

Housing Department

White Paper

ACHIEVING DECENT HOMES
– An Affordable Housing Framework for the Future

12th April 2012

Purpose and type of consultation:

To set out the Minister for Housing's White Paper proposals for the transformation of social housing strategy, regulation and delivery.

Closing date: 5pm Thursday 5th July 2012

Summary

The way social housing is provided needs to be transformed if the sector is to operate on a sustainable basis and be able to deliver new and improved homes. A quarter of social homes require improvement to meet Decent Homes Standards and this proportion will worsen significantly over the next five years unless considerable investment is made. A key outcome of the White Paper proposals is that all homes should be brought up to Decent Homes Standards within 10 years. To achieve the necessary transformation and benefits for tenants, four key changes are proposed:-

1. That a new Strategic Housing Unit is developed to develop a long-term, cross-tenure strategy for Housing, to promote the supply of new homes and to address issues of affordability.
2. That a new Affordable Housing Regulator is established to ensure that tenants best interests are protected and that Public investment in affordable housing delivers value for money.
3. That a new, wholly States-owned, Housing Association is established to improve the States-owned social housing stock. The new Association would operate as a strategic investment and continue to make a significant financial return to the States each year.

continued / ...

Your submission Please note that consultation responses may be made public (sent to other interested parties on request, sent to the Scrutiny Office, quoted in a published report, reported in the media, published on www.gov.je, listed on a consultation summary etc).

Please delete the following as appropriate:

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4. That social housing rents are returned to fair rent levels to ensure that tenants who can afford to do so pay a fair rent whilst ensuring that tenants who rely on Income Support to pay their rent are fully protected and do not pay more.

The Minister for Housing welcomes all stakeholders views on these proposals.

<< Ends >>

Please send your comments to:

Housing Transformation Programme
Housing Department
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JE4 8XT

How to contact us

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Email: decenthomes@gov.je
Fax: 445530

This consultation paper has been sent to the following individuals / organisations:

The Public Consultation Register
Comite des Connetables
The Jersey Homes Trust
The Les Vaux Housing Trust
The Christians Together in Jersey Housing Trust
The FB Cottages Homes Trust
The Clos du Paradis Housing Trust
The Citizens Advice Bureau
Age Concern
The Consumer Council
The Good Companions Club
The Shelter Trust
The Standing Conference of Women's Organisations

Supporting documents attached

- Achieving Decent Homes – An Affordable Housing Framework for the Future - White Paper

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'ACHIEVING DECENT HOMES'

'An Affordable Housing Framework for the Future'

WHITE PAPER

MINISTERIAL FOREWORD

The housing of Jersey's population is a topic that generates significant debate. Whether you are a homeowner, an aspiring first time buyer or someone who by choice or necessity is a lifelong renter you will have views about Jersey's housing market. People have opinions about the number of homes in the Island, the cost of housing, how new housing provision should be provided and where it will be located.

There are equally strong and varied views about how social rented and affordable housing is provided to meet the needs of those who will find addressing their own housing needs difficult. These views were never more evident than in the recent debate on the Island Plan and have come back into focus with the results of the Census.

The States through successive Housing Committees and more recently Housing Ministers has played a key role in providing homes for the population. Since the late 1940's it has developed the largest residential property portfolio in the Island which has been used to provide rental homes for many thousands of islanders in long term housing need. In addition the States has actively pursued initiatives aimed at making homes affordable and built a significant number of homes for first time buyers itself, as well as putting in place initiatives to encourage private land owners to develop affordable housing. A number of Housing Trusts have been supported to develop affordable housing and together they now manage more than 1,300 social rented homes. These initiatives have assisted in ensuring that Jersey has an active and well-functioning housing market and that the vast majority of the population are housed in appropriate good quality homes.

In its Draft Strategic Plan, the Council of Ministers has made 'Housing the Community' one of its key priorities for the next 3 years. This represents their strong commitment to resolve Jersey's housing issues. As Minister for Housing, I am working to ensure that the strategies put in place will make the housing situation better now, but also over the long term. We owe it to our population to see that there are adequate housing opportunities for all, and that housing is made as affordable as possible.

Our social housing providers do an excellent job. Tenants generally enjoy very good standards of accommodation, and terms and conditions of tenancy that are transparent and fair. However, it is a fact that we do not have enough social housing to provide a home for everyone who, for whatever reason, may need it. I have been particularly concerned with the lack of opportunity for social housing offered to young single people and couples below 50 years of age without children, who would not presently qualify. Our population is ageing and our social housing is not currently aligned with those needs. I believe that there must be some growth in the social rented sector and that the governance and financial sustainability of the sector should be strengthened through appropriate regulation.

Additionally, 75% of the Island's social housing is owned by the States and managed by the Housing Department. The homes have suffered from underinvestment and it is unacceptable that right now, a quarter of it fails to meet the Decent Homes Standard established by the Government in the UK, as its minimum standard for social rented homes. This must be addressed.

Many options have been considered and I have concluded that the best means of improving our long term housing strategy is through:

- the establishment of a new Strategic Housing Unit to coordinate activities across Departments and with housing providers. This can be achieved within existing resources;
- the transformation of the existing Housing Department into a wholly States owned Housing Association.

The new Housing Association will manage property on behalf of the States and operate as a States Strategic Investment¹. To ensure that services to Tenants remain consistent, the new Association will retain the existing highly experienced and committed Housing Department staff. It will have a clear plan to improve and maintain its homes and make changes to better meet the needs of Tenants, both now and in the future. The Association will be independently regulated and it will continue to make a very significant annual return to the States.

A significant proportion of Tenants in the social rented sector rely on Income Support to help meet their living expenses. I am absolutely committed to ensuring that those Tenants relying on Income Support will be protected from the proposed removal of the hidden subsidy within current social housing rents.

Change is necessary. We must do something to address the present situation and ensure that Tenants have homes which meet defined standards. We want to ensure that we have social housing that is able to house those Island residents who cannot afford to rent in the private sector. However, we also need to provide affordable homes for purchase and our affordable housing sector must be able to deliver those homes according to the prevailing needs of buyers and the availability of mortgage finance.

This White Paper is a consultation document and I would like to hear views from everyone about the proposals. Following consultation, in the autumn of 2012, I propose to bring before the States a Report and Proposition setting out the necessary Enabling Laws. If these are approved, then Regulations could be presented to the States in 2013, allowing shadow functions to be established before commencing operations in 2014.

Deputy Andrew Green MBE
Minister for Housing

¹ As defined in the 2010 Financial Report and Accounts of the States of Jersey, Section 9.1.x.ii (page 70)

SUMMARY OF ISSUES AND PROPOSALS

This White Paper sets out the Minister for Housing's proposed policy changes for the provision of affordable housing which ensure that tenants continue to see real improvements in the condition of their homes and how they are maintained in the long term. It is based on 15 months of detailed research and investigation by the department and specialist advisors and it aims to provide solutions that are both appropriate and affordable.

When the States agreed the States Strategic Plan 2006-2011, it recognised that social rented housing plays a major role in:

- Providing affordable housing to a significant proportion of the population of Jersey;
- Impacting the way the housing market operates;
- Meeting the challenges presented by the ageing population and other socio-economic changes.

ISSUES

This debate led to a fundamental review of social housing provision by Professor Christine Whitehead OBE of the London School of Economics and Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge. In her Green Paper (published in 2009 and found at <http://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=390>), Professor Whitehead made observations and identified a number of challenges facing the States. This Green Paper suggested that certain changes were necessary. These were:

- The conflict for the Minister for Housing being responsible for housing policy and regulation whilst also being the largest landlord needs to be resolved;
- There is a requirement for a long term cross tenure housing strategy;
- There has been a long period of under investment resulting in a considerable backlog -in the funding of maintenance and reinvestment of States owned social housing;
- A new regulatory framework applicable to all social housing providers needs to be created;
- Social housing needs to become more accessible for those in long-term housing need;
- Eligibility criteria need to be made clear and consistent across all providers;
- A long-term rental policy needs to be introduced;
- The Housing Department needs to be restructured to be more financially sustainable in order to adequately maintain States owned social housing in the long term.

It is also a fact that over a number of years rents in the social sector have fallen a long way behind the market and therefore provide a hidden and unintended subsidy

to all Tenants in the sector, whether or not their personal circumstances mean that they need that assistance.

PROPOSALS

To address these issues, the specific policy proposals contained within this White Paper are set out below and cover these 4 main topics:

1. The establishment of a Strategic Housing Unit (SHU);
2. The establishment of an independent regulator for the affordable housing sector and the introduction of appropriate legislation;
3. Establishing a financially sustainable wholly States owned Housing Association to take over the landlord function for the 4,500 States rental homes;
4. Changing the manner in which rents are accounted for to increase transparency.

The proposals have been developed on core principles that seek to ensure that the solutions put in place are sustainable and provide adequate protection and benefits for existing Social Housing Tenants and those with long term housing needs. This applies equally to the need for affordable homes to rent and purchase, as well as ensuring that we have adequate numbers of affordable life-long homes.

It has been important to ensure that the level of the annual return (£24.5m for 2012) from the Housing Department's income to the Treasury is maintained, in real terms. These proposals also aim to facilitate longer term planning across all providers, to ensure that efficiencies can be generated and result in better service delivery for Tenants.

The fairest and most equitable means of generating more revenue to address the funding shortfall is to remove that hidden subsidy, whilst simultaneously ensuring that Tenants in receipt of Income Support are fully protected. This has the benefit of ensuring that in the long term, rents are sufficient to meet maintenance commitments. It also provides a sound basis for accessing private finance, to allow the social housing sector to grow as well as making the level of subsidy in social housing more transparent.

The regulatory form being proposed would see all providers of social rented housing who have had the benefit of States support licensed. Regulations will be introduced to protect Social Housing Tenants and generate confidence for stakeholders.

The option proposed for the future management of States rental homes is for the creation of a new wholly States owned Housing Association with the existing staff of the Housing Department at its core. This new Housing Association will be wholly owned by the States and will be able to manage, improve and grow the existing portfolio in a manner that delivers real benefits for existing and future Social Housing Tenants.

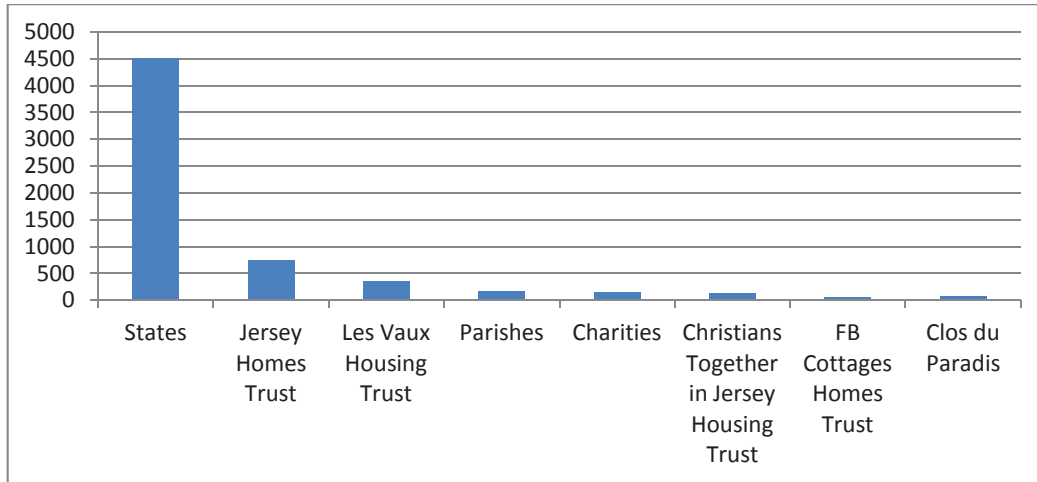
Key to that will be the continual adjustment of the mix of homes available to ensure that it meets the needs of the population. Whilst the size of the portfolio will be maintained broadly at current levels, opportunities for the development of new homes, and for some limited sales, will be available.

Crucially, as it will have been established in a financially sustainable manner the new Housing Association will also be in a position to deliver additional homes, whether

those are new social rented homes or other forms of affordable housing, as directed by the SHU.

Jersey's social housing sector is also widely disparate. At one extreme the States through the Housing Department owns and manages 4,500 homes. There are a number of Housing Trusts, the largest of which has 745 homes, 8 Parishes and 9 charities, who have relatively small numbers of properties.

Jersey's Social Housing Sector – Proportionality



BENEFITS OF THESE PROPOSALS

The policy proposals set out in this White Paper provide solutions to the challenges presented in the earlier Green Paper. They provide a basis for a long term sustainable and financially viable social housing sector to meet the needs of existing Tenants and the population at large as Jersey seeks to come to terms with significant changes to its population and the global economy. Specific benefits are identifiable:

For Social Housing Tenants and Prospective Tenants

- All Social Housing Tenants will have homes which meet the Decent Homes Standard within 10 years. Homes will be more efficient, cheaper to heat and run, combating issues such as fuel poverty;
- All existing Social Housing Tenants, and prospective Tenants, will have access to a single application and allocation process. This increases choice and ensures that affordable homes are provided to those who need them most;
- All States Tenants will benefit from an improved mix of States social housing which will better meet demographic needs;
- Homes will be refurbished or developed to better meet the needs of the changing population particularly in respect of the need to meet the life-long and sheltered housing needs of the ageing population;
- All Social Housing Tenants in receipt of the Housing Component of Income Support will be fully protected from the removal of the hidden rental subsidy and those Tenants not in receipt of Income Support will be means tested for transitional relief;
- All Social Housing Tenants will benefit from rents which are subsidised so that they are no more than 90% of their market equivalent. For the first time, rent levels will be fair and transparent to all, allowing all Tenants to make informed choices about their future housing needs;
- All Social Housing Tenants will have the benefit of the independently regulated social housing sector which will protect the rights of the Tenants across the sector, including the application process and standard of properties;
- All existing and prospective States Tenants will benefit from the new Housing Association which will be focussed on the delivery of housing services to its customers;
- All States Tenants will benefit from increased customer focus and communication. The board of the new Housing Association will have real and meaningful representation from States Tenants and Tenant engagement will be promoted through the policies of the SHU.

For the States

- The establishment of the SHU:
 - Allows the States to focus on long term policy and strategy for housing across all tenures including rent policies, stock requirements and options for affordable housing;

- Allows the States to provide a clear set of performance standards which allow for clear measurement and continuous improvement;
- Allows the States to ensure that allocations across the social housing sector are made from the Affordable Housing Gateway² and so are targeted at those in need;
- Allows the States to rely on an independent, fully accountable and regulated Sector to implement their policies and manage social housing;
- Provides a means of allocating responsibility for resource allocation including the reinvestment of financial surpluses;
- A regulatory structure which generates confidence that social housing providers are contributing positively to its long term strategic objectives and that there is a focus on the Tenant and upon continuous improvement with powers to intervene where social housing providers fail to meet standards;
- Increases in rent yield mean that the value of existing assets will increase and the development of new social housing, if and when it is needed, becomes viable without the need for large capital subsidy from the States;
- The removal of the hidden rental subsidy will:
 - provide transparency in respect of social housing provision and the cost of providing affordable housing;
 - generate more income to improve the housing stock and increase the return to Treasury;
 - allow the Housing Trusts to become less reliant on States subsidy in the event of interest rate rises;
 - help in making new affordable housing schemes more viable;
- Social housing is maintained in the long term without the need for capital allocation from the States;
- The existing conflicts of interest for the Minister of Housing are removed;

For the Providers (i.e. the new Housing Association and the Housing Trusts)

- Strategies and policies set by the SHU will give clear direction in respect of services and how these contribute to social policy generally;
- Long term clarity of rental policy will make for better long term planning, allowing decisions to be made about reinvestment and development;

² The separate waiting lists held by the Housing Department, The Jersey Homes Trust, Les Vaux Housing Trust and Christians Together in Jersey Homes Trust have been closed and amalgamated into a single application process and waiting list. This reduces duplication, increases efficiency and provides for a better measure of demand. Allocations from this single waiting list ensure that available homes are allocated to those in greatest need.

- A single application and allocation process, through the Affordable Housing Gateway, will reduce duplication, increase equity and efficiency and provide for a better measure of demand;
- The new Housing Association will have a clear remit to focus purely on landlord services including implementation of the policies set by the SHU.

PROPOSAL 1 - ESTABLISH A STRATEGIC HOUSING UNIT

The establishment of the SHU distinctly separate to the landlord function is one step towards eliminating the existing conflict of interest for the Minister for Housing. Currently the Minister is simultaneously expected to set sector and Island wide housing policy, regulate the activities of other social landlords and provide landlord services to approximately 4,500 homes.

Given the importance of Housing and its impact on the resident population, the SHU will remain a States function. It will be responsible for the consolidation of the following activities:

1. Developing a robust cross-tenure Island Housing Strategy;

Developing a long term strategy for housing the population of the Island is a key activity and will involve input from other Departments – Planning, Population, Social Security and Treasury).

2. Prioritising resource allocations within the social housing sector;

This could include activity such as the allocation of States land for affordable housing development to registered affordable housing providers, and the distribution of subsidies provided from such sources as commuted payments made through the planning system³. The manner in which such land is ultimately developed would remain a function of the planning system.

3. Championing the Supply of Homes;

Identifying the need for new homes, through the evidence generated by the new Affordable Housing Gateway, housing needs surveys and other means. Promoting the release of land for new affordable homes, albeit that the release of land for development and development control would remain a function for the planning system.

4. Managing the Affordable Housing Gateway;

A key objective of the Housing Transformation Programme is to ensure the best use of the available social and affordable housing in the Island. It is considered that the most effective way to achieve this is to establish a single, unified application process (known as the Gateway), for affordable housing in Jersey, whether for rent or for purchase. The Gateway commenced operation in January 2012.

5. Proposing new affordable housing products to meet the needs identified through the new Affordable Housing Gateway;

The Gateway will collate information on a much wider range of housing need than has been the case to date. It will for the first time, through its means-testing and banding processes provide details of the demand for low cost forms of home ownership and the levels of financial support which

³ As proposed by Draft Policy H3 of the Island Plan 2011

will be necessary to make increasing the level of home ownership achievable. Using that evidence, developing affordable housing policy and affordable housing schemes will be a key activity for the SHU and could include the sponsoring of legislative changes for products such as Shared Ownership.

A review of the access to First Time Buyer homes is necessary to ensure that these affordable homes are targeted at those who are not able to compete in the wider market.

Some of these functions, including the development of Jersey Homebuy⁴ as a specific affordable housing scheme, have been undertaken by the Planning and Environment Minister within the Island Plan. Clearly though the establishment of the SHU gives an opportunity to clarify those responsibilities.

The existing scheme for the sale of States rental homes just to existing Social Housing Tenants under P.6/2007 will come to an end. Under the guidance of the SHU it will be replaced with a scheme which balances the delivery of new affordable homes with an opportunity to realign the social housing sector and to sell new or existing homes to those who have qualified through the Gateway and demonstrated their need for an affordable home.

6. Proposing and updating a Jersey Social Housing Standard;

Improving housing standards and in particular bringing forward changes to the 'Decent Homes Standard' will be an activity for the SHU in consultation with Health Protection and the Building Control Section of the Environment Department.

7. The development of housing policy within a States-wide strategic policy framework;

Strategies such as the Island Plan have a strong housing tone and the SHU will play a key role in assessing and reporting on housing supply and need and in particular social rented and low cost affordable housing.

8. Carrying out (or commissioning) survey work;

The SHU will undertake the commissioning, review and reporting of periodic housing related survey work, either by specific housing surveys such as the Housing Needs Survey, or within other wider surveys such as the Jersey Annual Social Survey.

9. Proposing and delivering the social housing rent policy;

Rents across the social housing sector, both for States housing and for the Housing Trusts, are set in relation to 'fair rents'. These are set by the Housing Department, and represent an upper limit for the rent of a social rented property with a given number of bedrooms. A 'fair rent' is not

⁴ The Jersey Homebuy Scheme was established as a pilot by the Minister for Planning and Environment with P.74/2008

precisely defined in legislation, which states only that 'fair rents' should 'follow, but not lead' the market.

In practice, this has been taken for many years to mean that a 'fair rent' should be set at about 90% of the open market rent for a comparable property. However, in recent years, 'fair rents' have not been increased to follow comparable open market rents. Successive decisions to limit annual rent increases in 'fair rents' to around 2.5% have created a widening gap between 'fair rents' and comparable open market rents.

A reinvigorated and sustainable rent policy is proposed and responsibility for that policy will rest with the SHU.

10. Proposing the criteria for eligibility for social housing on the Island through the Affordable Housing Gateway;

A new single application process and waiting list (the Gateway) is currently being implemented. Whilst operating the Gateway is largely an administrative function, overseeing its operating parameters and monitoring underlying demand is a proposed function of the SHU. The qualifying criteria for the Gateway are to be reviewed and as new supply becomes available the criteria can be widened to include those who presently do not qualify for social housing such as single people and couples under 50 years of age who do not have children.

To fully answer the challenge presented by the Green Paper, the future housing strategy needs to look closer at the whole market and in particular the relationship between the residentially qualified and non-residentially qualified sectors. The SHU once established will need to consider its role in respect of the activities presently undertaken by the Population Office within the Chief Minister's Department. There are certain activities currently carried out by the Population Office which it could be argued sit well with the SHU:

- Providing information on residential requirements
- Determining the residential status of Island residents
- Consideration of new migration policies
- Registration and regulation of lodging houses
- Collating and providing information on non-qualified accommodation

Resourcing the Strategic Housing Unit

The SHU will be resourced by a senior officer from within the existing establishment and budget of the Housing Department.

PROPOSAL 2 - CREATE AN AFFORDABLE HOUSING REGULATOR

A regulator for the affordable housing sector would ensure adherence to the policies of the SHU and to provide an independent view on the performance of the various affordable housing providers. Fundamentally the role of regulation is to generate confidence in the sector for all stakeholders including States members, Social Housing Tenants and Lenders.

Having reviewed regulatory forms in place in other jurisdictions and taking into consideration the relatively small scale of the sector in Jersey and its make up, it is clear that we require a regulatory framework which is both flexible and proportional. It is proposed to introduce regulation which is appropriate for Jersey with a new piece of primary legislation establishing the Regulator, defining who will be regulated and putting in place a framework under which the SHU can introduce regulations for enforcement.

Regulations must deliver tangible outcomes for Social Housing Tenants and the States and will need to be debated by the States, key topics for regulation will be:

1. criteria for registration and matters to be dealt with in constitutions of Registered Affordable Housing Providers;
2. rents and service charges;
3. the keeping, auditing and publication of accounts;
4. working capital, reserves and surpluses and their use;
5. allocations;
6. policies and procedures for consultations with Tenants;
7. procedures to be followed for the resolution of complaints;
8. compliance with standards of performance set by the SHU;
9. standards of conduct to be observed by persons who are responsible for the management of Registered Affordable Housing Providers;
10. disciplinary proceedings and sanctions against those persons in respect of breaches of those standards.

The Regulator must be established in a manner which demonstrates independence from all of the bodies to be regulated and it is proposed that the Regulator be independent and established as a Non-Ministerial States Funded Body⁵ and resourced with a part time appointment which will be funded by the sector on a proportional basis. This should ensure that there can be an adequate degree of separation between the SHU and the Regulator.

Regulation will be limited to those providers of affordable housing who have had the benefit of States subsidy whether that be in respect of the provision of capital subsidy, land or more commonly interest rate subsidy. Initially this will limit the Regulator's activities to the new Housing Association managing States rental homes, and the four Housing Trusts who have received some assistance from the States of Jersey. They are:

- Jersey Homes Trust;
- Christians Together in Jersey (CTJ) Housing Trust;

⁵ As defined in the Public Finances (Jersey) Law 2005

- Les Vaux Housing Trust;
- FB Cottages Housing Trust.

The other provider the Clos du Paradis Housing Trust has not benefited from States subsidy and will not therefore be regulated. However, it is understood that the Clos du Paradis Housing Trust will draw its allocations from the Affordable Housing Gateway.

The table below shows the stock composition of the Housing Trusts.

SUMMARY OF HOUSING TRUST STOCK										
TRUST	FLATS				HOUSES					Total no. of Units
	B/SIT	1BED	2BED	3BED	1BED	2BED	3BED	4BED	5BED	
JHT	0	283	257	19	1	54	112	11	4	741
LES VAUX	16	172	110	22	12	0	11	2	1	346
FB COTTAGES	0	12	0	0	0	0	33	3	0	48
CTJ	0	2	6	9	12	3	80	11	0	123
CLOS DU PARADIS	0	28	0	0	0	0	54	0	0	82
TOTALS	16	497	377	50	25	57	300	27	5	1,340

PROPOSAL 3 - A NEW WHOLLY STATES OWNED HOUSING ASSOCIATION

The limited capital funding available for investment in States owned social housing, the condition of the homes, the changing funding environment within the States and an inability to access private finance, has effectively constrained the longer term planning of capital investment in this area.

This has resulted in many refurbishment and redevelopment projects having to be undertaken in phases. In recent years there has been a heavy reliance both on new housing being developed by the Housing Trusts and on asset sales as a means of refurbishing existing States rental homes. Both mechanisms prevent the portfolio being managed in the most cost effective way for existing Tenants and those in need of housing. This has limited the Housing Department's ability to realign the homes or intensify development in response to changing demographics and population requirements. For the Trusts to be able to borrow the £107 million presently outstanding it has been necessary for the States to provide letters of comfort which require that the States will meet the cost of interest over a pre-determined percentage.

There is an opportunity to address those shortcomings and transform the current Housing Department into a more agile and flexible organisation. A number of options have been considered for the future management of States owned social housing. The proposed option is for a wholly States owned Housing Association. This new Housing Association will be required to commit itself (through covenants) to carry out certain actions in respect of the on-going management and maintenance of the homes. It will continue to make a significant and increasing return to the States annually.

Borrowing to create new income generating assets or which improves the yield from existing assets is a well-accepted and wise financial strategy. Indeed the more traditional source of funding from the States' Annual Capital Programme is inappropriate for this sort of long term investment and should be reserved for essential infrastructure works which do not necessarily generate their own income stream.

Borrowing for the creation of new homes is not new for Jersey and is how the Housing Trusts have been able to develop their homes. The new Association will be permitted to borrow which will allow it to speed up investment in the portfolio for the benefit of its Tenants and to use existing assets more intensively; generating new homes which better meet the needs of the population. This is consistent with the way in which the States' other Strategic Investments operate. Some limited sales will be necessary in the long term and these will be balanced against prevailing housing needs and the availability of mortgage finance. There will be the opportunity to sell homes to Tenants who aspire to become homeowners, particularly at times when mortgage finance is more readily available.

It has been identified that up to £40 million of internal borrowing may be available from the Treasury's Currency Notes and Coinage Funds under provisions presented to the States in R132/2011 by the Treasury and Resources Minister. It is proposed that investment in States Housing is a secure and timely use of funds, which offers significant value for money and economic benefits. Attending to the backlog maintenance programme to achieve the Decent Homes Standard within 10 years will require additional borrowing up to no more than £108 million. This total borrowing of £148 million which peaks in year 12 of the 30-year business plan, would allow for the development of up to 368 new homes to assist with realigning the stock and meeting the need for new life-long and affordable homes.

The new landlord will be required to follow the rent and service charge policy set out by the SHU and through its own business plan demonstrate how it is contributing to the States strategic aims.

The new Association will be required to meet the Decent Homes Standard within 10 years and thereafter maintain that standard.

Similar issues will apply to service delivery. Again, the new Association will be required to deliver the level of service set out by the SHU in its regulations.

Governance

The new Association will be a limited company, but will be regulated under the new affordable housing regulations in the same manner as the Housing Trusts.

The Association will be wholly States owned. It will operate similarly to other wholly States owned strategic investments and operate under a Memorandum of Understanding with the Treasury nominally acting as Share Holder on behalf of the States. This will ensure that the States is able to exercise appropriate influence over the investment and to ensure that it remains operating in the interests of the States of Jersey.

The Association will report to the Treasury and the SHU on its activities through its annual business plan.

The Benefits for States Tenants after Transformation

The proposals set out in the White Paper are all about making improvements which will benefit Social Housing Tenants. 73% of homes already meet the Decent Homes Standard and these proposals mean that within 10 years all homes will meet that standard, and stay that way. States Tenants will benefit from reduced running costs from homes which are better insulated and maintained. Analysis of the maintenance needs of the portfolio show that maintaining 100% compliance with the standard is achievable in the long term.

States Tenants will also see benefits in respect of how the new Housing Association is able to deliver new homes and the certainty that longer term planning can bring, both in the continued maintenance of the homes and the continuous realignment of the portfolio, which is necessary to ensure that it meets prevailing needs.

There are strong links between housing standards and health. It is clear that as our population ages, our housing and in particular our social housing will need to change if it is to actively support Social Housing Tenants and health related strategies, aimed at keeping people living independently for longer. Such initiatives require investment in the homes but have the potential to offer very significant financial savings in the longer term as well as providing very profound social benefits.

Existing States Tenants will be protected during the transition to the new Association and it is proposed that they will continue to enjoy their existing terms and conditions as set out in their respective Tenancy Agreements.

The pro-active and positive response of States Tenants in Jersey in setting up a thriving States Tenant's Forum and to the current Tenant focussed work of the Housing Department suggests there is an appetite and opportunity for States Tenants to take a bigger part in the governance, management and delivery of social housing services and to reflect this it is proposed that the board of the new Housing Association will have 6 members, 2 of whom will be States Tenants.

Staffing the New Association

States Tenants will continue to benefit from the collective experience and expertise of the existing Housing Department staff, the majority of whom perform landlord functions and will transfer to the proposed new Housing Association. Only those roles currently performing the Gateway and Policy functions will be retained for the Strategic Housing Unit. Transferring staff will do so via a skills matching exercise and on their prevailing terms and conditions in accordance with States Employment Board policy on alternative service provision.

The Benefits of Transformation for the States

After the proposed transfer the States will have much more effective control over the sector as a whole. It will have the SHU which will be the body through which the Council of Ministers articulates its housing policy and directs the activities of the various providers, the largest of which will be 100% owned by the States.

The States will also have its Independent Regulator who will monitor the activities of all the providers and report to the States on an annual basis.

PROPOSAL 4 - TRANSPARENCY IN RENTS

Current rent policy aims to set the rents for social rented homes at a 'Fair Rent Level'. Historically the States' intent was to have Fair Rent Levels at 90% of market rents and to establish them as maximum rent levels for all social rented homes let by the Housing Department and Housing Trusts. The Fair Rent Levels are also used by the Social Security Department in setting housing component Income Support limits for Tenants in both the social and private rented sectors.

The Green Paper identified that a significant and increasing gap had opened up between the Fair Rent Levels and market rents because annual increases in Fair Rent Levels had not always taken place and even when increases had taken place they had not been at the same rate as those seen in the private rented sector. This has led to a situation where the average rent of a home in the States owned social rented stock is now only 70% of its market equivalent, moreover, the range of rents vary from being less than 50% of market to a very small number of homes where rents might be considered broadly equivalent to market levels. The vast majority of Tenants in the social housing sector are receiving an unintended and hidden subsidy which is not targeted or means-tested.

The subsidies within the current rental structure go against the principle of Income Support being the sole, unified support system for those unable to support themselves and provide a subsidy, quite separate from Income Support, for nearly 2,000 Tenants across the sector who do not receive Income Support.

The subsidy means that the current rentals from social housing are insufficient to cover the costs of maintaining the homes. As a result the condition and value of States social housing has declined to the point that independent assessment has identified that only 73% of States rental homes meet the English Decent Homes Standard. Unless a means of increasing long term investment in the homes is identified, the rate of failure to meet the standard will quickly increase.

The capital value of social rented homes is primarily arrived at from the potential rental yield, less necessary expenditure, over a 25 year period. Current rent levels inevitably lead to a situation where the value of the portfolio is understated and that insufficient rental income is generated to develop new social housing without some form of development subsidy being provided.

In the Housing Trust sector it has been necessary for the States to support the development of new homes either through the provision of land at nominal value, direct capital subsidy or more commonly through the provision of interest rate subsidy agreements where the States is required to meet the cost of Housing Trust borrowing if interest rates rise above pre-determined levels.

The current mechanism for setting housing benefit levels is unusual in that the arrangements link the amount of benefit paid to the fair rent cap within the social housing sector. Professor Steve Wilcox of the University of York, an expert in this field, conducted a review of rent policy and Income Support for the Ministers for Housing and Social Security in 2011.

Professor Wilcox considered that it was inevitable that the level of fair rent in the social housing sector would be held down in a desire to restrain rental benefit levels and conversely that the level of Income Support for those in the private sector would be unlikely to match prevailing market rents. For these reasons it is proposed that rents be reset in accordance with the existing Fair Rent Level policy, in order:

- to ensure that near market rent levels are re-established and maintained consistently in order that the social housing sector becomes sustainable without the need to rely on subsidy from the States;
- to address the unintended and hidden subsidy in rents in the Social Sector and see that this subsidy is unified within the targeted Income Support system.

The Minister for Social Security will need to propose the most appropriate level of rental support for recipients of the housing component of Income Support in the Private Sector given this change.

Protecting Social Housing Tenants within the Fair Rent Levels Policy

It is proposed that during 2013 rents in the social housing sector should be reset at the Fair Rent Level of 90% of the market rent, applicable for the equivalent home in the private rented sector.

All Social Housing Tenants in receipt of Income Support at the time of transition will be fully protected. This will be achieved by simultaneously raising the level of the housing component of Income Support in the social housing sector to the Fair Rent Level. Over 3,000 States' Tenants and approximately 600 Housing Trust Tenants will have their Income Support payments adjusted to reflect these changes. They will not therefore see any direct financial impact and will not be asked to pay any more rent. However, the hidden subsidy will be removed.

There will be a one-off increase in the base cost of the housing component of Income Support during 2013. This "accounting" adjustment will be fully offset by the increased rental income from the social housing sector. There will be no increased cost to the tax payer as the new Housing Association's annual return to the States will be adjusted by the level of the increase in Income Support costs. Once rents in the Housing Trust sector are adjusted to reflect Fair Rent Levels, the Trusts will be required to meet the cost of supporting their Tenants from the increased income generated in the same way as the new Association will do.

Around 30% of Social Housing Tenants occupying States rental homes and 50% of those in homes managed by the Housing Trusts do not receive Income Support. It is clear that for these Social Housing Tenants the proposed move to near market rents will have an impact. Ensuring that those Social Housing Tenants are treated fairly and protected according to their means is vital. It is therefore proposed that these Social Housing Tenants be required to demonstrate their need for continuing subsidy. This means-testing process would be undertaken during 2013 by the Housing Department prior to the change in rents. Means-testing will determine the financial ability of each Tenant on an individual basis and allow a transitional relief plan to be implemented which will see the additional subsidy removed.

Social Impact Assessment

Professor Wilcox undertook a social impact assessment of the proposed changes to rent policy and Income Support. This included consideration of the impact upon States, Housing Trust and private sector Tenants on Income Support and those in the social sector not on Income Support. Additional work in this area is currently being undertaken by the Social Security Department, including the identification of any Tenants in the social rented sector who may be drawn into Income Support.

It is considered that there are very clear social benefits in the social housing sector arising from the achievement of Decent Homes Standards. It is considered that these more than offset the short term impact on the minority of Social Housing Tenants who do not presently claim the housing component and who will be protected to an appropriate degree.

Economic Impact Assessment

The States Economist was consulted about the potential economic impacts of long term adherence to Fair Rent Levels.

In general, he advised that the benefits of a move to near market rents more than offset the small risks of any inflationary effect that such a "closed market" system could have on wider housing costs.

Income Support Implications in the Private Sector

Long term adherence to Fair Rent Levels will require the Social Security Minister to recommend to the States a new basis for setting appropriate Income Support levels in the private sector. These new levels will need to take into account the availability and affordability of rental homes in the private sector. The degree of subsidy is likely to vary over time with demographic changes and the supply of new homes into the market. Clearly the results of the 2011 census are an important information source for this work. Any new policy will need to carefully consider any specific social and economic impacts.

FINANCIAL AND RESOURCE IMPLICATIONS

Strategic Housing Unit

It is recognised that the SHU will be a tightly focussed policy specialism. The extent of the SHU linkage with other policy roles will be articulated within a subsequent Report and Proposition once analysis of other functions has taken place. To contribute to this a budgeted post from within existing Housing Department resources has been identified for transfer.

Affordable Housing Gateway

It is recognised that this is largely an administrative means testing function, which may sit well with similar functions within the Social Security Department and be carried out under agency to the SHU. In this event two existing budgeted posts from within the existing Housing Department resources have been identified for transfer.

Affordable Housing Regulator

It is proposed that the Regulator will be limited to the affordable housing sector which in Jersey is relatively small and it is therefore proposed that rather than burden the tax payer with the cost of regulation, which could conceivably cost £160,000 per annum. The costs of establishing and operating the Regulator will be met by a levy on regulated landlords on a proportional basis.

The New Housing Association

An allowance has been made for the enhanced governance costs required to enable establishment of a board and company functions which are estimated at £370,000.

There will be additional operating costs associated with the new Association and although provision has been made within the Association's business plan it is considered likely that any increase in costs will be offset by efficiencies or corresponding savings in the States Departments presently providing those services. This will be subject to thorough review in a Full Business Case.

An additional allowance has been made for licensing and contributing to the costs of regulation of £120,000. There are also essential one-off set up costs which, based on experience in other jurisdictions, are estimated at £685,000. An allowance of £500,000 has also been made within the business case for replacing existing IT systems. Finally, the Public Sector as a whole has a significant pre 1987 past service liability pension debt and in common with other Strategic Investments such as Telecoms and Postal the new Housing Association will take on responsibility for its proportion of that debt for which an allowance of the other Strategic Investments. *[These costs are indicative for the purposes of the Outline Business Case. They will be subject to review and confirmation within a Full Business Case]*

Fair Rent Level Policy

Implementing Fair Rent Levels and removing the present hidden subsidy for the 4,500 existing States homes would result in an increase in rental income of approximately £11.25 million. The absolute commitment to fully protect those Tenants on Income Support from the effect of the removal of the subsidy means that the Income Support budget will have to increase by an estimated £7.5million. This

means that the net impact on States Tenants of removing the subsidy is limited to up to £3.75 million.

It is proposed that the removal of this subsidy be introduced with transitional relief agreements based on the individual Tenants ability to pay, but such that the net impact would equate to a removal of subsidy at a rate of not less than £260 per annum (£5 per week) above inflation and earnings increases and the removal of the entire subsidy within the 10 year period set for achieving full Decent Homes Standard compliance. A means-test which identifies the appropriate rate of transition is under development and will be set out in the subsequent Report and Proposition.

There will be surpluses from the social sector which, over time, could be used to reinvest in affordable housing provision. Directing the use of such surpluses would be a matter for the Strategic Housing Unit, in consultation with Social Security Department and the Treasury.

Implications for the Regulated Housing Trusts

The Ministers for Housing and Treasury and Resources are requiring the Housing Trusts to develop long term business plans. When rents in the Trust sector move to 90% of market each Trust will need to identify how the current States' exposure on interest rates can be mitigated effectively. The Trusts will also need to agree with the Treasury and Resources and Housing Ministers, how they will contribute to the increased cost of Income Support for their Tenants. The annual cost of the increased Income Support for Housing Trust Tenants is estimated to be in the region of £1.1 million. Housing Trust Tenants in receipt of Income Support will be protected and it is proposed that for those not on Income Support that they be means tested in the same way as States Tenants. This means test will be undertaken by the Housing Department prior to transfer to ensure consistency across the sector. It is anticipated that these arrangements be formalised through Memoranda of Understanding under the new legal framework.

Private Sector Financial Implications

The Minister for Social Security is considering whether to propose changes to the basis on which housing element of Income Support within the Private Sector are required as a result of the long term adherence to Fair Rent Levels.

Retaining the current basis, where private sector housing component limits are linked to social housing rents, but at nearer market levels, would result in higher Income Support costs for private sector Tenants and this is estimated to be £1.3 million in year 1.

Alternatively, de-coupling social housing rents from private sector Income Support levels has the advantage of allowing the development of a bespoke policy setting out how Tenants in the private rented sector are supported which more accurately reflects the demand for the various types of home. It would also be theoretically possible to retain the current level of fair rent support, which would have no net cost, but may be considered to provide insufficient support going forwards.

Details will be brought forward to the States for consideration alongside the rent policy proposals set out in this White Paper.

The Annual Return to the States

The rental income received by the Housing Department has always provided a return to the States. Prior to the implementation of Income Support this return was internalised within the Housing Department to fund the provision of rent abatement and rent rebate. Following the implementation of Income Support the return from rents has been made to the Treasury. In 2012 this return will be £24.5 million, which more than covers the net cost of housing component of Income Support for States Tenants.

The new Housing Association will operate as a Strategic Investment for the States. It will require a Memorandum of Understanding in respect of its responsibilities and a Funding Agreement in relation to its annual return to the States. It is proposed that this will be maintained in real terms following a one off increase to cover the additional cost to Income Support of removing the hidden subsidy within States Tenants rents, and for the management of any surpluses.

Efficiencies

The Housing Department is on course to achieve its entire Comprehensive Spending Review savings up to 2013.

The new Housing Association will be a States Strategic Investment and will be tasked through its Memorandum of Understanding with repaying its set up costs from operating efficiencies within the first 5 years. It will do so through being able to take a more commercial and focussed approach in providing landlord functions and through measures such as investment in achieving the Decent Homes Standard thereby reducing the annual cost of reactive maintenance.

There will undoubtedly be further efficiencies derived from a move to Association status and enhanced focus on business objectives. However, it would be inappropriate to constrain the Board and the Treasury Minister through setting binding efficiency requirements beyond these commitments in advance of the new Housing Association being established and the Board setting out its objectives.

Failing to adequately maintain States social housing is fundamentally inefficient, as it inevitably results in the need for large scale capital investment over a short term period, or homes which are not fit to be let with a potential loss of significant rental income. Homes which fail to meet appropriate standards for thermal efficiency impact on Tenants very directly in respect of how expensive they are to run.

Further efficiencies can be achieved in the use of existing land resources. The ability to access additional capital funding will allow decisions to be made about the appropriate intensification of some existing sites rather than only carrying out refurbishments to achieve the Decent Homes Standard. The new homes created will provide new rental streams which will be sufficient to service the borrowing.

The current means of delivering new social rented homes relies on gains extracted from the planning system as private developers bring forward residential schemes. This supply has slowed since 2008. In all likelihood this is a reaction to the limited availability of low cost land and the increasing gap between the costs of developing social rented homes where the sustainable acquisition price relies on the ability to repay borrowing from rental income.

The reinstatement of nearer market rents will increase rental yield from social housing. This permits greater degrees of borrowing, which increases the acquisition price at which social housing providers can acquire or develop homes without the need for capital subsidy or other forms of financial support from the States.

Consultation Process

This White Paper is a consultation document and the Minister for Housing wants to know what you think about the proposals.

Additionally, our team will be sharing these plans with groups of stakeholders including Tenants. If you represent a group or organisation and would like more information please get in touch.

A shortened and more accessible version of this document will be circulated to all Tenants and will be available at all Parish Halls and the Jersey Library.

Next Steps

We will read every reply that we receive and your views will inform the next stage of this work. We will publish an analysis of all the replies we receive later in the year.

Your views matter. Thank you for taking part.