

# STATES OF JERSEY



## SOCIAL RENTED HOUSING: POLICY ON SETTING RENTS

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Lodged au Greffe on 18th March 2003  
by Deputy G.P. Southern of St. Helier

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STATES GREFFE

## **PROPOSITION**

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

to refer to their Act dated 16th July 2002 in which they received the Housing Committee's Strategic Policy Report 2002–2006 and endorsed the Committee's principal aims, as amended, for that period, and, in particular, the Committee's aim to concentrate on providing assistance for those in need, and –

- (a) to agree that for the years 2004, 2005 and 2006 the Committee should only increase rents in the social rented sector by a percentage equal to, or below, the percentage increase in the Retail Price Index as at the end of the previous year; and
- (b) to request the Committee to co-operate with the Employment and Social Security Committee to ensure that a comprehensive low income support scheme is established by 2006 to create a viable replacement for rent subsidy.

**DEPUTY G.P. SOUTHERN OF ST. HELIER**

## REPORT

In its Strategic Policy Report of 2002, the Housing Committee proposed to continue the policy of aiming to set social rents at a 10% discount to the open market. This report seeks to demonstrate that this policy is both unrealistic, in that such a target is not being even remotely met, and economically unsound, in that the pursuance of this policy results in loss of revenue to the Committee.

Is the target of attaining the target of 90% of market rents realistic? At the time of the debate in July 2002, no research evidence was produced by the Committee either to assess the actual differentials or to predict the effect of social rent rises on private sector rents. I, along with several members, suggested that any attempt to increase social rents would encourage a corresponding rise in the private sector. The results of my research based on a sample of 400 rents, are shown in Table 1 and in graphical form in Appendix 1. They indicate that the gap between social and market rentals is markedly growing rather than decreasing.

TABLE 1 Comparison of social and market rentals (flats) 1999 - 2002

States annual rise %	Bedsits weekly rent, £		Annual rise private %	1-bed flats rent, £		Annual rise private %	2-bed flats rent, £		Annual rise private %	Weighted average private %
	States	Private		States	Private		States	Private		
	78	103		108	135		137	201		
5.0	82	108	4.8	114	147	8.3	144	207	3.4	5.9
5.5	86	112	4.2	120	163	11	151	229	11	9.4
8.9	92	119	5.4	130	180	11	164	271	18	10.4

Only in the bedsit sector could fair rental be said to have kept pace with the private sector. Even here, to attain the target of 90% (£107) of the private sector rent would require a rise of 16% in States social rental. For one-bed flats, the gap between private and States rental has increased from 25% to 38% over the period illustrated. Today, meeting the Committee's target for one-bed flats (£162) would require a 25% rise. To meet the target for 2-bed flats (£244), where rents appear to be subject to rampant growth, requires a massive 48% rise.

The overall figures given in Appendix 1 reveal the scale of the problem, and the absurdity of attempting to catch the private sector becomes evident. The reality is that, despite the Committee's attempts, the gap between the private and States sector has widened from 36% in 1999 to 48% in 2002.

At a time when the Committee has tried to play catch-up with the private sector, it would appear that private sector rentals have moved to create even greater gaps with the public sector. For the year 2002, when the rent rise was 8.9%, and a much increased supply was supposed to start damping down demand, rentals just kept rising. This data makes a mockery of the statement on page 3.2.3 (iii) of the Housing Committee's report adopted by the States in 2002 –

*“A combination of an increased supply of accommodation and annual Committee rent increases of between 5% and 10% should ensure that this objective (to close the gap to within 10%) is achieved by no later than 2004.”*

For the Housing Committee to be pursuing a manifestly unrealistic and unachievable target is probably sufficient reason to bring this proposal. However, the more important question that needs to be answered is what effect this policy has on the Housing Committee's finances?

I believe that the net effect of this policy on the Committee's finances is negative and should be stopped forthwith.

Obviously, an increase in States rent will produce greater income to the Committee. However, this increase is significantly reduced by the effects of the rent abatement scheme (some 85% of States tenants receive rent abatement). The figures produced by the Committee in answer to my question on 4th February 2002 are shown in Table 2. They reveal the increase in rental income directly attributable to the percentage rise in fair rent. Note that the net increase in income directly attributable to a rent rise is much lower than the overall figure.

TABLE 2 – Effect of rent increases on rental income 2000 – 2003

<i>Year</i>	<i>% increase in rent</i>	<i>Net rental, £</i>	<i>Increase over previous year, £m</i>	<i>Attributable to rent increase, £</i>
2000	5	12.8m	1.1	196,000
2001	5.5	13.4m	0.6	226,000
2002 (E)	8.9	14.07m	0.607	332,000
2003 (E)	3.5	16.2m	2.13	166,400

However a rise in social rents is not just reflected in rental income and rent abatement. It has a direct impact upon the private sector rent rebate scheme. Unlike abatement, which is an internal exercise, rent rebate involves real money paid to private landlords from Housing Committee funds.

Table 3 shows the effect of rent rises on rent rebate.

Table 3 – Effect of rent increases on rent rebate 2000 – 2003

<i>Year</i>	<i>% rental increase</i>	<i>Total rent rebate, £m</i>	<i>Increase over previous year, £m</i>	<i>Attributed to rent increase, £</i>	<i>Less rent increase, £</i>	<i>Net loss in revenue, £</i>
1999		5.27				
2000	5	5.55	0.28	264,000	196,000	68,000
2001	5.5	5.99	0.44	305,000	226,000	79,000
2002	8.9	6.32	0.33	533,000	332,000	201,000
2003	3.5	7.37	1.04	221,000	166,400	65,000

The message is simple, the greater the rent rise in any year, the greater is the rental income to the Housing Committee. But, because the effect on rent rebate is much more direct, the Committee has to pay out to the private sector proportionately more in rent rebate. This produces a net loss in revenue overall. These deficits are directly proportional to the size of the increase in social rents in any year.

Whilst the figures may appear relatively small, we must remember that these losses to the Committee's funds are cumulative. For the years given in Table 3, the cumulative loss totals almost £1 million.

This year the Committee has decided that the annual rise is to be kept to 3.5%, which has helped reduce this year's deficit to only £65,000. My figures indicate that the gap between social and market rents continues to increase. If the Committee were to decide to pursue their policy more rigorously next year, than significant deficits could be generated. If the Committee were to increase rents by, say, 10% in 2004, this would immediately add another £260,000 to the rent rebate black hole.

These deficits will continue to be further compounded by another housing policy; that of the increased use of Housing Trusts to provide social housing. The recent growth in Housing Trust tenants is given in Appendix 2 There you can see that projected numbers will become significant in the next few years, especially in the light of the deficits highlighted already.

Around 52% of tenants in Housing Trust properties are in receipt of rent rebate. The numbers in the private sector receiving rent rebate has remained fairly steady over recent years, but this has started to climb as a direct result of Housing Committee policy and will climb further.

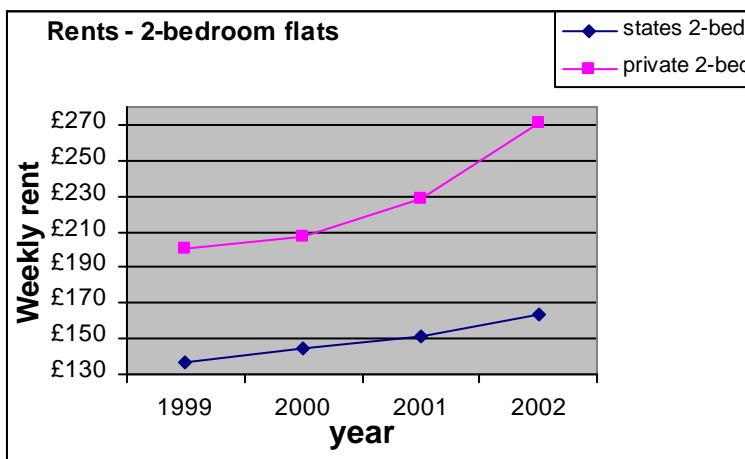
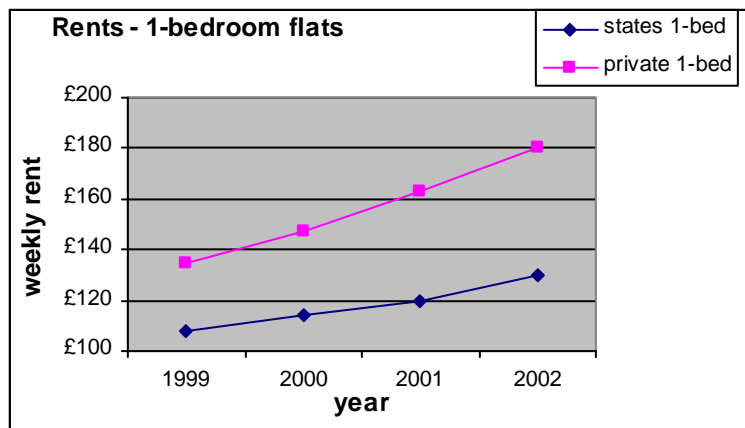
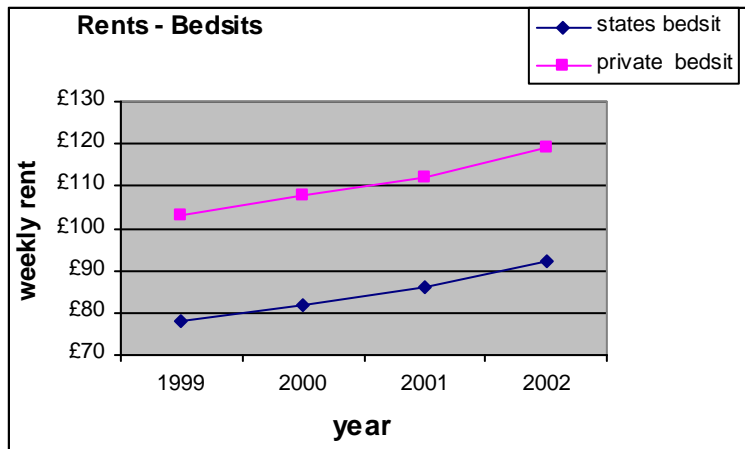
At the end of 2001 a total of 1,671 applicants were granted private sector rent rebate. To this were added 212 Trust tenants in 2002 as Trust numbers rose from 489 to 701. A further 171 dwellings will be added to Jersey Homes Trust stock in 2003. Over the years 2004 – 2006 an additional 265 units will be added to housing trust stock. The total increase on 2001 figures is 648 new trust properties. If the proportion of Trust tenants receiving

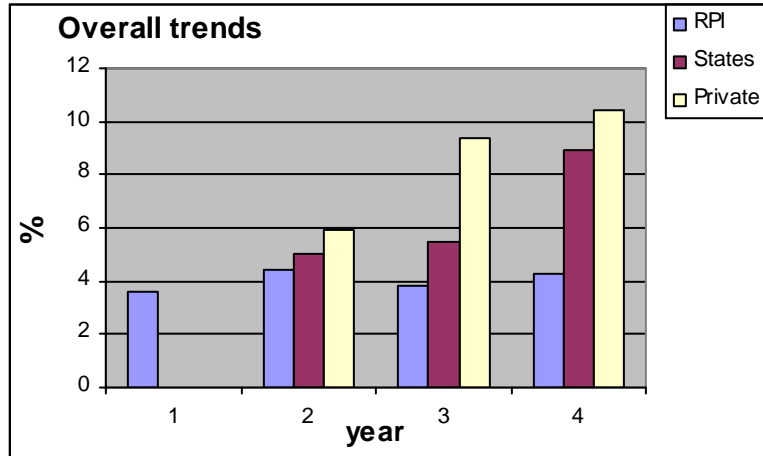
rent rebate remains at current levels, then by 2006 the total sum going to rent rebate will automatically rise by a minimum of 20% on 2001 figures (i.e. around £1.2 million) whatever the level of rent increases.

Although the States approved the Committee's principal aims when considering the Strategic Policy Report last year, I have been advised that the wording of the proposition was such that the entire wording of the Report was not subject to approval. I have nevertheless set out for information in Appendix 3 the manner in which I believe Sections 3.2.3(ii) and (iii) of that Report could be revised and interpreted by the Committee if my proposition is adopted

### **Financial and manpower implications**

Financial savings in the Housing Committee's rent rebate payments in any one year will be inversely proportional to the percentage rise in States fair rent. There are no implications for the manpower resources of the States.





**Growth of Housing Trust stock**

<i>Trust</i>	<i>Dec 01</i>	<i>Dec 02</i>	<i>Dec 2003</i>	<i>2004 – 2006</i>
Les Vaux	271	271	271	351
				Aquila – 28 Sunshine – 34 Philips House – 18
JHT	195	379	550	669
			Cannon Street, Albert Pier, Park Hotel, Ann Street (171)	Le Coie – 96 Le Coin – 23
FB	23	48	48	48
CTJ	–	3	3	29
				Mascot Motors – 10 Bas du Mont – 16
Other				40
				Salisbury Crescent – 28 La Carrière – 12
<b>Total</b>	489	701	872	1137

Additional Housing Trust stock will be delivered over the next few years on new sites rezoned in the Island Plan, July 2002.



**3.2.3(ii) Rent setting policy**

For many years the Committee has tried to set the rents for social rented properties at a 10% discount to open market rentals. This resulted in a policy of gradually increasing rents annually by an amount, usually greater than inflation, deemed sufficient to close the gap between social rented housing and market rents. However, the rate at which market rents have continued to rise in recent years has actually resulted in increased differentials between the open and social markets. The target of 90% of market rents has proved unrealistic and unattainable.

The Committee notes the concern shown by the LECG Report regarding the large sums payable annually in rent subsidy. Furthermore, because any increase in social rent has a greater impact on private sector rent rebate than it does on rental income received by the Department, it is aware that rent increases have a negative effect on the Committee's finances. This effect will be further compounded over the next few years by increased numbers claiming rent rebate as Housing Trust projects come on line.

For the above reasons the Committee proposes to keep rent rises in the social rented sector at or below the increase in the Retail Price Index as at the end of the previous year for the years 2004, 2005 and 2006.

**3.2.3(iii) Low income support to replace rent subsidy schemes**

The Committee accepts that, despite its efforts to increase housing stock in all sectors, the imbalance between supply and demand continues to produce high property values, which mean that many residents on modest incomes remain totally reliant on subsidy schemes.

The Committee actively seeks to contain the spiralling costs of rent subsidy schemes and awaits the outcome of the working party on low income support, which is due in 2003. The Committee will seek to work with the Employment and Social Security Committee to create a viable replacement for rent subsidy to be integrated with universal low income support by 2006.