Cambridge Centre
for Housing &
Planning Research

A Review of Social Housing in Jersey

Summary of Main Report

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1. Introduction: the purpose of the Review

When the States Assembly agreed the States Strategic Plan 2006-2011, it tasked the Housing Department with reviewing, developing and implementing strategies for the provision of social housing in the Island, including the long-term management of States rental accommodation.

In carrying out this Review, we were asked to provide a comprehensive picture of current social housing provision in Jersey; to identify areas of strength and weakness; and to recommend approaches which could meet social housing need in a more sustainable and effective way.

The specific terms of reference, developed with the input of the Health, Social Security and Housing Scrutiny Sub-Panel, were as follows:

1. to establish the nature and extent of the need for social housing in the Island, including whether that need is primarily related to affordability or to access;

2. to identify the agencies, including housing trusts, presently providing social housing in the Island, and the nature and extent of their involvement in each case;

3. to establish the present overall and agency-specific costs, including grants, development and interest subsidies, of providing social housing in the Island;

4. to examine the extent to which those who are presently receiving the benefit of social housing in the Island are actually in need of that assistance;

5. to establish the nature and extent of any currently unmet social housing need and known future need, with particular reference to demographic changes;

6. if there is found to be any mismatch between provision and need, to estimate the costs and any other implications of moving to a position where Jersey social housing provision targets social need more accurately;

7. to analyse the present regulatory structure, compare it with regulation in other jurisdictions, and recommend a suitable framework;

8. to analyse current policy and systems for setting social housing rents, including differentials with open market rates, and recommend changes accordingly; and

9. to consider, and to make recommendations for the future structure/status of the States of Jersey Housing Department.

2. The context of the Review

The Review takes place in a context where the vast majority of households are well housed but house prices are high by international standards and there have been growing problems of access to owner-occupation. Equally the States maintains a large role in housing provision owning and managing some 4,600 dwellings which are allocated to lower income and more vulnerable households.

The Review has also been undertaken against rapid changes in the economic environment in Jersey; increased uncertainties about government revenues; important developments with respect to both economic and land use planning in the Island and the introduction of a new Income Support system.

The Review looks not only at specific issues but also offers an opportunity to the States to take stock, and possibly redefine, the broader policy objectives which States (and more generally social) housing in the Island aims to support.

The most fundamental housing objective across developed countries is to ensure 'a decent home for every household at a price within their means'. This objective is generally achieved by a mix of regulation, subsidy and direct provision and allocation of social housing.

Regulatory standards are normally applied across all housing in a country. Acceptable standards generally rise with the standard of living and also address specific issues such as energy efficiency and the effective use of public services. However they can be costly to achieve and enforce. In the Jersey context a particular issue relates to whether the same minimum standards should apply in the non-residentially qualified sector as in the core tenures for long term residents. Another relates to where housing may be built.

Subsidies are required to ensure that those on lower incomes are able to afford decent homes and still purchase the other necessities of life. These subsidies can be in the form of income subsidies, or through rents that are below market rents, or through a mix of both approaches, especially when those in need are concentrated in a particular tenure. In Jersey both types of assistance are provided. Income Support is available for all low income residents who rent their accommodation; and below market rents across the social rented sector where large proportions of lower income vulnerable households are accommodated.

Further, there is the question of the conditions on which 'a decent home' should be provided. Owner-occupation is generally seen as being a matter of choice where households should be able to manage their own risks (although there are growing concerns across Europe about the need for safety nets). The rented sector provides for two groups of households: those who are mobile and whose circumstances are changing and do not yet want to buy and those, mainly on lower incomes, for whom renting is likely to be their lifetime tenure. For this group security of tenure is important, especially as people grow older and more settled. The social sector in Jersey, unlike most other countries, does not provide security of tenure with respect to the individual dwelling, but rather to an appropriately sized dwelling. There are obvious tensions between, on the one hand effective targeting and management of the social stock and on the other tenants' rights to security, the resolution of which forms part of a broader social housing policy for the twenty first century.

In Western Europe, these policy aims have generally been achieved by a mixture of income support and the provision of some form of social housing although the extent of provision varies widely, from around 3% in Norway, to just under 20% in England, up to around 40% in the Netherlands.

There is also a wide spectrum of forms of ownership of social housing across Western Europe, from public ownership (mainly by local authorities and municipalities), to not-for-profit ownership (mainly by housing associations) to common ownership by tenants (mainly housing co-operatives). Many countries, such as England and Sweden, have a 'mixed economy' with more than one kind of ownership (mainly a combination of local authorities and housing associations).

Jersey is unusual in that the bulk of social housing (74%) is directly owned by the state itself. There is a fundamental tension between detailed States control and efficient day-to-day management of the large social housing asset. There is a more fundamental tension in that Jersey has a strongly market oriented economy, while the emphasis with respect to social housing is on providing accommodation at below market rents.

Our remit is to examine these issues within a comprehensive review. We do this first by reviewing the current housing situation and the extent to which there are unmet housing needs; second by looking at the specific position of social rented housing; and finally by examining the options available to generate a social housing sector that can effectively ensure that housing needs are met.

3. Key features of the housing market in Jersey

This section briefly summarises some of the key features of the housing market in Jersey which have influenced the conclusions of this Review.

3.1 Population, migration, land use planning and new housebuilding

The small size of Jersey, relative to its population, and the attractiveness of the island as a place to live and work, have resulted in a long standing policy of migration control and residential qualification linked to housing eligibility through the Housing Law of 1949 and its subsequent amendments and regulations.

In addition to concerns about the extent of in-migration, there is also general public concern about the pressure on land use, particularly for new housebuilding. The Island Plan Review 2008 commented that:

'*The location of new housing has been subject to ongoing levels of objection and increasing politicisation over recent years.'*

It is in this context that current States policy decisions about migration, housing land allocation, new building and regeneration plans have been developed.

3.2 Housing demand, supply and house prices

The land use planning system seeks to maintain a tight balance between the requirement for housing on the Island, and the supply of land for new housebuilding. The Island Plan Review 2008 sees new building coming primarily from within the existing built up areas of the Island, mainly St Helier and from already agreed extensions, and not from the re-zoning of green field sites.

The combination of continuing increases in the number of households on the Island (arising from smaller households as much as population growth), a tightly controlled supply of new housing, and high incomes means that house prices on the Island are very high by UK standards (over 50% higher than in Greater London in 2008).

The result is that a significant proportion of the residentially qualified population cannot afford to buy their own home.

- Households in the bottom fifth of incomes (under £17,500) cannot afford to buy at all

- Households in the next fifth of incomes (between £17,500 and £28,000) can only afford a one bedroom flat in the bottom fifth of the market

- Households in the middle fifth of incomes (between £28,000 and £40,000) can only afford a two bedroom flat

- Buying a house without assistance is effectively only possible for the top two fifths of incomes (with incomes above £40,000 per annum)

- Buying a home also involves borrowing very high multiples of income. Multiples of six to eight times income has been the norm in Jersey, which would be regarded as high risk by UK lenders even when funding was readily available. In the aftermath of the credit crunch, multiples of five times income were the maximum generally available by June 2009.

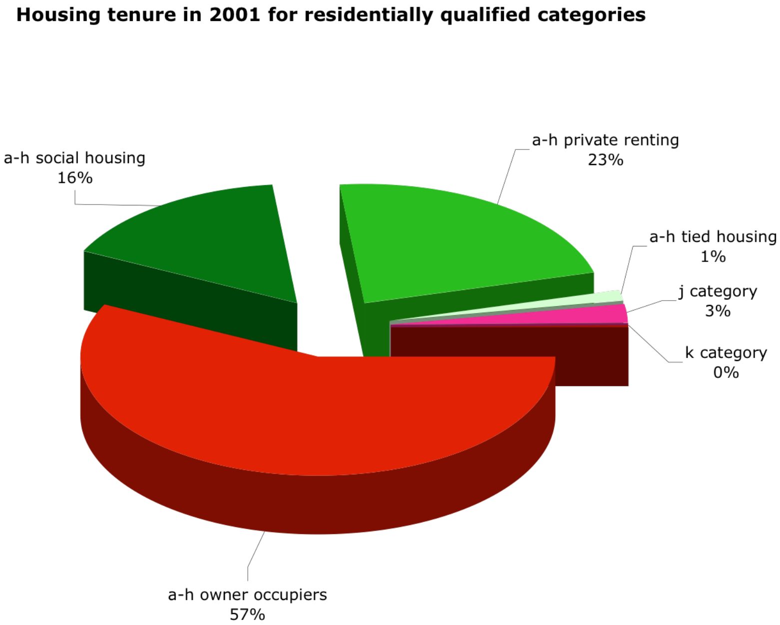
The States of Jersey have a policy objective to increase the proportion of qualified households who are owner-occupiers. To this end Jersey also provides assistance to access home ownership through First Time Buyer houses, Jersey HomeBuy and discounted sales of States housing to social rented tenants, as part of a broader policy of enabling households to own their own home.

3.3 The rented sector

Younger households, single people, and those on lower incomes who cannot afford to become owner occupiers, rent their accommodation, either from private landlords or in the social housing sector.

Among the residentially qualified population, 40% rent their homes. Fifty seven percent of residentially qualified households are owner occupiers, while the remaining 3% are j and k category residents. (Figure 1)

Figure 1



Source: Census 2001 (A category showing 0% indicates that there is a positive number, but less than 0.5%, and therefore rounded downwards)

The diagram also shows that among households who rent, the majority (60%) do so in the private sector. Social housing accommodates a minority (40%) of renters, and only 16% of all residentially qualified households are social housing tenants.

In addition those who are not residentially qualified (i.e. the majority of those who have lived in Jersey for fewer than 12 years) only have access to the lodging house sector.

3.4 The social housing sector

The social rented sector in Jersey consists of some 6,200 units. Three-quarters of the social housing stock is owned by the States, a fifth by six Housing Trusts, and the remainder (5%) by Parishes and charities.

Restrictions on the types of households eligible for States housing mean that roughly half of all residentially qualified households are ineligible. A financial means test further restricts eligible households to the lower 40% of incomes. In effect, only 20% of the population appears to be eligible to be considered for States housing (or for nomination to a Housing Trust). Within this group allocations are made to those in the greatest housing need.

Since 12% of those in the residentially qualified sector live in properties owned by the States, and a further 4% in those owned by the Housing Trusts, it appears that the majority of households who are eligible to apply for social housing do so, and are actually accommodated. It is therefore an outcome of the allocations rules that there appears to be little current unmet demand, as reflected in waiting lists and the estimates of future requirements.

States housing tenants are characterised by:

- low incomes: 80% of tenants are in the bottom two quintiles, with household incomes of less than £28,000 per annum, and 64% of States tenants are in receipt of Income Support

- high proportions of pensioners (32%) and single parents (13%). More than two in five (44%) of all States tenants are separated, divorced or widowed women

- lower levels of economic activity compared to other tenures: over half (55%) of States tenants are economically inactive. Nearly half of the economically inactive (44%) are retired, over a quarter (27%) are either homemakers or in full time education and more than a fifth (22%) are long term sick or disabled.

Consequently, the overwhelming majority of social housing tenants are likely to be lifelong renters. Even among those tenants who leave States housing every year, nearly 80% continue to rent, moving into care, to the Cottage Homes, to the Housing Trusts or into the private rented sector. Only 10%, or some 20 tenants each year, move to owner-occupation, reflecting the gap between the average levels of earnings among States tenants and house prices in Jersey.

Equally, the characteristics of the social sector population means that housing managers play an important role in supporting their tenants by providing housing related services and access to other assistance.

The States has nomination rights to a proportion of Housing Trust vacancies, but the Trusts are responsible for letting the balance of their dwellings to whomsoever they wish. The outcome of this is that the average income of Trust tenants is some 16% higher than that of States tenants. The rents of Trust properties are also higher than those of States properties, but are controlled to fair rent levels.

The Trusts are managed by Boards of volunteers, and outsource their housing management and maintenance functions. Their ability to cope with tenants who cannot manage their finances, or who exhibit difficult or anti-social behaviour, is limited. As a result, the States housing stock tends to function as the 'landlord of last resort', even within the social housing sector.

3.5 The current position in the housing market: summary

Overall the evidence shows that the vast majority of households in Jersey are well housed, especially within the residentially qualified sector. The projected numbers of additional households who will form over the next decades is not well understood but will certainly increase, generating greater pressure to expand supply but in a highly restricted planning framework. A large proportion of residentially qualified households in the private rented sector would like to own, but do not have the income to afford to purchase.

Those within the social, and particularly the States housing sector, are on very low incomes and in addition many face other problems which make them vulnerable. Waiting lists for States housing are quite small mainly because of allocation rules. Those for Trust accommodation are larger, because less restrictive allocation rules apply.

It is difficult to assess the extent to which there are households in need who are currently ineligible for States housing. These are mainly among working age households without children, many of whom are paying high private sector rents for poor quality accommodation. Addressing these needs would involve policy change.

4. States housing: key issues

In this section we discuss the key issues which must be addressed when choosing between options for reorganising States housing to make it better able to meet future requirements.

4.1 Financial viability

The current financial arrangements for States housing cannot be considered to be viable into the longer term.

Although the total rent income collected each year is some £32 million, the States has consistently restricted expenditure by the Housing Department on the management and maintenance of the housing stock to just over £10 million. The balance, currently £22 million per annum, is transferred to the Treasury. (Prior to the introduction of Income Support, this sum was used by the Housing Department to fund both the payment of rent abatements to States tenants, and rent rebates to housing trust and to private sector tenants.)

While the expenditure budget allocated to the Housing Department may be adequate to fund housing management and day-to-day repairs, expenditure on the maintenance, replacement and updating of the housing stock has been seriously underfunded for many years. This had allowed a backlog of major repairs and improvements to build up over the years, estimated to amount to £75 million by 2006, a figure which does not include the costs of the ongoing major regeneration at Le Squez and Le Marais, estimated at £58m.

Without a fundamental rethink of the financing of States housing, it is not possible to achieve decent homes for all social tenants into the next decades.

4.2 The Social Housing Property Plan 2007-2016

The Social Housing Property Plan 2007-2016 addresses the need to deal with this backlog, within the existing financial framework in which there were few options available. They sought to fund the backlog through a combination of additional revenue expenditure by the States, amounting to £30 million over the period from 2007-11, with the balance, coming from asset sales.

The Plan proposed the sale of 800 States rental homes over a ten year period. This programme is seen to meet three distinct goals: providing the funds for reinvestment in the remaining stock; helping to expand owner-occupation; and changing the mix of States housing.

The Plan proposed that the balance of capital receipts from sales, once the backlog of major repairs and improvements had been completed, should either be invested to produce an income to support the housing revenue budget, or to acquire an additional 400 life-long homes for the over 55s.

The net effect of sales (mainly family homes) and the proposed acquisition of life-long homes for older tenants would shift the mix of lettings available away from family accommodation towards a higher proportion of childless and older households. This reflects the current understanding of requirements based on the Housing Needs Survey. However this takes no account of additional household formation. Nor does it take account of households in need who do not fall within the current restrictive allocation rules.

4.3 Rents 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 determined by the Housing Department, and represent an upper limit for the rent of a property with a given number of bedrooms. A property may have a lower rent than the 'fair rent', if this is justified by its condition or location, but not a higher rent.

'Fair rents' are also used by Trusts to determine maximum rents on their properties, even though much of their stock is newer and of higher standards. Finally, fair rents determine the maximum rental payment that is allowed across rental tenures under the Income Support system. A household's actual expenditure on rent is taken into account in the calculation for Income Support, but only up to the 'fair rent' level. Any expenditure on rent above the 'fair rent' must be met by the household from its remaining income. A third of tenants in the private rented sector who receive Income Support have rents above the 'fair rent' maximum.

A 'fair rent' is not defined in legislation, but it has been broadly accepted 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 around 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% as an anti-inflationary measure have opened up a widening gap between 'fair rents' and comparable open market rents. The extent of the gap varies greatly between property types and locations.

The creation of this gap between 'fair rents' and market rents has a number of consequences:

- First, as market rents rise faster than 'fair rents', it imposes an additional burden on those tenants in the private rented sector who are in receipt of Income Support but paying open market rents

- Second, it creates an unplanned 'subsidy' for social housing tenants, which is not the result of conscious policy, and which may be thought to be inconsistent with the introduction of the new Income Support scheme

- Third, this unplanned financial advantage in becoming a social tenant is an important factor in lengthening the waiting lists for Housing Trust properties

- Fourth, the Housing Department is prevented from raising the rent of a property following its modernisation beyond the fair rent cap because the fair rent is based only on property size. This policy limits the income available to the Housing Department for the future management and maintenance of the housing stock.

4.4 Eligibility, allocations and lettings

The current eligibility criteria are extremely constraining. They inherently mean that the majority of existing tenants are vulnerable (and often segregated) and are likely to remain life-long tenants. The criteria also mean that many, mainly couple and single person households in need of adequate standard housing, are excluded from the sector.

A fundamental issue is whether social housing should be available to a wider range of lower income households or whether other means of support should be provided.

Where low income households are likely to be in long-term housing need the case for social housing provision can be strong (as in the Netherlands, Scandinavia, and to a lesser extent the UK). In the Jersey context however, any change which opened up States social sector provision to a broader range of lower income households would represent a significant development in current policy.

4.5 Security of tenure

The terms and conditions on which tenants rent their property are important elements in determining both the value of the home to the tenant and the financial value of the social sector stock.

At the present time social tenants have no security of tenure with respect to the individual dwelling. Tenants can expect to be required to move if their needs change. In particular if the size of the household decreases, tenants can be required to downsize within the social sector stock and away from their locality.

This level of insecurity is extremely unusual. In most European countries security of tenure with respect to the specific property is seen as a major benefit of being a social tenant that reflects their long term requirements and tenants have security for life as long as they pay the rent.

4.6 Organisation, management and ownership

A particular feature of Jersey is the way that public sector organisations are financed, including the provision of States housing. The construction of States housing has been funded from general state revenue streams. The social housing stock is thus debt free and does not pay for these assets through interest charges. On the other hand the Housing Department is expected to make a large contribution to government funds to enable other services (notably Income Support provided through the Social Security Department) to be funded from the housing revenue stream.

The implication of a revenue funded social housing system that has been developed over many years is that there will inherently be a surplus over-and-above the direct annual costs of managing and maintaining the existing stock. Decisions that involve investment thus require a trade-off between returning funds to the centre to be used for other purposes and increasing expenditure on social housing, either to ensure decent homes or provide additional accommodation.

A rather different issue is the current organisational structure within the Housing Department. Staffing levels at some 39.4 FTE are probably less than half those that would be employed in comparable English local authorities and housing associations. This is in part a reflection of efficiency but is also because of the relatively limited service provision associated with a highly constrained sector.

4.7 The position with respect to States housing: summary

The outcome of the financing and governance regime is that the vast majority of social housing is provided through a States Department with few powers of its own and very limited staffing. Appropriate improvements to the existing stock cannot be undertaken without selling off housing assets; the housing assets are completely unencumbered by debt, but cannot be used as security to enable further investment; the group who benefits from social provision is a subset of those who experience problems in achieving adequate affordable housing; within that group the vast majority have no other option except a far more expensive private rented sector and are thus segregated in tenure terms; and yet it is unlikely that large scale new developments will occur to reduce pressure on the housing system and social housing in particular.

This is a very different scenario from most other social housing systems in Western Europe. These generally have a ring-fenced financial framework in place within which investment expenditure by independent landlords based on clear business plans can be assessed and then financed through borrowing, funded through future rents and government capital subsidies where appropriate.

The conclusion from this Review of current conditions is that States housing, while operating as effectively as possible within the current policy and financial regime cannot hope to maintain a twenty first century social housing sector which is value for money.

The next section therefore examines the options available to ensure a better operating sector that can effectively meet the States housing objectives.

5. Restructuring States housing: the options

There is a spectrum of options that need to be considered with respect to the governance, management, financing and ownership of States housing in the future. Not all are likely to be acceptable, but it is important to understand the full range of possibilities so that relative strengths and weaknesses can be clarified.

The potential options range from doing nothing, through separating the management of the housing from its ownership, to a variety of ways in which ownership could be transferred to different types of landlord.

The various options are briefly outlined below, together with an assessment of their key strengths and weaknesses.

Option 1: The status quo

This is the ‘do nothing’ option, leaving the housing stock owned by the States and continuing to be managed by the Housing Department.

The disadvantages of this option are that it would provide no answers to the existing problems and difficulties which have prompted this review. In particular:

- The existing underfunding of the housing service would continue. While this means that there would be no contribution from taxes to rent rebates in States housing, it also means that some £4.5 million of rents actually paid by tenants themselves would continue to be transferred to the Treasury for spending on other social objectives

- Spending too little on the maintenance and improvement of the housing stock from revenue, combined with the States' policy of not borrowing, inevitably means that after the current phase of improvements (funded from sales of houses and States' revenue), the stock will start to deteriorate again, eventually requiring another round of asset sales and revenue injections, in an ongoing cycle

- To continue with the current practice of setting rents at or below the rate of inflation further reduces the real resources of the Housing Department available to ensure an adequate management and maintenance service. It also ensures large variations in rental subsidy between tenants

- Continuing to set 'fair rents' in this way not only affects the financing of States housing, but also creates additional unintended 'subsidy' to all social housing tenants; puts increasing pressure on the funding arrangements of the Housing Trusts; and lowers the real value of the maximum rents in the private sector that are eligible for Income Support.

The advantages of this option are mainly that its weaknesses are already well known and familiar. It would no doubt be possible to muddle along with the current constraints for a number of years to come.

Option 2: Separating the management of the stock from its ownership

There are two possibilities under this option. Both would mean that the States continued to own the housing stock, while transferring the housing management and maintenance functions of the Housing Department to a separate company.

In England, ALMOs are companies, wholly owned by the local authority, and governed by the Companies Acts. The relevant staff are transferred from the local authority to the ALMO, and become employees of the ALMO, thereby retaining existing expertise. A similar approach could be used in Options 2a, 2b and 4 below.

Option 2A: An Arm's Length Management Organisation (ALMO)

This option would be similar to the model successfully developed in England over the last seven years, under which the management of around half of the remaining local authority owned housing has been transferred to ALMOs since 2000.

In the English model, the local authority sets up a wholly owned company (the ALMO), and transfers the housing management and maintenance functions (and the staff) to the ALMO. The ALMO is run by a Board consisting of councillors, tenants and independent experts. ALMOs are inspected by the Audit Commission, and must reach an agreed standard of performance in order to qualify for substantial additional borrowing powers, provided by the government, in order to bring the housing stock up to the Decent Homes Standard. Rents continue to be set within the framework specified by central government.

The advantages of this option are:

- Ownership of the assets of the housing stock is retained by the States

- Setting up a separate company creates a clear, transparent, structure for decision making, which, while being less subject to day-to-day intervention by elected members, retains elected member influence and oversight through the Board

- The separate company allows the housing organisation to focus more clearly on improving performance.

The disadvantages of this option are:

- Any Jersey ALMO would fall into much the same financial difficulties as the status quo unless the States was prepared to allocate or borrow funds and to give greater freedom to increase rents

- The States would still be responsible for service provision, through ownership of the stock, ownership of the ALMO; and the determination of the financial framework.

Option 2B: A Hybrid Trading Company

This option would build on existing arrangements in Jersey for the operation of commercial services such as the airport and other functions.
The option would involve giving the organisation additional powers to request borrowing capacity from the government, subject to a clear business plan. Any agreed loans would be raised on the private market under government guarantee.

The advantage of this option, over the ALMO model above, is that:

- This structure could in principle give the organisation greater capacity to pay for its own refurbishment, to adjust the housing portfolio and to invest in additional housing.

The fundamental disadvantage of this option is that:

- Under present arrangements, insufficient rent is available to fund the large scale borrowing necessary to finance the required investment programme. Either the States would have to reduce the 'surplus' of rents transferred to the States; more homes would have to be sold; or rents would have to rise to pay for the interest charges.

Option 3: Sales to sitting tenants

Under this option, sales to sitting tenants would be maximised.

The advantages of this option are:

- It could expand home ownership
- It could enable tenants to gain equity and meet aspirations
- It could create mixed communities on formerly rented estates.

The disadvantages of this option are:

- The better stock would be sold to the better off tenants, leaving problems of residualisation in the remaining stock

- It would reduce the stock below the size required to meet housing need, necessitating further new housebuilding or acquisition in the social housing sector, with attendant funding problems

- If significant numbers were to be sold, very large discounts would be required because lower income tenants would have to be enabled to afford to buy.

Option 4: Sale to one or more social landlords

There are a number of possible alternatives under this option, but each would transfer all or part of the housing stock to the ownership of one or more independent social landlords, in return for a capital receipt.

The size of any capital receipt would depend upon the terms of the sale agreement, (including for instance regulations on rent determination, sale of assets, allocation policy and quality standards) and upon the familiarity of lenders with the proposal. Innovative proposals may be regarded as having higher risks, and may result in a lower capital receipt.
In any such sale, the cost of Income Support payments to tenants, up to a maximum of the rent, would become a cost to the taxpayer (at present, only the cost of any Income Support payments that are in excess of rent are met by taxpayers). These costs could be met by utilising the capital receipt, in whole or in part, depending upon the size of that capital receipt.

Any transfer could either be permanent, with a sale of the freehold of the housing stock, or for a fixed number of years, with the sale of a lease, when the housing stock would revert to the States at the end of the lease period.

In order to assess the case for transferring ownership of the stock it would be necessary to clarify:

i) what the housing stock might be worth under different terms and conditions;

ii) the pre-conditions that must be in place before a transfer could take place; and

iii) the conditions for a successful transfer.

The boxes below address these three issues.

Box 1: What is the States housing stock worth?

The States housing stock could not be sold for its vacant possession value: the homes are all occupied by tenants paying below market rents.

The value of the housing stock is the size of the loan, or mortgage, which could be paid off by the surplus of the income from rents above the costs of managing and maintaining the stock.

The size of the surplus that is available to service any loan therefore depends upon the level of rents and the cost of managing and maintaining the stock to an adequate standard. At present, rents have fallen significantly below the ‘fair rent’ policy level, but expenditure on managing and maintaining the stock is also well below what it should be.

The amount of any loan that could be serviced by the surplus of rent income over expenditure is then basically dependent upon the interest rate that would have to be paid, and the repayment period of the loan

Box 2: The pre-conditions for a transfer

There are a large number of issues which would have to be determined before the value – or indeed viability - of either a freehold or a leasehold approach could be determined. These would need to be decided by the States, included in the license agreement with the transfer landlord, and enforced by regulation.

First, a viable policy for rents would be necessary: in England, the regulatory policy allows rents to rise annually by at least RPI plus a small real terms increase. A similar policy would be essential to reduce risk for lenders.

Second, a viable rents policy would need to be underpinned by an assurance that the rent limits applied in the Income Support system would rise at least in line with the rents policy. Again, this would be essential to reduce risk for lenders.

Third, transfer would require a redefinition of property rights for tenants. This would be necessary to define the operating rules, including the quality of management and levels of service, and to ensure tenants were comfortable with the transfer.

Fourth, there would have to be a clearly determined financial and regulatory structure with respect to sales of property either to tenants or on the open market.

Fifth, there would need to be a protocol on demolitions and replacement – as there is an incentive for the landlord to demolish dwellings that are adding more to cost than to revenue, which may not be consistent with government objectives.

Sixth, there would have to be a protocol on allocations to ensure that the States would continue to be able to fulfil its rehousing commitments to households in housing need, through nomination rights to vacancies.

Box 3: The conditions for successful transfer

First, successful transfer would have to be undertaken with the agreement of tenants e.g. through a voting procedure as in England.

Second, the governance structure both of the organisation and of the regulatory authority (probably outsourced because of the complex technical requirements) would need to be clearly specified before going out to tender.

Third, and perhaps most importantly, the sale price would have to ensure ongoing financial viability for the organisation. It would also have to be worthwhile for the States in that it would be losing the current annual revenue allocation from the rental stream but would be responsible for Income Support.

In considering any transfer, there are two main options available, each with a range of possible variations.

In either set of options, any sale could be on a freehold or leasehold basis.

Option 4A: Transfer to a range of social landlords

In this option, the stock could be broken up, and transferred to a number of possible landlords. These could include tenant co-operatives, the existing Housing Trusts, or (as has been done in England) to newly created social landlords.

The advantages of this option are:

- Limited. There might be some gain from competition between a small number of landlords, but there would be significant counter-balancing loss of economies of scale.

The disadvantages of this option are:

- The Housing Trusts are small, and do not have significant permanent operating staff, contracting out the management and maintenance of their stock. Their asset bases are limited, so their ability to take financial risks is not strong. Moreover taking on existing properties might reduce the Trusts' capacity to be involved in new affordable housing investment

- Another option might be to develop local co-operatives. However, there is no tradition of co-operatives in the housing sector in Jersey and they have proved fragile elsewhere. Newly set up groups would therefore face major risks and responsibilities that they are unlikely to wish or be able to take on, at least without additional government subsidy

- There are no obvious potential social landlords wanting to buy properties. In particular, the management of States Housing, while it has strong local involvement and commitment, is fundamentally centrally organised, and does not lend itself easily to subdivision.

Option 4B: Transfer to a single independent social landlord

This option would be similar to the model successfully developed in England over the last twenty five years, under which the ownership and management of over a million local authority homes have been transferred to purpose created housing associations by Large Scale Voluntary Transfer (LSVT).

In England, LSVT housing associations have retained elected member involvement through management Boards comprising a mix of elected members, tenants and independent experts.

The LSVT organisation could either be created for the purpose (the standard practice in England), or a transfer could be effected to a large English housing association. Other possibilities might include a housing association in the Netherlands, or a Habitation à Loyer Modéré in France.

The advantages of this option are:

- It would create a reasonably large, financially sound, social landlord, able both to manage and maintain the existing stock, and also to engage in new housebuilding or acquisition if necessary

- Transfer to a single landlord probably maximises any potential capital receipt

- Transfer to a single landlord simplifies future regulation, and reduces the costs to the States of liaison with social housing providers.

The disadvantages of this option are:

- It might be regarded as 'selling the family silver', although a leasehold sale might reduce this concern, since the stock would revert to the States at the end of the lease

- Trusts might regard the process as unfair competition

- Tenants might not be prepared to welcome such a change unless the implications were clear and transparent. This concern would almost certainly rule out any international involvement except through co-operation rather than ownership.

Sale on a leasehold of 30-40 years as compared to a freehold sale (as used in England) would probably not significantly reduce the price but would mean that the States would benefit from further revenue at the end of the leasehold period.

Option 5: Sale to the private sector

In this option, the housing stock would be sold to a private sector, for-profit, organisation.

This approach has been implemented to a limited extent in Germany where US private equity organisations own a number of cities' social housing stocks and employ management organisations (including the existing management) to run the business.

The advantages of this option are:

- Full privatisation subject to a very carefully defined license setting out powers and responsibilities, would ensure a clear financial framework in which social housing would be provided. It would also define the rights and responsibilities of the landlord and subject the organisation and management to market pressures.

The disadvantages of this option are:

- To achieve a full sale, license frameworks tend to have to be generous towards the owners, giving them considerable rights to sell off vacant possession units; the capacity to achieve vacant possession over time; and the right to demolish properties that are not cost effective

- The terms and conditions can involve paying a dowry rather than receiving a capital receipt and can imply a high risk premium

- Potential bidders will require an exit strategy, a problem which has not been solved in the German examples.

The implications of these analyses are that the most appropriate way forward is likely to be a choice between one of the two sub-options under option 2; one based on the transfer of management responsibilities only and the other enabling borrowing against the value of the asset to take place, and 4B the transfer to a single landlord.

6. Choosing between options

6.1 Options for restructuring States homes

Choosing between options is as much a political as a financial issue. The value of some of the options depends heavily on the States preparedness to forego income in order to achieve better services and perhaps expand the role of social housing into a wider range of options.

All options need to address the key shortfall in funding:

- Day-to-day repairs are underfunded by £2.5m. per annum
- Planned maintenance and improvements are underfunded by £5m per annum

Day to day repairs can only be funded from current income from rents. There are two options available: either the States can forgo £2.5m. from the current Housing Department surplus; or rents in States housing can be raised. To produce an additional £2.5m. per annum, net of Income Support, would require an average rent increase of around £35 per week.

A rent increase of this size for States tenants would result in the fair rent limit being raised by a similar amount in the private rented sector. A £35 per week increase in private sector rents would cost approximately £3.5m. per annum in additional Income Support.

Longer term major works of planned maintenance and improvements can be met from a variety of sources: additional rent income; borrowing; or the sale of assets.

The table below sets out some of the core issues for comparison.

Table: Comparing the Options

Option	Current shortfall	Sources of funds to meet shortfall	Capacity to improve/expand services
Current regime 'The Status Quo'	Maintenance: £2.5m pa Repair & Improvements : £5m. per annum	• Reduced payment to the centre • Rent increase • Sales of properties.	Nil – without increasing rents or selling more properties.
Option 2A ALMO	The shortfall would have to be addressed in the terms and conditions for management transfer which would have to include a financially viable business plan.	• Reduced payment to the centre • Rent increase • Sales of properties.	Limited, unless at the time of transfer there was a commitment to reduce the contribution to the centre and /or allow rents to rise.
Option 2B Hybrid Trading Co	The shortfall would have to be addressed in the license – identifying a viable business plan.	Differs from Option 2A by allowing borrowing against future rental income.	Probably not worth doing unless rents rise and there is capacity to keep additional income to fund borrowing and investment.
Option 4B Sale to a single social landlord	The shortfall would be addressed through the capital value. The capital value achieved would substitute for the	License would specify powers and responsibilities re allocations, rents; sales etc – and so determine the capital value.	Depends on license terms – if capital values allow for required expenditure and do not take account of rent increases there would be considerable flexibility to

based on debt finance	annual payment to the centre.	Estimated value if stock to be maintained and improved but rents not allowed to rise: Freehold: £390m Leasehold: £250m. If rents were allowed to rise to 85% of overall market rents to reflect differences in quality - freehold £500m; leasehold £360m.	improve and expand services. If instead the license were set to ensure a larger capital value to contribute to the loss of the annual allocation to the centre then there would be very little capacity to change.

The table can only be regarded as an exemplification, in that each option has many different attributes. In particular any net revenue from rent increases would depend on how that rent increase were implemented. If for instance the increase was achieved by raising fair rents there would be an additional cost as more private tenants became eligible for income support. Formally separating social from private rent determination for the purposes of income support might be one way to address this issue.

A second uncertainty relates to the estimated capital values in the table, and to Appendix 12 of the main report. These estimates assume that the investment would be regarded as relatively low risk. However this depends on the quality and specificity of the license. The value might also be adversely affected by current financial conditions.

6.2 Options for the role of social housing

Finally we turn to the fundamentals that must lie behind the choice between options for delivery: what is the role of the social sector, and how big should that sector be.

The objective of providing social housing is to help ensure that everyone in Jersey has decent accommodation that meets their requirements at a price they can afford. For the majority of households this can be achieved in the private sector. The social sector accommodates a very large proportion of those who meet the eligibility criteria. An issue therefore is who lies outside these two categories.

First, there are significant gaps in the statistical evidence with respect to the projections of overall household numbers and to housing provision in the lodging house sector. These gaps make it difficult to assess overall housing requirements as well as the conditions faced by those in the lodging house sector.

Second, the available evidence on housing needs is not adequate to determine potential tenure requirements. Many households currently identified as desiring owner-occupation will almost certainly not be able to afford to buy. These households either need assistance to achieve owner-occupation – eg by an extension of low cost home ownership products including shared equity for purchase of existing homes; more stable forms of private renting; or perhaps low cost rental housing provided by the social sector. These are all areas where a restructured social landlord could hope to take the lead.

Using broader based evidence on incomes and housing circumstances suggests that there may be considerable unmet housing need among lower income working age but childless households who are currently ineligible for social housing as well as among those with incomes just under the eligibility criterion for social housing. There must therefore be concern about a policy that envisages a decline in the scale of the social sector and increasing emphasis on the provision of accommodation for older households.

The evidence suggests that there are very few households receiving assistance that do not need it and that there are important groups who cannot achieve long term secure housing under the current regime.

The alternative to enabling a larger role for social landlords to help meet housing requirements is to rely more on private renting with a more generous support system together with subsidies to owner - occupation. This is a much more open ended commitment and does not play on the very real success – and capital values - of the existing social sector. The benefits from increasing flexibility and ideally providing some additional resources are considerable.

Within social housing provision another issue is the potential role for Trusts or other social landlords. This role appears likely to remain limited. However were policy to change to enable them to play a more significant role, this would have to be based on the same financial and regulatory regime as that put in place as a result of restructuring the Housing Department.

Whatever the decision about the future scale of the social sector current governance and financial structures limit the opportunities for the best use of resources to maintain and improve the existing social sector and to make it more responsive to changing needs. This suggests strongly that there must be innovation, involving at a minimum greater separation between on the one hand, policy and the broad framework for social provision, and, on the other, day-to-day operational decisions.

Implementing any significant change must involve fundamental decisions by the States on the role that they wish social housing to play, especially in the context of the Income Support system; on rent, allocations and security of tenure policies; and on the governance and financial arrangements under which social housing is provided.