

Treasury Deposit Advance of \$2.6 million to
Housing Fund 1978/79

Members of this Honourable House will recall that during the Debate on the Second Supplementary Estimates for 1978/79 and in regard to a Treasury Deposit of \$2.6 million made to the Ministry of Housing to finance expenditure on National Housing Trust schemes, allegations were made as follows:

- (1) Failure by the Ministry of Housing to substantiate portion of the claims on the National Housing Trust.
- (2) Ministry of Finance was condoning the behaviour of Ministry of Housing in releasing to Ministry of Housing funds on claims which the National Housing Trust had not admitted.
- (3) Missing Sewerage Plant.
- (4) Use of sea sand at Llandilo.
- (5) Land slipping at Stanton Harcourt (Portland).
- (6) Connection between suppliers of Sewerage Plant and leadership of the Ministry of Housing.

I agreed to present a full report on the circumstances leading to the advance to the House of Representatives.

2. On the 15th February, 1979 the Permanent Secretary of the Ministry of Housing reported that the cash resources available to the Ministry of Housing to meet expenditure on housing programmes were short by \$2.661 million because the National Housing Trust had not reimbursed expenditure claims on National Housing Trust schemes. He indicated that the Trust would be prepared to disburse funds against the disallowed expenditure only if this were done by way of a guarantee by the Ministry of Finance against all risks; "by way of a short-term loan to the Government". He further indicated that the disallowed expenditure "relates primarily to materials used on projects, but not charged up by the Director of Construction, mobilisation advances not taken into account, and the Charlemont sewerage disposal system in connection with which stage payments had been made, all matters which, in my view, can be accounted for to the satisfaction of the Trust within the month, I am asking that you write to the Trust to give the Government's guarantee in respect of \$3.2 million which is the amount said to be unsubstantiated. I feel confident that this guarantee will be retired within a month's time, and certainly before the 31st of March, 1979".

3. The Financial Secretary informed the Managing Director of the Trust that on "personal assurance that the substantiation of the amount (disallowed) was just a routine matter and would be quickly resolved" the Ministry of Finance and Planning would stand behind the Ministry of Housing in the event that NHT was "not satisfied eventually with the correctness of the amounts claimed and that the Ministry of Housing would be put in funds to meet any portion not substantiated". At the same time the Permanent Secretary, Ministry of Housing, was informed that the support of his request for Trust's temporary financing was on the distinct understanding that after his own "personal examination he felt that he would be in a position to substantiate the figure and secure reimbursement from the NHT within a month's time".

4. The Managing Director of the NHT in response to the Financial Secretary indicated that "there were claims for substantial sums which are unspecified and described as "other"; that there are other items called "unverified materials" which represent materials not reflected in construction nor found on site"; that there is a claim for reimbursement of expenditure for a sewerage plant and the Trust had been advised by the Ministry of Housing

"that there is some fear that their disbursement of this amount has not reached its proper destination and that the sewerage plant has not yet been shipped and that the matter was with the FIU". In these circumstances the Trust was not able to make any direct payment to the Ministry of Housing. However, the Trust would be prepared to make a loan to the Government of Jamaica for disbursement on terms to be agreed with the Ministry of Finance.

5. As a consequence of further discussion between the Permanent Secretary, Ministry of Housing, the Managing Director for NHT, and the Financial Secretary, and on the assurance of the Ministry of Housing that the clarification of the disallowed expenditure claims were matters of routine and not based on irregularities of one sort or another, I approved of borrowing from the National Housing Trust in a sum of \$2.6 million to be lodged in the Treasury Deposit Account and for an advance of a similar amount to the Ministry of Housing. Approval was subject to clearance not later than the 31st March, 1979 and the provision of a status report of progress on this matter by the 7th March, 1979.

6. The Ministry of Housing and the National Housing Trust after examination of the financial transactions and based on work done examined, evaluated, and verified, have agreed that the financial position is as reported below. Please note that on the basis of work done items such as the sewerage plant at Charlemont for which the Ministry of Housing has spent \$260,000 is not an admitted claim. This still remains a straight charge on the Housing Fund.

		<u>\$M.</u>
(i)	Work done to 28th February, 1979	- 17.741
(ii)	Escalation on labour and materials	- 4.5
	Total Ministry of Housing claim	- 22.241
(iii)	Substantiated claims paid by NHT	- 17.335
(iv)	Escalation cost accepted and paid by NHT	1.6
	Total NHT payment	- 18.935
(v)	Balance outstanding	3.306

7. The balance of \$3.306 million is represented by the following elements:

		<u>\$M.</u>
(a)	Projects which are a legitimate charge to the Housing Fund	- 0.736
(b)	Unsubstantiated claims	- 0.386
(c)	Escalation on NHT houses	- 2.184

The Trust and the Ministry of Housing are still addressing the unsubstantiated claim of \$0.386 million. The claim for escalation has been examined by the Trust but is regarded by that Agency as a charge to the Housing Fund since prices of houses were already advertised, did not accommodate escalations, and in many cases documentation completed and transaction closed. What this means is that the Budget would be called upon to subsidize houses bought by the NHT despite the fact that the house value received by the houseowner exceeded the advertised prices. The Ministry of Finance does not accept this view. Consequently, both the Ministry of Housing and the National Housing Trust must negotiate an appropriate statement which protects public funds.

8. In conclusion, the sum of \$2.6 million advance to the Ministry of Housing is contained in item 3 (b) and (c) of paragraph 7. Steps are being taken to recover from the Housing Fund's Vote for 1978/79 with the advance of \$2.6 million so that the Treasury Deposit Account can be claimed and repayment made to the NHT.

Further, allegations of a very serious nature implying irregularities on the part of public officers of the Ministry of Housing, have been made as indicated in paragraph 1 of this Ministry Paper. It is in the interest of all concerned that such /allegations.....

are carefully examined and the full facts made clear.

9. It is clear from the financial problems which led to the advance by the Ministry of Finance that there are deficiencies in the Ministry of Housing accounting system which govern the recording of transactions and enable the provision of verifiable statements and in the controls necessary for administering public funds with propriety and probity.

10. In these circumstances the Minister of Finance and Planning has authorised the Auditor General under the Financial Administration and Audit Act:

- (a) To undertake, by special audit, an examination of the financial operations of the Ministry of Housing and in particular the Housing Fund.
- (b) To examine the allegations pertaining to certain financial transactions of the Housing Fund and the Ministry of Housing as indicated in Paragraph 1 above.
- (c) To make recommendations for improving the financial system, accounting arrangements and control of the Ministry of Housing and Housing Fund.
- (d) To report on these matters and other related issues which emerge during the audit, to the Minister of Finance as soon as possible.

ERIC O. BELL
MINISTER OF FINANCE & PLANNING
26th JUNE, 1979