

Treasury and Exchequer Ministerial Decision Report

ANDIUM HOMES LTD: AMENDMENT TO TERMS OF CERTAIN HOUSING DEVELOPMENT FUND LOANS

1. Purpose of Report

To enable the Minister for Treasury and Resources, as representative of States of Jersey as Guarantor (the “Guarantor”), to approve the variation of the interest rates on certain loans extended to Andium Homes Limited (“Andium”) from the Housing Development Fund and the corresponding Agreement to vary the terms between the Guarantor and Andium.

2. Background

The Housing Development Fund was originally established as a special fund for specific purposes in accordance with Article 3(3)(a) of the Public Finances (Jersey) Law 2005. The States of Jersey acting through the Minister for Treasury and Resources fully administers the Housing Development Fund.

The States in approving P.129/2014 on 22 September 2014 agreed that the Minister could vary the purposes of the Housing Development Fund (“HDF”) to lend to Andium.

Pursuant to various Ministerial Decisions, a number of loans have been extended to Andium from the Housing Development Fund to assist Andium with, initially the refurbishment of housing stock to the Decent Homes Standard, and then with the delivery of its capital development programme. Traditionally, loans advanced to fund development costs were charged interest at a rate of 4.3% whereas loans advanced to fund property and land acquisitions were charged interest at a rate of 5.0%.

In advance of the debate on P.90/2021 Proposed Government Plan 2022-2025 and specifically the First Amendment thereto, New Social Housing Rents Policy, the Minister for Housing and Communities (“MHC”) lodged an amendment to that amendment which essentially agreed further changes to the social housing rents policy whereby social rents were to be frozen for 2022 and are capped at 80% of the market rate from 2022 onwards. The MHC’s amendment further included a commitment that the Guarantor would continue to work with Andium to find a solution to minimise the impact on both Andium’s business model of the introduction of the changes to social housing rents policy. The Report that accompanied the MHC’s amendment stated in part as follows:-

“Ministers have identified a positive way forward which allows the move to a cap of 80% on rents to be made without either compromising Andium’s ability to develop new sites or requiring cuts in other public services or increases to taxes.

Government will reduce the financial return from Andium to reflect the agreed rent freeze and any incremental savings in Income Support resulting from the change in rent policy, on an ongoing basis. It is also proposed to make an adjustment to the interest charges paid on the loans held by Andium via the Housing Development Fund (HDF).....This reduction in interest will be reviewed in 2025, with an intention to keep it at the lower rate to 2030, subject to the forecast sustainability of the Housing Development Fund and the ability of Government to repay the Social Housing Bond on maturity, together with any other actions required at that time to support the continuing planned delivery of new affordable homes.”

This commitment to make an adjustment to the interest charges was reiterated in correspondence dated 17 January 2022 from the Assistant Minister for Treasury and Resources to Andium and was

referenced in the Written Report accompanying an MD titled 'Andium Homes Amendment to Transfer Agreement' which approved an Amendment to the Transfer Agreement relating to the Annual Return made by Andium to the Guarantor.

It is proposed that all loans currently charged interest at a rate of 5.0% (the "Loans") be charged at the reduced rate of 4.3% for the period 2022 to 2025. A list of the Loans in question and the associated loan agreements appears at **Appendix 1**.

3. Agreement to vary the terms of the Loans

A copy of the Agreement, drafted by Law Officers, to vary the term of the Loans is attached as **Appendix 2**. The Agreement provides that clause 6.1 in each of the relevant loan agreements is deemed deleted and replaced with the following as a new clause 6.1 with effect from 1 January 2022 until 31 December 2025:-

"The Company will pay interest in arrears on each Advance and this shall be at a fixed rate of interest of 4.3% per annum."

Ostensibly, this means that on 1 January 2026 the interest rate for each of the Loans will revert to 5.0%. However, noting the MHC's comments in his report to his amendment to the amendment to P.90/2021, the position on the interest rate will be reviewed in 2025 with an intention for it to remain at the lower rate, subject to the caveats mentioned in the report.

4. Recommendation

The Minister for Treasury and Resources, as representative of the States of Jersey as Guarantor, is recommended to:-

- approve the variation of the interest rates charged on certain loans extend to Andium Homes Limited ("Andium") from the Housing Development Fund for the period 2022-2025; and
- approve the corresponding Agreement to vary the terms between the Guarantor and Andium.

5. Reason for Decision

In approving P.90/2021 Government Plan 2022-2025 as amended, the States Assembly approved a change to the Social Housing Rents Policy whereby social rents are capped at 80% of the market rate from 2022 onwards. This change to the Policy has an impact on the income received by Andium and its business model. The reduction in the interest rates charged on certain loans extended to Andium from the HDF was proposed by the MHC as a partial mitigation of the impact of the 80% social housing rents policy on Andium's business model in the medium-term.

6. Resource Implications

The reduction in interest rate charged on certain loans from the Housing Development Fund ("HDF") will result in reduced income for the HDF for the period 2022-2025 of some £1.05 million per annum. There are no additional resource implications, financial or manpower as a result of this decision for the Government of Jersey.

APPENDIX 1

Loans

| Loan number | Loan agreement date | Amount | Current interest rate |
|--------------------|----------------------------|---------------|------------------------------|
| 9 | 6 November 2015 | £4,991,000 | 5.0% |
| 11 | 9 August 2017 | £7,050,000 | 5.0% |
| 12 | 29 August 2017 | £47,183,000 | 5.0% |
| 14 | 6 March 2018 | £52,277,607 | 5.0% |
| 17 | 6 February 2019 | £37,800,000 | 5.0% |
| 18 | 22 February 2019 | £21,332,000 | 5.0% |

APPENDIX 2

Please see the attached Agreement