through

and the Minister has undertaken to ensure there is full engagement with stakeholders and the Social Development Committee; and that all relevant details are published in due course.

Resource & Capital Priorities

3. The subject of Departmental priorities will be addressed in papers to be worked up and issued before the next briefing on 13 January.

Revenue generating proposals

4. I believe this point was covered in my previous response to your earlier DALO letter of 7 December, copy of which is attached at Annex 1 for your information/convenience.

Conclusion

5. I trust this provides you with the available information at this stage. Further details will issue in advance of the meeting/briefing planned for 13 January.

Yours sincerely

Stephen McMurray

STEPHEN McMURRAY

cc: Michael McKernan
Margaret Sisk
Billy Crawford
Joann Hanna
Ashleigh Kelly

Annex 1

COPY

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CLERK TO COMMITTEE FOR SOCIAL DEVELOPMENT

Mr Peter McCallion
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BT4 3XX

22 December 2010

Dear *Peter*

RE: SOCIAL DEVELOPMENT COMMITTEE UPDATE ON CONFEDERATION OF BRITISH INDUSTRY NORTHERN IRELAND

1.0 At its meeting of 2 December 2010 the Committee noted correspondence dated 22 November 2010 from the Committee for Finance and Personnel on the Confederation of British Industry's Northern Ireland Report entitled "Time for Action NI – Delivering public services in a time of austerity." In respect to this the Committee requested an update on revenue-generating activities identified in the report, including the social rent-alignment process and the possible mutualisation of the Northern Ireland Housing Executive.

2.0 The Confederation of British Industry's Northern Ireland Report entitled "Time for Action NI – "Delivering public services in a time of austerity" refers to the following potential revenue generating activities relevant to housing:

2.1 **Modest rent increases for Northern Ireland Housing Executive tenants;**

The report suggests raising income through modest rent increases to invest in improving the thermal comfort of social housing stock. The report does not quantify what is regarded as modest rent increases and as Housing Executive rents have historically been increased on an annual basis this does not represent an additional revenue generating activity. The Committee letter also refers to rent realignment which is an option the Department is considering. To determine the practicalities of this option the Department is in the process of tendering for research into rent setting policies which will update and expand upon the work undertaken by Glasgow University in 2007. This research will inform the Departments views on the future rent setting policies across the social rented sector and the potential for a rent realignment process.

2.2 **Mutualisation of part of the Northern Ireland Housing Executive;**

The Department has started a review of the Housing Executive. The Review will examine the housing and other functions of the Housing Executive in detail, providing a comprehensive assessment of their contribution to housing and other Departmental and Government policy objectives. This will take account of other organisational structures in the housing policy sector and make recommendations about remit, role and responsibility to achieve best results. It will consider reports into Housing in Northern Ireland produced over the last three years.

The Review will also examine the efficiency and effectiveness of the Housing Executive's operations, including the appropriateness of existing structures. It will identify opportunities and make recommendations for improving performance and delivery of housing policy and objectives.

An interim report on the review is due by the end of March 2011. The review will assess the options for the future structure of the Housing Executive.

2.3 Accessing alternative sources of debt finance/capital;

Housing Associations have already successfully secured significant funding through bonds with the European Investment Bank and the Housing Finance Corporation. This additional funding will complement the Grant already available to Housing Associations delivering the Social Housing Development Programme in effect allowing more units to be delivered with less subsidy.

The Department has previously considered the options available to the Northern Ireland Housing Executive for borrowing funds. The Department of Finance & Personnel (DFP) has pointed out that Resource Accounting Rules under which the Department must operate dictate that the Housing Executive is regarded as a Public Corporation. HM Treasury guidance (Public Expenditure Survey (2002) 10, paragraph 25) states that Public Corporations can only take on long term borrowing through a departmental voted loan or through the National Loans Fund. Long term borrowing from the private sector will not be allowed by Public Corporations. The Department's Housing Division had recently looked at the possibility of the Housing Executive borrowing from the European Investment Bank, however this was subsequently rejected by the Department of Finance and Personnel for the reasons explained above.

The ability of the Housing Executive to access additional private finance is dependent on the future structure of the organisation which is to be part of the current review. Currently the Housing Executive has approximately £750m of loans outstanding from the consolidated fund and any future change to their structure will have to take account of these. Any potential large scale sale of the Housing Executive stock needs to take account of how these loans will be repaid. DFP has previously considered an approach to HM Treasury about writing off the loans as part of a future stock transfer but concluded that due to the impact of a write off on the NI Block it was not viable option. To service any additional borrowing the Housing Executive would require a considerable increase in rental income or increased deficit funding from the public purse. These are just some of the functions that need to be considered in the assessment of the future structure of the Executive.

2.4 **Sales of surplus or underutilised land/property.**

2.41 **Northern Ireland Housing Executive Land**

The Housing Executive currently has in excess of £28m of surplus land being actively marketed for sale. Offers totalling £23m for the various lots have been received but are largely dependent on planning approval being granted. For this reason they predict that actual receipts from these sites will be limited.

The Housing Executive also hold a significant amount of land which is not currently being marketed for sale for specific reasons such as future housing need. Given the difficulties being experienced with the existing land for sale it may not be that this sites would realise receipts in the near future. However, the potential for sale will be exhausted in going forward.

2.42 **Northern Ireland Housing Executive Commercial properties**

The Housing Executive has 431 commercial properties generally comprising shops/small commercial units. Strategic Investment Board had started to look at the potential for the commercial units to be sold off but never progressed this to a formal proposal because of the economic crisis and perceived lack of interest. Again this matter will be actively assessed going forward.

2.43 **Northern Ireland Housing Executive Head office**

Strategic Investment Board completed an Economic Appraisal in late 2008 to assess the viability of the sale and leaseback of the Executive's Housing Centre. At that time Strategic Investment Board predicted a receipt of between £16m to £20m depending on the type of lease being negotiated. When the economic appraisal was submitted to DFP their conclusion was that "in the absence of any decision to the contrary, the Housing Centre is expected to be occupied by the Housing Executive, in some form, for the foreseeable future. Therefore, at this time, it is not surplus to requirements or underutilised. There does not appear to be an obvious business need for the proposed transaction, other than the opportunity to raise further capital receipts in the short term, and it restricts flexibility to react in line with future business requirement. As it stands, the Value for Money of the preferred option is not been clearly established and it has not been confirmed as being affordable." It is not known if a similar capital receipt could be realised from such a transaction in the current market or if DFP will be of the same opinion on the Value for Money and affordability of this proposal. However, the department again believes that this is an option that requires active consideration going forward.

3.0 Urban Regeneration Assets

The other revenue activities applicable to this Department are in respect of Urban Regeneration as follows.

3.1 Asset Sales and strategies

The Department has identified that the former Newtownlands holdings is surplus to requirements and has developed a disposal strategy to sell the assets.

3.2 Alternative Sources of debt finance/capital

Finding appropriate mechanisms to generate the funding needed to support regeneration has been a longstanding issue – an issue that has now come to the fore due to the combined effects of the credit crunch, the downturn in the property market and increasing constraints on public spending. It is understandable that these recent developments have reignited interest in imaginative new ways of funding infrastructure requirements.

In examining alternative funding sources we have considered three particular types of investment to be important:

- Maximising the level of public spending into the most disadvantaged areas;

- Levering additional resources from private investment when and where market conditions are appropriate; and
- The development of community finance infrastructure.

  We therefore intend to work with relevant stakeholders and partner Departments to explore the feasibility of mechanisms that exploit:

- Community Financing options such as Urban Patient Capital Funds and Asset Transfer Units;
- European financing options such as JESSICA (Joint European Support for Sustainable Investment in City Areas);
- Tax based financing options such as Tax Incremental Financing districts/Accelerated Development Zones; and
- Joint venture financing options such as Local Asset Backed Vehicles and Regional Infrastructure Funds.

It should be emphasised that the application and use of these instruments will clearly depend on economic and development conditions across the region.

Yours sincerely

Stephen McMurray

STEPHEN MCMURRAY