# STATES OF JERSEY

# PROPOSED GOVERNMENT PLAN 2022–2025 (P.90/2021): AMENDMENT

# NEW SOCIAL HOUSING RENTS POLICY

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**Lodged au Greffe on 25th October 2021**
**by Senator S.Y. Mézec**

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**STATES GREFFE**

PROPOSED GOVERNMENT PLAN 2022–2025 (P.90/2021): AMENDMENT

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**1 PAGE 2, PARAGRAPH (a) –**

After the words "in line with Article 9(2)(a) of the Law" insert the words –

> ", except that, in Summary Table 1 – States Income, the Return from Andium Homes and Housing Trusts shall be reduced by £828,000 in 2022 to allow for a social housing rents policy whereby rents are capped at 80% of the market rate".

**2 PAGE 2, PARAGRAPH (f) –**

After the words "Appendix 2 – Summary Tables 5(i) and (ii) of the Report" insert the words –

> ", except that, in Summary Table 5(i) – 2022 Revenue Heads of Expenditure, the Head of Expenditure for Customer and Local Services shall be decreased by £497,000 to allow for a reduction in expenditure arising from a social housing rents policy whereby rents are capped at 80% of the market rate".

**3 PAGE 3, PARAGRAPH (l) –**

After the words "Appendix 3 to the Report" insert the words –

> ", except that, on page 139 of Appendix 3, after the words "A freeze in the rent levels" there should be inserted the words "(based on a policy that social housing rents should be set at 80% of the market rate)" in addition to any further changes to Appendix 3 identified as required by the Council of Ministers to reflect the implementation of such a policy".

SENATOR S.Y. MÉZEC

**Note:** After this amendment, the proposition would read as follows –

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

to receive the Government Plan 2022 – 2025 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2022 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law, except that, in Summary Table 1 – States Income, the Return from Andium Homes and Housing Trusts shall be reduced by £828,000 in 2022 to allow for a social housing rents policy whereby rents are capped at 80% of the market rate;

(b) to approve the Changes to Approval for financing/borrowing for 2022, as shown in Appendix 2 – Summary Table 3 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals;

(c) to approve the transfers from one States fund to another for 2022 of up to and including the amounts set in Appendix 2 – Summary table 2 to the Report, noting that the transfer from the Consolidated Fund to the Technology Fund is subject to the Assembly's approval of a proposition to create such a Fund in 2022, in line with Article 9(2)(b) of the Law;

(d) to approve each major project that is to be started or continued in 2022 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;

(e) to endorse the efficiencies and other re-balancing measures for 2022 contained in the Government Plan as set out in Appendix 2 Summary Table 6 and reflected within each gross head of expenditure in Appendix 2 – Summary Table 5(i);

(f) to approve the proposed amount to be appropriated from the Consolidated Fund for 2022, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report, except that, in Summary Table 5(i) – 2022 Revenue Heads of Expenditure, the Head of Expenditure for Customer and Local Services shall be decreased by £497,000 to allow for a reduction in expenditure arising from a social housing rents policy whereby rents are capped at 80% of the market rate;

(g) to approve up to £480 million to be appropriated from the Consolidated Fund for the Past Service Pension Liabilities Refinancing head of expenditure, subject to the availability of funding, which may include, in full or in part, use of the borrowing/financing referred in paragraph (b);

(h) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2022 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;

(i) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2022 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 8 to the Report;

(j) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2022 as set out in Appendix 2 – Summary Table 9 to the Report;

(k) to approve an amendment to the policy of the Strategic Reserve Fund to enable that Fund to be used as a holding Fund for any or all monies related to the repayment of debt raised through external financing, with the monies used to offset the repayment of debt, as and when required; and

(l) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2022-2025, as set out at Appendix 3 to the Report, except that, on page 139 of Appendix 3, after the words "A freeze in the rent levels" there should be inserted the words "(based on a policy that social housing rents should be set at 80% of the market rate)" in addition to any further changes to Appendix 3 identified as required by the Council of Ministers to reflect the implementation of such a policy.

## REPORT

Summary

This amendment seeks to enable the Housing Minister and Treasury Minister to authorise a change in the social housing rents policy to cap rents at 80% of the market rate rather than 90%.

This will be achieved by reducing the financial return Andium provides to the Treasury, so that their planned development programme will not be disrupted. The projected government spend on Income Support is also reduced as a result of this.

Current Rents Policy

The current policy for setting social housing rents was adopted by the States Assembly in 2014, as part of the reorganisation of the Housing Department into Andium Homes, and the initiation of a massive housing development and refurbishment programme to bring social rental homes (which had been neglected for years under the previous political leadership) up to decent standards.

The cost of funding this programme was to be borne by social housing tenants themselves, through an increase in rent payments, moving from a more equitable rent system to a system of charging rents at 90% of the market rate. As a result of this, Andium Homes provides the Treasury with a financial return of c.£30m a year, which is £10m more than Social Security pays out in Income Support payments to Andium tenants to pay for their rent.

The system was flawed from its introduction. But because of political developments since then, the policy is now effectively dead.

During this term of office, Andium Homes rents have been frozen on two occasions and are about to be frozen for a third time. An alteration to the rents policy was signed off by myself as the then Housing Minister in 2018 (to take effect in 2019) which would cap rent increases in future years if inflation was particularly high.

The effect of this now means that the current policy of charging rents at 90% of the market rate is no longer being applied and probably never will be. Andium has barely any tenancies charged at 90% because of the recent rent freezes, and the older tenancies which are currently charged significantly below 90% will likely never reach 90%, because of the cap limiting increases in years of high inflation.

Andium Homes have confirmed that 45% of their current tenancies are charged below 80% of the market rate, whilst the remaining 55% are charged between 81% and 90%. The average rent charged is at 76% of the market rate.

There is virtually no political support for maintaining the social housing rents policy as it currently stands, and successive Housing Ministers have pledged to overhaul it but failed because of other political considerations. The greatest concern has been the effect on Andium's development programme if they were required to shoulder the financial burden of a reduced rental income without their return to Treasury being altered to take this into account.

Housing Policy Development Board

The Housing Policy Development Board (set up by the Chief Minister in 2019) recommended reforming the social housing rents formula, but doing so in such a way that would not compromise Andium's business plan to develop more affordable housing.

They proposed several different options for reform, all of which have merits. However, the simplest reform is a basic reduction in the rent cap, which can be implemented relatively simply.

The relevant extract from their report is here -

7.5.6 Policy Description

7.5.7 Reforming social rent setting, by adopting a model under which rents are reduced to either reflect average incomes or are set at a lower percentage of market rents (currently 90%), would both reduce the current rent roll and reduce the amount of Income Support paid to some social tenants.

7.5.8 If minded to reform social rents, the GoJ should explore the options presented to, and discussed, by the HPDB in the longlist stage of the development of this policy package. These options were as follows:

- Reduce the market rent equivalent (currently set at 90%)
- Calculate social rents according to a formula which considers the local property values, number of bedrooms, and other factors such as average incomes (similar to the UK's social / formula rent tenure)
- Set rents based on a percentage of median household incomes, considering the size of properties and potential variations between parishes.

7.5.9 To maintain investment in social housing this would require a shift from the current revenue subsidy model (that social housing rents are subsidised through Income Support), in favour of a capital subsidy model, with subsidy in the development phase of social housing. This would require detailed assessment, but the concept is:

- Reduce social rents from 90% of market to a lower percentage, thereby saving the GoJ money on its Income Support expenditure
- Use the money saved from Income Support revenue expenditure to help fund capital subsidy for social housing development
- Identify additional funding sources for capital subsidy

7.5.10 This policy intervention therefore represents a fundamental change in how Government funds social housing in Jersey. This recommendation is to undertake a financial assessment of how the GoJ is able to fund the delivery of new housing supply in Jersey. We understand that this is the subject of a specific review with involvement of the Treasury and the Housing Minister.

7.5.11 Policy Objectives and Benefits

7.5.12 The primary objective of reforming social rent setting in Jersey is to improve affordability for tenants who do not receive Income Support and make it more likely for more social housing tenants who receive small amounts of income support to afford housing costs without relying on Income Support.

7.5.13 Additional benefits of the policy are:

- It could help prevent dependency by making it more likely for more social housing tenants to afford housing costs without relying on Income Support
- It creates clearer differentiation between the social and market rented tenures on the Island
- It aligns rent levels to the purpose of social housing in providing more genuinely affordable accommodation

A new social housing rents formula

By agreeing to a reduction in the financial return Andium provides the Treasury, Andium will be able to cap their rents at 80% of the market rate, without it impacting on their delivery programme for more housing.

The figures provided in this amendment were taken from Andium's own forecasts.

To transition to 80%, Andium homes would not immediately raise rents for those who are on older tenancies and currently pay less than that. They would continue to slowly transition to that level over time, with Income Support also continuing to cover the cost of that for those households who are eligible. Conversely, for those tenancies which are currently charged at above 80%, Andium would not implement a sudden rent decrease, but would instead freeze their rents for as many years as it takes for inflation to naturally bring them down to 80%. This could all take effect on 1st January 2022.

For many tenants, their full rent is paid by Income Support directly, and so a change in policy would not affect their disposable income. However, many tenants either pay the rent entirely themselves, or only receive part-funding from Income Support, due to deductions made because of income from other sources, including other forms of benefits (such as LTIA or the state pension) which are not adjusted to match changing rent levels every year (which has, in effect, made these people worse off year on year under the current policy). Those people will find themselves better off.

Creating Better Homes "Action" Plan

Despite opposing a previous proposition to introduce a more equitable social housing rents policy, and the apparent abandoning of the work of the Housing Policy Development Board, the current Housing Minister has publicly indicated a willingness to reform social housing rents. This includes comments in a recent Scrutiny hearing suggesting that an 80% policy was feasible.

**But actions speak louder than words.**

To date, we have seen no action to fix the current broken system. This amendment provides a plan for action now.

If there is a desire for a more radical overhaul of social housing rents (including a means-tested system as also suggested by the HPDB), this amendment will not prevent such work being done. A more complicated system change would take more time to implement, whereas this amendment can go ahead seamlessly, whilst any other work takes place to be implemented at a later date.

<u>CSP Priority 4 - "Reducing Income Inequality and Improving the Standard of Living"</u>

The States Assembly voted unanimously to approve a Common Strategy Policy document which committed the Government to adopting policies which would reduce income inequality and improve the standard of living. To date, very little has been done to achieve this. This amendment will directly improve the standard of living for many households who were judged to be living in 'relative low income' at the time of the last Household Income Distribution Survey.

**Children's Rights Impact Assessment**

Article 27 of the United Nations Convention on the Rights of the Child promotes the "right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development"

Article 27(3) of the United Nations Convention on the Rights of the Child places an obligation on States Parties to assist those responsible for children to implement this right, including by providing material assistance to access support, including housing.

Providing good quality social housing at genuinely affordable levels is fundamental to the wellbeing of thousands of children and their families in Jersey. Families on low incomes with children are currently able to access social housing through the Affordable Housing Gateway. Whilst the quality of our social housing stock has drastically improved in recent years, the affordability has gotten worse because of the rents formula adopted in 2014, which set rents at 90% of the market rate and imposed above-inflation rent increases on tenants in order to get their rents to that level.

Whether the home a child in social housing lives in is genuinely affordable will be down to many factors (how much Income Support their household is eligible for, how much income they receive through employment etc), and the evidence currently shows that many of these households are living in relative poverty.

The Household Income Distribution Survey 2014/15 showed that 29% of children were living in relative low income (i.e. relative poverty). The figure for single-parent households was 56%. These figures are out of date, but all indications are that they have likely gotten worse, due to harsh austerity measures imposed by the 2014-2018 government, and a failure to implement any tangible measures to reverse this by the 2018-2022 government.

The HIDS14/15 showed in particular that the biggest contributory factor for causing people to live in relative poverty was the cost of housing. This perversely included people living in social housing, even though it is one of the key purposes of the social housing system to keep people out of poverty.

By setting social housing rents at a more affordable level, more children will be living in homes where they have more security and their families are better able to provide for them, because of the alleviation of the burden of their rental costs.

A more affordable social housing rents system will inevitably have a positive impact for children's rights.

**Financial and manpower implications**

The financial and manpower implications are as they are proposed in the wording of the amendment for 2022. If an 80% rent cap policy continued beyond that, it would continue to have a financial impact, which is outlined in the appendix to this amendment. The annual net cost of this policy change would amount to £2.0m by the end of this Government Plan (2025).

## Appendix

| Projected impact of a change to an 80% rent policy in nominal terms | Andium annual rental income | | | | | | |
|---|---|---|---|---|---|---|---|
| | 90% Rent Policy £000s | 80% Rent Policy £000s | Reduction in rent £000s | I/S savings 60% £000s | Net impact £000s | Net impact (real terms) £000s | Difference Nom vs real |
| 2022 | 56,222 | 55,394 | 828 | (497) | 331 | 331 | - |
| 2023 | 60,014 | 57,744 | 2,270 | (1,362) | 908 | 806 | 102 |
| 2024 | 65,680 | 61,846 | 3,834 | (2,300) | 1,534 | 1,375 | 158 |
| 2025 | 70,220 | 65,331 | 4,889 | (2,934) | 1,956 | 1,791 | 164 |
| | | | | | | | **424** |

## Re-issue Note

This is being re-issued to include three corrections: the date on page 7 is corrected to 1st January 2022; the annual net cost of the policy change in the financial and manpower implications on page 9 is corrected to £2 million; and the table in the Appendix is amended to show figures that include inflation for the years 2023-2025.