
STATES OF JERSEY



THE REFORM OF SOCIAL HOUSING (P.33/2013) AND STATES OF JERSEY HOUSING TRANSFORMATION PROGRAMME: FULL BUSINESS CASE (R.15/2013): NOTE FROM PROFESSOR CHRISTINE WHITEHEAD, O.B.E.

**Presented to the States on 19th April 2013
by the Minister for Housing**

STATES GREFFE

REPORT

1. Introduction

I have been asked to provide a comment on whether the Minister for Housing's Proposition for 'The Reform of Social Housing', P.33/2013; and the 'Housing Transformation Programme: Full Business Case', R.15/2013, meet the challenges put forward in the Review of Social Housing published in the Green Paper of March 2010. I am happy to do this and for my comments to be circulated as appropriate.

In my review I identified a number of key challenges –

- the limitations with respect to the then current governance and financial structures;
- the variation in the extent of rental subsidies;
- the extent to which the balance of income and expenditure could only be achieved by running down the quality of the stock;
- any changes in the mix of provision to meet future needs depended mainly on selling off stock;
- there was little evidence that the sector housed people who did not need assistance so problems could not be addressed simply by modifying allocation and transfer rules;
- staffing resources were parsimonious and by implication inadequate to support effective change in operations;
- the lack of an adequate regulatory framework for the sector;
- the continuing resource constraints on the capacity to meet identified needs; and,
- housing market conditions suggested inflexibilities in supply that could not easily be overcome and which impacted on social housing requirements.

I further stated that, while the Department has undoubtedly been providing a high quality service within existing constraints, a fundamental reorganisation of governance and finance in the sector was required to meet these future challenges. In particular, I concluded that a more arms-length organisation should be developed. In this context I suggested that there were 6 possible options, but that only 3 of these options had significant potential net benefits and were worth significant further analysis: an arms-length management organisation; a trading company hybrid in line with other Jersey infrastructure organisations; and sale or lease to a single private landlord.

The Report and Proposition and the associated Full Business Case now endorsed by the Council of Ministers put forward a coherent set of proposals that address all of these issues.

I would like to make the following general comments before addressing more detailed points:

First, it is extremely gratifying to see how much progress has been made towards restructuring the social rented sector in Jersey and its regulatory framework since 2010.

Second, it is important to recognise that the economic environment in which change is occurring remains challenging and is, if anything, now placing additional constraints on budgets.

Third, it was my role to put forward options and the States of Jersey to choose that which best aligns with current realities. The way forward that has been chosen is that of a States-owned Housing Company Limited by Guarantee – a choice which properly reflects the political environment as well as the experience that Jersey has had with new forms of arms-length organisations. This is a pragmatic decision which takes careful account of the need for there to be standalone management with freedom to take independent decisions that will best enable the efficient provision of social housing for the target group of households. It also maintains the asset in public ownership.

Finally, some of the recommendations in the original report relate to the need to develop a wider housing strategy covering all aspects of housing within the broader States vision for the Island by setting up a Strategic Housing Unit. I am glad to know that this Unit is to be put in place and will take the lead in developing and coordinating long-term housing strategy.

2. More detailed comments on the Report and Proposition and the accompanying Full Business Case

The Strategic Housing Unit

I was very pleased to see the material included here on the role of the Strategic Housing Unit which fully reflects my recommendations. It is my understanding that the Unit will be located within the Chief Minister's Department so that the Unit can be fully integrated into the co-ordinated delivery of social policy and other related plans which impact on housing requirements. In addition it will be extremely important to put in place good working relations with other Departments and with social housing organisations.

The Social Housing Regulator

It is always difficult to determine the appropriate form and level of regulation. Given a well-defined framework and the small number of organisations involved it is important not to 'over-egg' the process, while at the same time transparency and fairness between organisations and between landlords and tenants must be ensured. It is important, especially given the past differential experience with respect to the relative position of the Department in managing social housing as compared to the Trusts, that the new regulatory system is clear and consistent – and accepted by all the regulated organisations.

I am particularly pleased to see the emphasis placed on ensuring the tenants' best interests which should be the main focus for the regulator. This makes it clear that the regulator's responsibility is to ensure that all organisations in the sector provide high quality, value for money services as well as equity between tenants. Independent oversight is also necessary to ensure a framework in which private funding can be

made available to deliver the homes required – which will help provide value for money for government and tax payers alike. The proposals here effectively take these factors into account and I hope that it will be possible to move rapidly towards an appropriate structure.

The new not-for-profit wholly States-owned Housing Company and the associated Full Business Case

The documentation shows clearly that the Transformation team started from the options included in my report and compared these options comprehensively, taking account of the economic, financial and political environment in which the new organisation must operate.

I was particularly glad to see that this comprehensive review endorsed my position that the status quo was not an option and that the business case fully recognises the need to separate policy, regulation and service delivery from one another and to set up institutional frameworks which embed this separation. As a result the Proposition confirms that –

- Policy clearly lies with the States and is to be operationalised through the Strategic Housing Unit;
- There is to be an independent regulator with powers to frame and monitor behaviour in the new States-owned Housing Company, existing Trusts and any new social housing organisations that will be set up in the future – thus providing a level playing field for all actors;
- Service delivery will be implemented through the transformed States-owned Housing Company and other social landlords.

My immediate concern with respect to the Full Business Case was that under the option of sale to the private sector only the freehold possibility was examined rather than a leasehold option. A leasehold approach would have allowed some asset realisation while maintaining ultimate ownership and the possibility of further funding on renewal. However, this type of approach is not one of which Jersey has experience and might be seen as both riskier and more politically difficult. I therefore agree that the state owned but independent Housing Company better fits the current Jersey environment and I am therefore happy with this decision. There may come a time when it might be worth re-examining the leasehold option – but that time is not now.

The economic, commercial, management and financial cases put forward in the Full Business Case set out both the objectives of the new Company and the process by which change is to be implemented. These are detailed and well thought through. The most important factor enabling longer-term growth and change comes from the new borrowing facilities which are clearly specified.

In the past a major constraint has lain in the fact that the single-tier governance system has often limited rent increases below those necessary to ensure a financially viable sector where standards can be maintained and new investment undertaken. Unless there is a clear framework in which rents are determined and which can be enforced, it will not be possible to raise the funding necessary to enable the required investment to meet both consumer aspirations and government housing objective to be achieved. Without such stability, it will not be possible to –

- maintain decent homes standards across the whole stock;
- ensure the effective restructuring of the stock mix;
- enable the required additional investment to meet future requirements; and
- provide the range of options suited to meeting these emerging needs.

In specifying the financial regime in which the new Company is to operate, rents policy has obviously been an area where tensions between different priorities have been difficult to resolve. The decision to raise rents to around 90% of market is both transparent and consistent with agreed fundamental principles.

The final decision to limit rent restructuring to new tenancies means that the movement towards rents at around 90% of market across the new organisation's stock will take longer than originally intended to complete. This has consequences in that rental income will grow more slowly. In this context, I am particularly pleased to note that it has now proved possible to support additional investment in new stock over and above that originally proposed in the Social Housing Property Plan for 2007 – 2016. This also helps to resolve my concerns about ensuring that there are clear benefits to tenants and potential tenants and time to adjust to the new regime – given that over time, tenants, particularly in high valued areas and in newer accommodation, will be asked to pay more in rents.

Looking to the future, the clear statement in the Report and Proposition that rents should return to near market levels to ensure that tenants who can afford it should pay a fair rent do so, and that this revenue stream should then enable greater investment, provides the necessary clarity with respect to policy. This is one of the most important aspects of the Transformation Programme and is core to future success. It cannot be restated often enough how the long-term financial viability of the new States-owned Company, as well as the operation of the sector as a whole, depend upon the commitment to a long-term rents policy that provides security with respect to the revenue stream.

The business plan emphasizes the importance of reaching the Decent Homes Standard for all existing units over the next decade. Given the diversity of stock, it is important that this process is flexibly undertaken to ensure that it meets tenant requirements as well as minimum standards.

Overall, the commitments to ensure that all dwellings meet the Decent Homes Standard; that there is an investment strategy in place to ensure additional provision; but also to support tenants able to afford ownership into owner-occupation reflect a well-balanced strategy which the new independent organisation has the resources to take forward.

Finally the Report and Proposition properly recognises the need both for more management resources and access to additional skill-sets to ensure the effective operation of the new Company. This must bring with it within the new Company clear commitments to achieve the highest possible standards of delivery and investment consequent on that independence.

The choice of organisational structure

The detailed assessments of the critical success factors contained in the Full Business Case have been undertaken with proper care. The evaluation looks particularly at financial and risk factors to ensure a self-sustaining social housing services provider. It shows clearly that the status quo and other options that make relatively small changes are not long-term viable because of the lack of financial capacity to deliver the necessary investment and improvements included in the business case. Selling to the private sector is seen as providing the highest returns on average, but is also most heavily dependent on borrowed finance. Concerns about the availability of funds and potential interest rates generate significant risks which rule this option out, especially in the current environment.

It is within this context that the choice has been made to support a States-owned but independent Housing Company which is a well understood structure within the States of Jersey. I am happy to support this position.

The relationship between rents and income support

The relationship between rents and income support has been an area of considerable difficulty, not just because of its impact on rents policies within the social sector, but also because of the need to provide effectively for private tenants – with implications for States expenditure. This is an area which has clearly been subject to detailed analysis and the solutions put forward meet the requirements of transparency, equity and affordability – for both the States and tenants. For all this careful analysis and decision, it is important to monitor outcomes especially for those whose incomes are just above income support levels.

3. Conclusions

A careful reading of these documents makes it clear that all the challenges set out in my report have been addressed – through the development of mechanisms to improve strategy, regulation and delivery.

Equally, the recommendations have been properly and fully assessed, taking account of the economic and political environment, as well as the objectives of ensuring an efficient and well-regulated social sector. In addition there has been careful thought given to the States' commitment to clarify the policy framework; to fund new investment; and to balance rents and income support policies.

The result should be a social housing regime which is robust and can ensure independence of management, greater flexibility to address requirements in the most appropriate way; and access to resources to meet future needs.

Professor Christine Whitehead, O.B.E.
12th April 2013