

STATES OF JERSEY



HOUSING AFFORDABILITY CRISIS: ACTIONS TO BE TAKEN BY THE GOVERNMENT OF JERSEY (P.31/2021): COMMENTS

**Presented to the States on 7th June 2021
by the Council of Ministers**

STATES GREFFE

COMMENTS

1. Summary.

The Council of Ministers urges Members to reject each part of this proposition in order to allow the Minister for Housing and Communities the opportunity to implement a co-ordinated set of reviews and actions as set out in his Creating Better Homes Action Plan. The Action Plan addresses all parts of the housing market to increase supply and co-ordination as well as committing to action in respect of the rental issues raised in P.31.

2. Background

P.31/2021 invites the States Assembly to declare that there is a “housing affordability crisis in Jersey” and offers specific actions that are limited to the rental sector, omitting other crucial factors, such as supply, which must be addressed in order to truly address affordability in the housing market.

The Minister for Housing and Communities’ Creating Better Homes Action Plan offers a comprehensive alternative to P.31 and sets out a wide-ranging policy programme for meeting the key challenges across the housing market. It builds upon the work of the Housing Policy Development Board, the draft bridging Island Plan (2022-25), and draws upon resources allocated within the Government Plan (2021-24).

The Creating Better Homes Action Plan sets out actions under five priority areas:

- Stronger system leadership
- Increase supply, manage demand
- Rental choices for all
- Help to own a home
- Build stronger communities, putting children first

Under the priority area “Rental choices for all” the Minister’s Action Plan includes a commitment to publish a Fair Rents Plan by the end of 2021 which addresses each of the issues raised by P.31. The Minister will:

- implement the recommendations of the current review of social rent policy;
- extend eligibility to social housing through the Affordable Housing Gateway;
- identify actions to expand protections provided by the Residential Tenancy (2011) Law (RTL) to private sector tenants;
- identify actions that respond to the need to protect private sector tenants from excessive rent rises;
- set out a high-level framework for a future social housing regulator.

To assist islanders to purchase or rent good quality, affordable homes, action is needed to improve co-ordination across government, arm's length bodies and private developers; and to increase supply; as well as protecting the rights of tenants. The interests of islanders are better served by the delivery of the Minister's comprehensive Action Plan rather than a declaration of a crisis, which will do nothing to make Jersey's housing market more affordable.

States Members are asked to reject P.31, including each of the specific actions (a) – (e), and to support the Minister in the delivery of his Creating Better Homes Action Plan.

3. Sections of the Proposition

“(a) legislation should be introduced to enhance security of tenure and tenants’ rights to provide for ‘open-ended’ tenancies as standard practice;”

(a) Recommend REJECT

The Creating Better Homes Action Plan sets out a range of actions across the rental sector on tenants’ rights, intended to make the rental sector a more desirable long-term housing option for islanders. The Minister for Housing and Communities has instructed officers to review the Residential Tenancy (2011) Law to identify areas most in need of enhancement. (Action 3C). This will include a consideration of the impact of introducing open-ended tenancies including the likelihood of any unintended negative consequences on the private rental sector. A timetable for actions based on this initial review will be set out in the Fair Rents Plan which will be published by the end of 2021.

“(b) rent stabilisation legislation and a Rent Commission or Board to monitor and decide on annual rent increases should be introduced;”

(b) Recommend REJECT

The Creating Better Homes Action Plan responds to the need to protect private sector tenants from excessive rent rises. (Action 3D) Jersey does have existing legislation in respect of rent increases in the private sector. The Rent Control Law provides for a Rent Control Tribunal. However, the Tribunal is not currently constituted, and this law is not in active use. An initial review will identify measures that could be used to provide tenants with appropriate protection from excessive rent rises and the likelihood of any unintended negative consequences on the private rental sector. A timetable for actions based on this initial review will be set out in the Fair Rents Plan which will be published by the end of 2021.

“(c) the social housing rent setting should be reduced from charging rents of up to 90% of the market rate, to charging up to 80% of the market rate;”

(c) Recommend REJECT

The current social rents policy, which sets social rents at ‘up to a maximum of 90% market value, provides Andium Homes with a dedicated income stream to finance the much-needed social housing refurbishment and delivery programme that is still ongoing.

The Creating Better Homes Action Plan incorporates the Government Plan commitment for a review of the existing social housing rents policy to be completed and acted upon in 2021. (Action 3A).

Work on a detailed review is already underway.

Appendix 1 provides a breakdown of the impact of a move to "up to 80%" on different household groups. There is no impact on most low-income rental families. Out of 4,500 Andium tenants, only about 850 households with incomes above the income support threshold would see any benefit from this policy.

Senator Mézec's report suggests that the current 90% social rents policy may act as a benchmark for rent setting in the private rented sector. Appendix 2 provides an analysis from the Economic Advisor who concludes that there is no link between the two. Tenants in the private rented sector would therefore not benefit from an adjustment to 80% in the social rental sector.

These are just two examples that demonstrate that the impact of any change to the current social rents policy should be carefully evaluated before any decision is made. P.31 does not provide this evaluation.

“(d) the annual financial return provided by Andium Homes to the Treasury should be amended in the Government Plan 2022-25 to enable this change in rents policy without negatively impacting on their housing development programme; “

(d) Recommend REJECT

Parts (c) and (d) are linked. P.31 proposes that the taxpayer bears the cost of reducing the social rent rate to 80%. This would result in a net cost to the public of over £2M a year by 2025 with this figure forecast to rise to over £3M a year by 2033 (at today's prices). This would place a further strain on government finances at a time of potentially unprecedented levels of public borrowing. The report on P.31 does not provide any clear explanation as to how this additional cost would be met.

“(e) the Council of Ministers is requested to produce a timetable for achieving these changes by no later than the end of July 2021.”

(e) Recommend REJECT

The Creating Better Homes Action Plan sets out a clear timetable for delivery across a co-ordinated set of actions to improve housing supply, rental and purchase options.

Appendix 1: High level analysis of impact of move from “up to 90%” rent policy to “up to 80%” policy on groups of islanders receiving direct or indirect support for housing costs.

Group 1: Low income private sector tenants receiving income support. About 1,900 households

These tenants receive assistance with their rent costs up to a fixed maximum amount.

For about half of these households, the maximum amount available is less than the actual rent paid. This support is not related to the social rent policy and a move to an “up to 80%” policy will have no direct impact on these tenants. The additional cost of the “up to 80%” policy to be met by the government may lead to a reduction in the overall budget for the income support scheme leading to a reduction in the assistance available to these households.

Group 2: Low income Andium tenants receiving income support; about 2,800 households

These tenants see the full cost of their rent incorporated into their income support calculation. An increase in rent leads to an increase in income support payments and likewise a decrease in rent would lead to a decrease in total income support payment. A move to “up to 80% policy would have no overall impact on these tenants. They would see a drop in their rent and this would be matched by an equal drop in their weekly income support payment. Their disposable income, after paying their housing costs, would be exactly the same.

For a very small minority of this group, the decrease in rental costs will exceed the total income support payment made. In this case, the impact of the decrease would be to remove the household from income support entirely. These households would see a small increase in net household income.

Group 3: Andium tenants who have a household income too high to receive income support and pay less than 80% rent today; about 850 households

These tenants have remained in the same tenancy since at least 2014 and are currently paying rent at less than the 80% level. A move to “up to 80%” will have no impact on their rental costs.

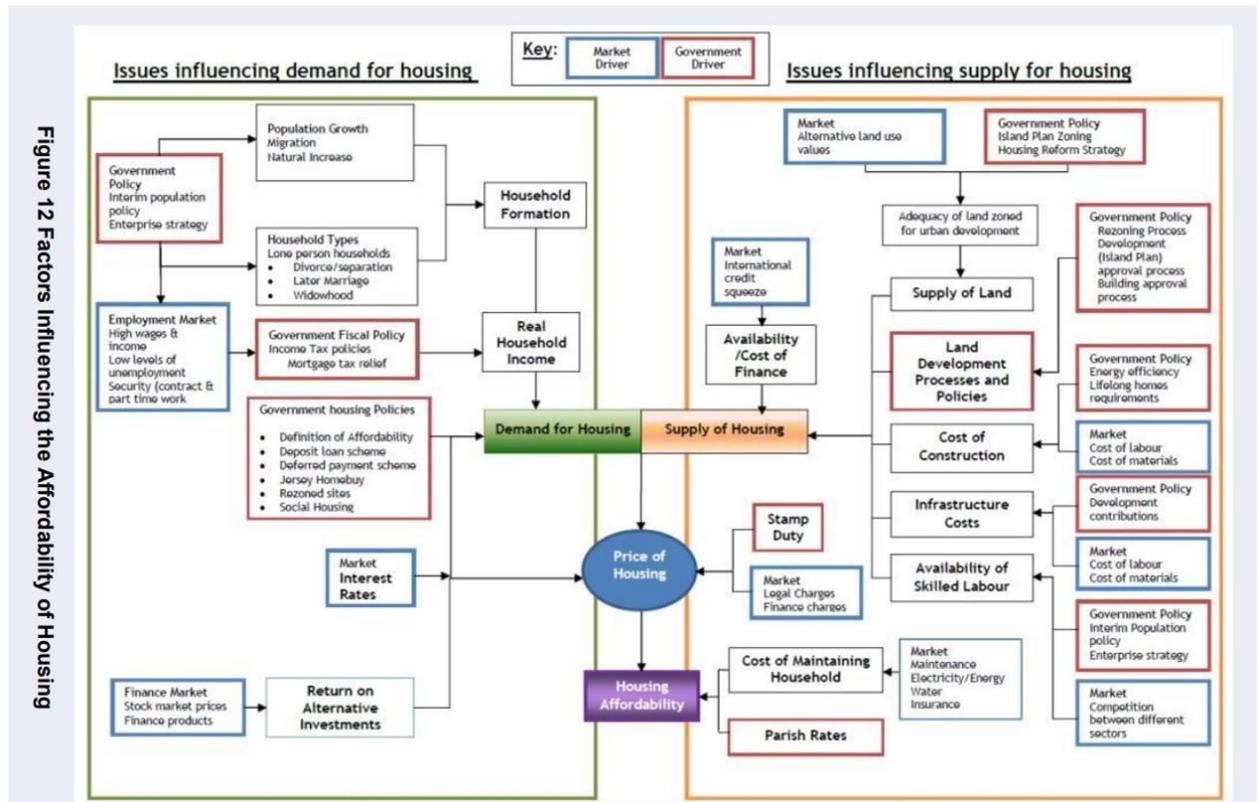
Group 4: Andium tenants who have a household income too high to receive income support and pay more than 80% rent today; about 850 households

These tenants are able to meet the current “up to 90%” rent from their household income without any help from the income support system. A reduction to “up to 80%” will reduce their rental costs and these households will see the full value of this reduction. The cost of the additional rent subsidy to this group will need to be borne by a reduction in government spending in another area or an increase in taxes.

Appendix 2: Economic Advisor’s comments on the relationship between Andium rents and private sector rents.

- Private rent levels are largely determined by supply and demand. A large number of factors influence both supply and demand in the market for housing services, as shown in the below chart.

Figure 1: The determinants of supply and demand in the private rental market



Source: “Housing Strategy”, Department for Community and Constitutional Affairs, States of Jersey, March 2016.

- The Andium rent is fixed and there is excess/unmet demand from eligible tenants as evidenced by the waiting list.
- Moreover, changing the rent charged does not change the net ‘price’ for many Andium tenants as they are fully compensated through income support. For those Andium tenants not fully compensated a lower rent would, all else being equal, make them less likely to rent privately and conversely with a higher price.
- If an Andium tenant did move into the private sector with higher rents their tenancy would be filled by someone from the waiting list with no net change in private rental demand - abstracting from housing occupancy/density e.g. an Andium household splitting in to two.
- The Andium and private rental markets are segmented, and a decrease in Andium rents would not necessarily result in lower private rents as tenants cannot readily substitute between the 2 relatively fixed stocks of housing. So

higher demand for Andium tenancies does not mean lower demand and rents in the private sector.

- For those not in receipt of income support lower Andium rents would increase demand from existing tenants to stay put and increase demand for those eligible to join the waiting list - as set out above.
- The degree of influence the price for one product has on the price of another as per the “benchmarking” described in the proposition depends on the degree of substitutability. When two products are close substitutes in competitive markets, suppliers of both will compete against each other for share of a broader market.
- This competition does not exist in Jersey’s social housing market due to Andium not being a profit-maximising business. Whilst it could open eligibility to all island residents and raise asking rents, this would defeat the purpose of a publicly owned company charged with providing affordable housing. Excess demand and long waiting lists are the result of social housing rents set below private market levels in a segregated market.
- If it were the case that all eligible (or once eligible) tenants were able to readily access social housing, they would be presented with a meaningful choice between close substitutes. As there would be little reason to pass up on the 10% discount, demand for private rentals would fall. Presuming the new Andium stock were not acquired through purchasing existing properties (thus reducing private supply), the fall in private rental demand would lead to lower market rents. Lower market rents would, in turn, lower Andium rents.
- As this is far from the case and the two markets are segmented, the setting of Andium rents at 90% of market value cannot be said to influence the level of market rents.
- The impact on who pays and who benefits from any reduction in Andium rents will depend on what proportion of the rent is paid by income support:
 1. Where a sitting Andium tenant is fully subsidised by government, there would be no change to the financial situation of the tenant. Government would pay less to Andium and Andium would have less income.
 2. Where a sitting Andium tenant contributes all or part of their rent, there would be a saving to this tenant but a cost to Andium.
- Therefore, the benefit of reducing Andium rents would accrue to Andium tenants who are contributing to their rent and therefore are likely to have higher incomes than similar tenants whose rent is fully subsidised. These tenants will have more incentive to remain in Andium housing, to benefit from rents being set further below market rates. This may result in a reduction in available Andium properties and therefore an increase in the number of prospective social housing tenants on the Housing Gateway waiting list. Those on the waiting list may therefore need to remain in unsuitable or more expensive private market rental properties for longer than they would under the current arrangements.

- The cost would, in the first instance, fall on Andium homes through reduced income. This could be compensated through a reduction in Andium's payment to Treasury but if this was the case then the cost would fall on the taxpayer or through reduced funding for public services.

Comment under Standing Order 37A

This comment was provided late to the States Greffe due to an administrative delay.