STATES OF JERSEY

THE REFORM OF SOCIAL HOUSING (P.33/2013): SECOND AMENDMENT (P.33/2013 Amd.(2)) – COMMENTS

Presented to the States on 14th May 2013
by the Council of Ministers

STATES GREFFE

COMMENTS

The intention of this amendment is to adjust the rent policy recommended within P.33/2013 – The Reform of Social Housing – to reduce the maximum rent chargeable to 82% of the prevailing (private) market rent and to make up the shortfall in funding required by the new Housing Company proposed within P.33/2013 through capping the Annual Return made by that Housing Company to the level prevailing in 2015.

This amendment is not the best way to achieve the objectives sought for the following reasons:

Whilst the 82% of market rents figures, together with a cap of the Annual Return at 2015 levels, may mean that the proposed new Housing Company Business Case could remain viable in the short term, it would create a number of significant and long-term problems.

The Annual Return set out within the Medium Term Financial Plan will not be affected. From 2016, the shortfall in the Annual Return will rise annually and total £17 million by year 30 in real terms. This would need to be found from savings in other States spending or increased taxation. In times of fiscal restraint, and with all public services being required to increase their efficiency, States Members may consider such an adjustment imprudent, particularly given other pressures that will fall within the period of the next Medium Term Financial Plan. These pressures already include the costs of providing long-term care, of making public pensions sustainable, and of transforming health services in addition to the challenges still faced relating to the economic downturn. The Amendment would shackle the next States Assembly with an unnecessary and significant burden that P.33/2013 resolves.

Whilst the Annual Return might not be the method that would be chosen to support Income Support costs if the States were at liberty to establish a new socio-economic structure from scratch, it is a reasonable way for the States to secure the necessary funding to support States social housing tenants receiving Social Security support. Crucially, P.33/2013 and the States of Jersey Housing Transformation Programme: Full Business Case (R.15/2013) both demonstrate robustly that the new Company can make the Annual Return (maintained in real terms) and maintain a robust and sustainable social business for its tenants, and in due course, further returns to the States from its investment that can be re-invested in social housing projects.

The 82% market rent policy level would provide much greater hidden and unintended rent subsidy than the 90% near market level proposed within P.33/2012. A fundamental objective of P.33/2013 is that it ensures that Social Housing provides a consistent and transparent level of subsidy – the 10% reduction from market rents – that tracks market rates to ensure the sector is sustainable, but avoids the risk of inflating market rents, as has been confirmed by the States Economist. By contrast, an 82% rent policy would retain a considerable distortion from market prices undermining the viability of the social housing sector. The 82% rent level proposed in the Amendment would trap too many tenants with an untested and unintended level of subsidy reducing their incentives to social mobility, where in contrast the intent of P.33/2013 is to draw a clear distinction between provision of Social Housing – by Social Housing Providers – and the provision of means-tested support by the Social Security Department.

While this greater subsidy might be presented in the Amendment as benefitting all tenants, the only real beneficiaries of this hidden subsidy would be those tenants most able to afford the 90% near market rent level which has been demonstrated through the Social Impact Assessment undertaken for P.33/2013.

And it is these tenants who will then find it harder to afford the transfer to any affordable housing product developed by the States, so the impact of the Amendment would be less social mobility from the social housing to other sectors, and more dependence upon subsidy, a subsidy which P.33/2013 is proposing to remove over time and in a way that tenants can plan for the changes proposed.

The amendment sets out the increases in Income Support costs and in Table E, it is stated that the additional Income Support costs from the proposed rents policy will be £23.6 million by year 10 of the plan. This figure is fundamentally incorrect and arises from a lack of understanding of the uprating of benefits on an annual basis. P.33/2013 set out correctly the Income Support implications of the proposed rents policy in real terms and these figures have been confirmed by officers of the Social Security Department.

The total growth in rental income to the new Housing Company and associated income support costs over the 10 year period to 2023, excluding the costs of uprating rents by inflation +0.75% annually, are summarised in Table 1 below.

These additional amounts do not all arise as a result of changing the rental policy to 90% of equivalent market rental proposed in the Housing Transformation Programme.

Table 1

Income Support Implications – Year 10 In Today’s Terms (excluding R.P.I and 0.75% annual uprating)						
	Year 10 £000’s	2013 £000’s	Additional Rent £000’s	Total additional Income Support £000’s	Additional I.S. to Housing Company Tenants £000’s	Notes
Existing Tenancies	42,319	36,956	5,363	3,593	3,593	(a)
Sale of 200 Units	-1,592	–	-1,592	–	–	(b)
Net New Units (434 Units)	5,673	–	5,673	200	2,837	(c)
Voids	-138	–	-138	–	–	(d)
Total	46,262	36,956	9,306	3,793	6,430	

The following notes confirm the reasons for the rental increases and the funding sources –

(a) The effect of the existing rental policy and proposed new rental policy

When properties are refurbished and re-let, this obviously results in their rental values increasing. Currently, as tenants move into properties after refurbishment, the property rental is normally reset in line with the existing fair rent policy up to the ceiling set in the Income Support Regulations. The effect of the re-lets and the programme of refurbishment in year 10, applying the existing rental policy is £3.3 million, with a resultant estimated additional Income Support cost of £2.2 million in year 10.

These sums will be provided for in the cash limits of the Social Security Department, over and above the annual inflation uprate of benefits and are Income Support costs that would arise under existing policy. Indeed, costs arising from refurbishments and re-lets have been absorbed in recent years from within the Income Support budget.

The effect of the introduction of a rental policy to 90% of equivalent market rental increases the additional rental income to £5.4 million per annum in 2023, and the resultant income support spend to £3.6 million. These further additional sums of £2.1 million and £1.4 million respectively, are those arising from the change in the rental income policy to 90% of equivalent market value in 2023.

(b) Sales of 200 units

Over the period to 2023, it is planned as part of the funding programme of new builds, to sell 200 properties to tenants. This will reduce the Housing Company’s rental income by £1.6 million. It is highly unlikely that any of these sales would be to Income Support claimants and therefore there are no estimated reductions in Income Support costs.

(c) New builds of 434 units

In the period to 2023, it is planned that an additional 434 units will be built, creating a rental income stream to the Housing Association of £5.67 million per annum in 2023. It is estimated that the majority of these new tenants will be Income Support claimants, which will increase the amount of Income Support that is paid to tenants of the Housing Company (£2.83 million). The total cost of Income Support will increase by £0.2 million as a result of the proposed rents policy, but all else remaining equal, the remaining costs will be offset by an equal and opposite reduction in payments to the private sector, as the new tenants transfer out of that sector.

(d) Voids

As part of the normal process of re-letting properties to tenants, units of accommodation will be empty for short periods of time to allow for maintenance works to be carried out and new tenants to move in. This results in some lost rental.

In addition to the analysis above, inflation will add a further £21.7 million to the rental income per annum by 2023, and the policy of uprating rentals by 0.75% above inflation will add a further £4.1 million.

The majority of this increase in rent, as it is now, will be met from increases in tenants' income, be that from earnings, pensions, contributory benefits or other sources. The balance, as it is now, will be met from the annual uprate to Income Support budgets. Those budgets which are in respect of the net Income Support housing component will be uprated annually by inflation +0.75%, in each Medium Term Financial Plan.

Increases in Income Support in the Housing Trust Sector arising from the introduction of the 90% policy and the inflation +0.75% annual uprating will also be provided for in cash limits to the Social Security Department and the additional funding for this will be provided from the increased rental income arising in the Trusts.

The Minister for Treasury and Resources maintains the above funding principles for the period of the Plan. Excluding the annual uprate policy of inflation +0.75% and the additional costs in the Housing Trusts, the year 30 total estimated additional Income Support costs arising directly from the change in policy to 90% of equivalent market rental amounts to £2 million. In addition, the existing policy applied to the programme of refurbishment and re-lets will add a further £3.4 million per annum at 2012 prices.

An 82% social housing rent level would not be good news for the Social Housing sector either. For Social Housing Providers – the proposed new Housing Company and Housing Trusts – the 82% level would mean that fewer tenants would be incentivised to progress and to purchase their own homes through existing deferred payment arrangements or other affordable housing solutions promoted by the States.

An 82% rent policy also increases the likelihood of changes in economic circumstances meaning that Social Housing Providers will require other capital or land subsidies from the States in future, whereas a 90% Fair Rent Level means Providers will be more able to remain financially independent of the States.

The Full Business Case for the new Housing Company – R.15/2013 – explains that a 7% transfer rate is assumed per annum which is needed to ensure the business case is viable. A key risk identified is Risk 6 "*Rental Income is Lower than Expected*" which is classified as a medium risk. If the transfer rate decreases, as could be expected if an 82% rent policy were to be accepted, this may mean the level of income secured reduces to levels at which the investment to achieve Decent Homes within 10 years would be unlikely to be achieved. This would have significant consequences for Tenants, meaning many more would be unable to benefit from reduced fuel and other costs associated with a decent home.

The situation for Housing Trusts would also be problematic with a lower rent policy, particularly for those who have a large number of homes that fail to meet the Decent Homes Standard at present and require significant investment in their housing stock. Financial modelling by the Housing Department has indicated that the financial viability of these Trusts may be difficult at 80% rent levels, and therefore 82% levels are still likely to mean investment and sustainability problems for the Housing Trusts.

And the situation in the wider housing market would also be detrimentally affected by any Amendment to a reduced level of 82%. Social Housing property values are dictated by the level of rent that can be charged, and a lower level is likely to discourage private investors from investing in new social housing schemes or progressing those already approved. A key criticism within the Amendment of the P.33/2013 proposals is that the proposals do not plan for the future housing need for the Island. This is disputed, because the introduction of a 90% near market rent level enables as many new social homes to be built on a sustainable basis as the States – through the Housing Strategy proposed within P.33/2013 – deems to be needed, and without further capital subsidies, provided that the appropriate sites can be identified through the Planning system.

Therefore a key negative effect of the Amendment would be that less new social homes would be economically viable and the social housing shortage – which is not disputed – would be made worse, not improved.

Market rents in Jersey, as the Amendment explains in some detail, are considerably higher than those in many places in the United Kingdom. An 80% of market rent level has been adopted in the United Kingdom because this has been determined as the appropriate level given their Social Security system. In Jersey, the unified Income Support system enables the impact of housing support to be clearly identified. An 82% rent policy level would leave a legacy of untested and unintended support that is no longer appropriate in a modern economy. Whereas, a return to the States previous policy of 90% near-market Fair Rent Levels will enable the costs of housing support to be consistently applied and transparently understood by all.

Accordingly, it is recommended that the States reject this Amendment to alter the proposed return to Fair Rent Levels and the annual financial return.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were considered by the Council of Ministers on 8th May but, as a result of the Liberation Day holiday, it was not possible to finalise them and submit them to the States Greffe by the noon deadline on Friday 10th May.