

STATES OF JERSEY

Health, Social Security and Housing Scrutiny Panel Housing Transformation Programme Sub-Panel

THURSDAY, 26th JULY 2012

Panel:

Deputy K.L. Moore of St. Peter (Chairman)

Deputy J.G. Reed of St. Ouen

Deputy J.M. Le Bailly of St. Mary

Senator A. Breckon

Ms. A. Davies (Panel Adviser)

Witnesses:

Senator P.F.C. Ozouf (The Minister for Treasury and Resources)

Treasurer for the States

Project Director

Also Present:

Ms. F. Scott (Scrutiny Officer)

[08:44]

Deputy K.L. Moore of St. Peter (Chairman):

Members of the public and the press are very aware of our code of behaviour, which I am sure they will abide by. We will introduce ourselves for the record, so I am Deputy Kristina Moore, Chairman of the sub-panel.

Deputy J.G. Reed of St. Ouen:

Deputy James Reed, sub-panel member.

Deputy J.M. Le Bailly of St. Mary:

Deputy John Le Bailly, sub-panel member.

Ms. A. Davies (Panel Adviser):

I am Abigail Davies from the Chartered Institute of Housing.

Senator A. Breckon:

Senator Alan Breckon, panel member.

Ms. F. Scott (Scrutiny Officer):

Fiona Scott, Scrutiny Officer.

Project Director, Treasury:

Jim Shilliday, Projects Director for the Treasury.

Treasurer for the States:

Laura Rowley, Treasurer for the States.

The Minister for Treasury and Resources:

Philip Ozouf, Minister for Treasury and Resources.

The Deputy of St. Peter:

Yes, thank you very much. We would like to just start by talking about general policy and we are interested to know your views about the purpose of social housing and what you expect it to achieve.

The Minister for Treasury and Resources:

Very pleased to be here, and just from a starting point of view, very supportive of what Housing are doing with their embryonic White Paper and proposals. We have been involved in the creation of this strategy since the start, and as you would expect, Treasury is a key part of the steering group, and I think either myself, my Assistant Minister or the Treasurer have attended pretty well all of the meetings that we have had, the oversight group, in addition to Jim Shilliday from the Treasury has been put in with special responsibilities to help and guide this from a Treasury perspective. I think that social housing has an important role in Jersey. Jersey has had a successful economy for the last 30 or 40 years. One of the unintended consequences of economic growth has been high house prices, and that meant that a proportion of our community, low-income families and others, are not able to access good, decent and affordable accommodation for their needs. So I have always believed that there is an important requirement for the States of Jersey to provide a form of alternative accommodation, which should be of high standard and should be plentiful in supply.

The Deputy of St. Peter:

Do you expect that people should have long-term security of tenure if they are social housing tenants or do you see it as a kind of stepping stone?

The Minister for Treasury and Resources:

I think that one of the problems that we have had in terms of housing policy in the past - and I speak from a general political point of view, I am not necessarily commenting just from a Treasury point of view - I have been involved in the States for 30 years, and one way or the other I have been involved in housing policy. I was on the old Housing Committee, I was President of the Planning Committee and I have been in Treasury, so I have seen it from a number of directions. The Housing Department do a very good job, but over the last 20 years, they have not had access to probably the capital that they should have done to invest in their stock and to invest in the kinds of stock that they need. We run a fairly hard system in Jersey whereby, for example, a family that has been allocated a unit of family accommodation with 3 bedrooms because there are 2 children, once those children leave and fly the nest and are pursuing their own careers, then the parents, if they want to remain in social housing, have to downsize to a smaller unit. You can see over the last 30 years the difficulties that that has had in communities and in estates around Jersey, and you have seen the sort of turnover of estates, whether or not it be Cinq Chenes at Five Oaks or whether or not it has been Elysee or the old estates, the more traditional

estates such as Le Squez. You have seen some real problems in terms of not having built a community and I think that one of the objectives for housing in the longer term is that people are given a longer-term tenure, if that is possible, but you can only do it if you have got the supply. But there is a trade-off, of course. That comes at a cost and you need to run on a much more long-term sophisticated basis, and sometimes people might want to pay for that premium of staying in their own home even though their kids have left. So we just need to be more sensitive, to be more long term in our thinking.

The Deputy of St. Peter:

I see, thank you. So you mentioned there supply, so I take it that you support the theory of increasing our social housing stock?

The Minister for Treasury and Resources:

I think that absolutely we have got to increase the supply of all sorts of tenures of accommodation. You mentioned earlier that should social housing be regarded as a stepping stone or as a long-term option. I think it should be both. I think it is certainly regarded as a stepping stone and a very useful stepping stone, and for other people, it may well be a long-term option, and you need more suppliers of different tenures of accommodation; you need investment in the accommodation stock. We in Government need to ensure that there is supply of social housing; that there is supply of step housing, either new build or shared equity; the equivalent of using the planning system for things like first-time buyers is absolutely essential, as well as making sure that the overall housing market is working well, so it is an attention and focus on all sectors. That is one of reasons why I strongly support the separation of the role between ... everybody thinks the Minister for Housing is responsible for all housing. In reality, the Minister for Housing has been primarily focused on social renting, and kind of the rest of housing supplies sat within Planning, but then that is almost an impossible situation, because the Minister for Planning is the Minister for Environment and wants to ensure obviously the Island is not built out and green fields are protected. But there is always a trade-off, and you need a champion - it is such an important issue in Jersey - for all housing supply, and that is why delivery should be separated into a separate standalone body and the policy issue of housing should be under one political central individual.

The Deputy of St. Peter:

So having been a Minister for Planning, I know this is slightly out of the Treasury's remit, but would you consider that having a strategic housing unit within Planning would not be a good idea?

The Minister for Treasury and Resources:

I do not think so. I think you need to separate some constructive tension between the Environment Department and the supply and the issue of housing and I think therefore it falls that you can either do 2 things. You either continue with a separate Minister for Housing or you effectively put it in as an Assistant Minister within the Chief Minister's department. I will come on to a view that I have about the structure of Government later on, but basically you need to create the segregation of duties, constructive tension.

The Deputy of St. Peter:

Okay, thank you.

The Deputy of St. Mary:

Should we be making more use of housing trusts to share the burden?

The Minister for Treasury and Resources:

Yes, and I think I was - and I think Senator Breckon was - around in the States when the whole subject of housing trusts was started, and we fought quite hard the then Finance and Economics Committee to provide some social houses in the form of housing trusts. It was at the time, I think, when there was a resistance within central Government to allow borrowing and so you could regard the creation of the trust as almost a sort of an off-balance sheet financing operation, in other words, these entities were set up and they borrowed in their own right a very substantial amount of money. I think up to £100 million was borrowed, but it has been a huge success. I think there are always things to improve, there is always never-ending improvements in governance and the way that you procure things, but generally speaking, I think the Jersey Homes Trust has been enormously successful. The dual policy of rezoning land with the obligation to provide social housing, which was the first thing to do - we used to rezone land and just allow the developer to provide any sort of accommodation, whether or not it be category A or category B - that did not work, because obviously you will always go to the highest value unit. When we introduced the 45 per cent/55 per cent rule, which I was responsible for, when rezoning with the right to develop or the right to exploit the 55 per cent of new units on a green field came the obligation to provide 45 per cent of the units as social housing. Those were provided - in other words, the land value was a lot less - and that has been a huge success, and we need to build on that success and with that, on the concept of planning obligations, we need to go further. The standalone concept of trusts I think has been enormously successful, and I know that you have been meeting some trusts. The Jersey Homes Trust stands out as the most successful, but Christians Together have worked well. They are a slightly different animal, because they were born into existence for slightly different reasons than the Jersey Homes Trust. But yes, the trust sector is a good model and it needs to be supported, and I strongly support the concept of putting the Housing Department on a standalone entity basis. Not a trust though, they will be owned by the public.

The Deputy of St. Peter:

There has been some gentle criticism, I would say, that more sites have not been allocated for the housing trusts to continue building and supplying social rented housing. Would you support the concept of that carrying on and more States-owned land being allocated for housing trusts to use?

The Minister for Treasury and Resources:

Yes. The controversy was that land was purchased by the public and was then sold on with a big discount to the Homes Trust.

[09:00]

We knew what was being done; millions of pounds was written off. The policy at the time was to buy mainly town centre hotel sites and other commercial sites. If we

think back to Colomberie, there was a big hotel site there. I cannot even remember which ... the Ritz, yes. That was a prime site. Similarly, the site ...

Senator A. Breckon:

Le Coie.

The Minister for Treasury and Resources:

Le Coie, there we go. Those sites were bought and the monies written off. Now, I know that was always controversial because people said we were giving the trust something for nothing. Well, not quite. The governance arrangements for the trusts means that we do have ... we have never exercised them, but we could do, and one of the purposes of the new arrangements is for us to be able to have a greater leverage on the Jersey Homes Trust. Effectively, that value is captured for the benefit of social housing. Jersey Homes Trust have about £10 million on their balance sheet at the moment of cash. I want to see that money invested in social housing. We have had some very good conversations with the Jersey Homes Trust at the Treasury. The Jersey Homes Trust has almost a dual reporting line to the Minister for Housing and to the Treasury for some aspects of its work, and I think we should be encouraging the Jersey Homes Trust particularly to extend its portfolio. They have certainly got some capability with cash and some further borrowing.

The Deputy of St. Mary:

So could we sell all our housing stock to the Homes Trust that needs the refurbishment and use that money to build new state housing stock?

The Minister for Treasury and Resources:

I mean, I am ambivalent as to whether or not sites that are owned by the Housing Department or the current Housing Department are developed by the Homes Trust or another trust. It has got to be not for profit. It has got to be absolutely not for profit. You cannot just have an entity just pretending to be a social housing landlord. It must absolutely be for the purposes of social rental landlords. I think that we could do that. There has been a lot of resistance to it. I mean, if we think back to Liberation Court, Liberation Court was going to be built by the Housing Department and then transferred into the Jersey Homes Trust and there was a political hoo-ha at the time that they did not want to do it. Now, I do not know whether the debate has moved on at all. Personally, I think that I regularly go and make it my business to go and see how the sites for the Jersey Homes Trust are doing, and I see a pretty good performance in terms of the way they have looked after their tenants, keeping money for maintenance, ensuring that they have got well-run sites et cetera. I personally am ambivalent about it. I think in the longer term, there is a lot of work to be done; there is a lot of work. I think we must recognise that in the last 5 years, there has been a huge amount of investment in social housing. We have used fiscal stimulus money, we have done another £27 million this year, and that is making a massive difference in the standard of accommodation, which was poor, let us be clear. We have been catching up on achieving decent homes standards. A lot has been done, but there is a lot more to be done. There is some States-owned sites that have got some fantastic potential to create new accommodation and we need to create the vehicle that is able to do that.

The Deputy of St. Peter:

It could be said that the housing trusts are perhaps being more efficient at managing their stock, keeping up with maintenance costs, whereas the States have allowed a lack of investment over a number of years, and that is why we are now catching up.

The Minister for Treasury and Resources:

Yes. I mean, I think if I was sitting before you 3 or 4 years ago and we had not done what we have done in terms of the investment that there has been in social housing, I think that would be a fair criticism, but I think - and I have not got the numbers off the top of my head, but we could provide them - there has been a huge amount of investment going into social. When you look at the scale, when you look at ...

Treasurer for the States:

There is £8 million for Le Squez.

The Minister for Treasury and Resources:

Which was just the fiscal stimulus money.

Treasurer for the States:

Yes.

The Minister for Treasury and Resources:

Before that, there was phase 1.

Treasurer for the States:

Just out of fiscal stimulus, £8 million for Le Squez, and more than £3 million, £3.75 million for Pomme D'Or Farm, and then more recently the £27 million that the Minister has just referred to.

The Minister for Treasury and Resources:

Then before that, there was some other substantial ... so we have done a lot more. We have done a lot. Is this programme finished? No. We are going to do more.

Senator A. Breckon:

Phil, could you comment, you made mention there of money put in from the fiscal stimulus for Le Squez, but we had a report yesterday about the update on the ... it is Projet number... anyway, it was the social housing probably from 2007 - I think it was P.6 - and in there it was said for Le Squez it would generate revenue from sales and money from that would go in, so we are now talking about ... so where does that fail then?

The Minister for Treasury and Resources:

Well, I think ... just remind of which, because there are so many of them.

Senator A. Breckon:

It was P.6/2007, yes.

The Minister for Treasury and Resources:

Can I just have a quick look at it? That was ...

Senator A. Breckon:

This is the recent one.

The Minister for Treasury and Resources:

You have got the benefit of seeing something that I have not read yet.

Senator A. Breckon:

Well, we only got it yesterday.

The Minister for Treasury and Resources:

Yes, I was away yesterday, so I am sorry that I have not read that.

Senator A. Breckon:

But that is an update on it, you see, but what it does not say is when the States debated that, we were told that Le Squez would generate money which would go back into generating the scheme, there would be sales for the scheme, and you just said that fiscal stimulus was going into Le Squez, and that was not the intention.

The Minister for Treasury and Resources:

Well, let us be clear, the States ...

Treasurer for the States:

I think both were happening.

The Minister for Treasury and Resources:

Yes, but the sales of States property has not occurred as was envisaged in that 2007 report, primarily because of economic considerations, more because of the credit crunch, because of people finding it difficult to get mortgages, people perhaps not having the confidence to step into home ownership. We have seen a massive ... that 2007 report was put before the States in a world before Lehman Brothers, before the global meltdown, so unfortunately there has been a problem. I, for my part, still support the concept of some limited sales of properties, and I think that that has a number of advantages. It provides for mixed communities on some estates, which is good. Home ownership is something that is helpful in some difficult estates whereby people are going to own their own homes, they are going to have a long-term investment in keeping those estates in a good state of repair, and I think that people's ability ... it is a big political subject about whether or not you should sell council stock in the U.K. (United Kingdom) and this is obviously a big, massive controversial issue. I am going to not enter that particular debate.

Senator A. Breckon:

No. Going forward, you see, there are still predictions in there for sales of properties in the future that are going to generate capital to do other things. I mean, how confident are you that that will happen?

Treasurer for the States:

It is only 15 year, so ...

Senator A. Breckon:

Well, there are various. There is a 20 or a 10 prediction, but I think there is 10 in here.

Treasurer for the States:

The financial forecast is 15 a year, generating about £4.5 million, so in the scheme of things, the 4,500 or thereabouts properties for housing, it is not that big ...

Senator A. Breckon:

But the reality, Laura, was in 2011, it was fine and it generated £1.8 million, and that is not the figure, because there was a discount, so the figure was just over £1.3 million, so that is a little bit different to £4.5 million.

The Minister for Treasury and Resources:

Yes, but that is in the teeth of the financial crisis.

Senator A. Breckon:

But then where is this going then? Is it going to get better?

The Minister for Treasury and Resources:

Well, I am an optimist and ...

Senator A. Breckon:

Are we going to start selling 15 and 20 a year again, are we?

The Minister for Treasury and Resources:

Well, over a period of time, the incorporated entity will sell the stock that is not required. I think it is important to note that the States also needs to make sure it has got the appropriate stock for housing its own demand. It is ...

Senator A. Breckon:

But then it cannot sell them and get the money and regenerate the others and then keep them as well.

The Minister for Treasury and Resources:

Yes.

Senator A. Breckon:

So there is a deficit here.

Treasurer for the States:

Can I help you on that?

Senator A. Breckon:

Yes.

Treasurer for the States:

So another thing that we are doing is there is a lot of housing stock that is really key worker housing, plus that is with Health at the moment. Some of that is not really fit for purpose. We are in the middle of a project at the moment to transfer much of that stock over to Housing, involving Housing, Property Holdings and Health and Social Services in a little project. We are going to generate some capital receipts from disposals of properties which are not really fit for purpose.

Senator A. Breckon:

Mainstream, yes.

Treasurer for the States:

Yes, and we are also going to increase the utilisation of those properties, because of course we will still safeguard the interests of Health for their nurses and doctors and so on, but we will put those properties with Housing so they can manage their tenancy of them more efficiently and increase the utilisation. So there are other ways in which, through better management of our existing stock in other areas, that we will also generate some more capital receipts.

Senator A. Breckon:

Would you see the Treasury giving comfort, like letters of comfort happened? I think it was £140 million to the Housing Trust, but do you see the position as being the same, where you would provide a comfort area, if you like, for an agency - call it what you will - that becomes Housing?

The Minister for Treasury and Resources:

I think there are 2 things, and the Treasurer has been doing a lot of work on this whole subject of debt and borrowing and how we fund it, and I think that is probably going to be a major area of examination for the Panel. I think there are 2 things in relation to letters of comfort and the general relationship with the trust or the new entity, and that is underwriting the borrowing, the capital, and there is underwriting the risk of interest rate rises or falls. In the past, we have done a mix and match of both. We have underwritten or we have issued some letters of comfort, but we also provided some certainty in relation to the interest exposure, and I think it is really important to separate out the 2, and the new approach that we are proposing to make potentially on borrowing is to get effectively fixed-rate money. It is worth saying that the States has a pretty good credit rating. Reading about the U.K. getting its credit rate reduced and all the rest of it, and the States of Jersey has a net asset to G.D.P. (Gross Domestic Product) ratio of 100 per cent, we think there is probably never a better time for the States of Jersey, if it wants to and if we get political support for it, to be assisting our housing organisations to get long-term money to invest in social housing. I have never been against borrowing. It is something I have repeated lots of times in the States: I do not believe that you should borrow for revenue expenditure. I have absolutely no problem with incurring debt in order to invest in long-term capital assets that particularly have a return. As a family or as an individual, you would go and get a mortgage to buy your first home. Nobody thinks about the fact that you need the upfront money to pay for your home at the start of your working life. The same thing is true for any accommodation and debt, and housing is something that is appropriate. But do you want to comment about it?

The Deputy of St. Peter:

Could Abigail ask a question?

Panel Adviser:

Yes, could the Treasurer just spend a moment outlining some of the assumptions in the Business Plan for the sake of our clarity? We know that there is an assumption of

15 sales a year; we know that there is an assumption of immediate convergence of the rents moving up 90 per cent. Could you tell us ... is that wrong?

Treasurer for the States:

It would be phased for tenants so that there would be a means testing for tenants to get to the 90 per cent, so it would not be ... for every individual, it would not be a leap to a 90 per cent level. It would depend on their means and there would be some means testing.

Panel Adviser:

So in the Business Plan, what assumptions have you made around the convergence with the intended 90 per cent, and perhaps as well as that, you could tell us a little bit about ...

Treasurer for the States:

It is 10 years.

Panel Adviser:

Convergence over 10 years?

Treasurer for the States:

So this is like ...

Panel Adviser:

Okay, and as the ...

Treasurer for the States:

University Challenge. You asked me a difficult one; I might whisper to the person next me.

Panel Adviser:

Oh, it is all right. There will be a bell at some point. What are the projected increases in rents annually and the percentage increase in return to the Treasury each year?

Treasurer for the States:

We do not have a return to the Treasury. I think that is a little bit of a misnomer. What we are really doing there is returning Housing contributions back to the Treasury and out back to Social Security and into Housing, so there is a bit of recycling going on there. We have assumed an R.P.I. (Retail Price Index) increase for that sum, which is presently around £23 million; Abigail, is it not?

Panel Adviser:

Yes.

Treasurer for the States:

Sorry, ask again your first part of that question?

Panel Adviser:

Rents, what is the assumed rent increase over a year?

Senator A. Breckon:

About 3.5 per cent, is it?

Project Director:

I think it is R.P.I plus 0.75 and up to a maximum of £5 a week.

Panel Adviser:

Okay, and then that is means tested, is it?

Treasurer for the States:

Yes, yes.

The Deputy of St. Peter:

Well, I think we will leave the issue of means testing for the Minister for Housing perhaps, but it is interesting that you explain this is recycling of money, because it is understood that some governments collect revenue and then use it as general taxation, for want of a better term, and divide it up and use it for different spending projects, but why is that we have this transparent process where we collect ...

Treasurer for the States:

It is history.

The Minister for Treasury and Resources:

It is recent history, it is when the of course housing benefit used to be delivered by the Housing Committee and the Minister for Housing in the form of rent rebate and rent abatement. When we brought in the universal income support system, then that was a sensible thing, because I think 22 different benefits were incorporated into one benefit. In fact, that is exactly what the U.K. is now doing, they are moving to their universal credit, rather than having lots and lots of different means testing - Abigail is smiling, so I feel that she has a view on that - but in Jersey, we do not do Ian Duncan Smith politics here, but it was a sensible move in terms of the way that it is carried out, where we had lots of income assessments, you had to fill in lots and lots of different forms for lots and lots of different things and some bank accounts were given to the Housing Department, they are doing an assessment of your income and then the Social Security was doing it and then the parish was doing it. It was not sensible. Out of that creation of the income support system came this transparent arrangement, whereby money was effectively given out by Social Security as part of income support, as opposed to a separate Housing Department. I think it was the former Minister for Housing that started this particular little ball rolling, in the fact that he was producing this return. Well, he is not like the Chief Executive of Jersey Telecom producing a dividend, I am afraid. That is not the way it is. It is simply we are ... and I do not know whether or not we should have just booked the money straight to the Social Security Department as opposed to coming into the Treasury and then giving it back to Social Security - maybe we can have that - but it is not a dividend, it is not a return and it is collected in order to pay for housing benefit, and it is not negotiable to be reduced, because otherwise we will have to reduce housing benefit or increase taxes.

The Deputy of St. Peter:

Well, essentially though what happens is that the better-off social housing tenants subsidise those who are collecting income support, and it could also be said, you say there that it has to go up so that we can carry on with this, but the housing trusts are really against increasing their rents to 90 per cent of the market rate ...

The Minister for Treasury and Resources:

Well, they would be.

The Deputy of St. Peter:

... because they can afford to look after their stock and manage everything as they do ...

The Minister for Treasury and Resources:

Well, some are.

The Deputy of St. Peter:

... without increasing their rents to that extent. So why do we need to do it?

The Minister for Treasury and Resources:

Well, I think it is an important issue that we do not create a distortion in the housing market. I understand that there is some different views, which is absolutely acceptable, within the housing trusts. We have provided over the period of time very significant subsidies to the housing trusts and it is a fair question as to why a housing tenant of a trust should be effectively at a very significantly discounted rent. That is a hidden subsidy, and why should a tenant of a really fantastic apartment owned by the Jersey Homes Trust or Les Vaux or the States get a significant reduction on their rent? That is not right, I do not think, and that is the debate about creating unintended consequences and unintended hidden subsidies in the housing market. You need to distribute, we need to focus our resources on those people who need it.

The Deputy of St. Peter:

So what is the intended purpose of the surplus monies that those trusts are going to collect?

The Minister for Treasury and Resources:

Well, it is to collect to invest into the social housing. There are lots of people who are not able to access social housing at the moment. We were talking earlier about individuals who cannot stay in their family home, because they are now 2 adults and so they need to downsize to a one-bedroom flat, and this is really harsh. You have got lots of single people who cannot afford property in the open market who cannot get on the housing waiting list. There is a category of people who we are not providing for, and that just seems to me to be inherently unfair, that some people are getting a subsidy when they have got means to effectively cater for themselves, or maybe they should consider some alternative form of tenure, maybe home buy or shared equity is the right way for them to be considering. We are holding very substantial ... housing is very capital-hungry. We have got hundreds of millions of pounds, literally. I am not saying it is wrong, but we must recognise that the States has got hundreds of millions of pounds of money tied up into social housing, and you want to target social housing to those that really need it.

The Deputy of St. Peter:

Part of this transformation programme is that you are going to use that asset for the department - or if it becomes the new Housing Association, that entity - to borrow against the existing asset, but you are also encouraging them to go out and borrow in the open market as well with banks, I presume. Why is that? Why are you not just relying on your asset base?

Treasurer for the States:

There are 2 different sources of borrowing that we are thinking. The first is that, as you know, within the medium term Financial Plan, we are trying to make better use of the assets that the States already has, and so we have a Currency Fund which at any one time might have as much as £90 million in it, and in the past, that Currency Fund has just been sitting there as a liquid asset attracting presently a very modest level of interest. We have done some work. We have looked over the last 10 years to see the lowest level to which that gets and it never gets really below £60 million. So what we are looking at doing is this money, of course it is pounds sterling, matching every Jersey pound that is in circulation. We can make better use of that money by investing it in infrastructure, and so we have changed the investment strategy for that fund. We have created an infrastructure fund and we have planned to lend £40 million of it to the new Housing Association. The new Housing Association will pay a modest interest rate, but nonetheless it will exceed what the Currency Fund was benefiting from previously. So the States gets a better return, it will be around 4 per cent on that £40 million, and Housing gets a very good rate for its borrowing, so everybody benefits.

The Minister for Treasury and Resources:

Well, and the economy benefits, because that money is at work in the Jersey economy because it is going to provide jobs and it acts as the ... first all we intended, it is not ... as the Treasury have said, the consequence of this is that it also provides a fiscal stimulus, getting money that is invested that would be invested in markets in London invested in the economy of Jersey. That is the kind of stuff that economists are recommending that the U.K. does, what we are doing here.

The Deputy of St. Ouen:

Can I ask, has a detailed business model been developed to support the proposals contained in the White Paper?

Treasurer for the States:

Oh yes.

The Deputy of St. Ouen:

Can we be provided with that, please?

Treasurer for the States:

You can. I was just going to offer that, Chair, to your adviser. I have a briefing note here. There is absolutely no reason why I cannot just hand the briefing note over, rather than sort of laboriously go through all the points, if that is acceptable.

The Deputy of St. Peter:

Thank you. Very much so, thank you.

Treasurer for the States:

We would happily arrange for John Hamon to brief Abigail on the details of the financial model outside this meeting if that will be helpful to you.

The Deputy of St. Peter:

Yes, that would be very helpful.

The Minister for Treasury and Resources:

It is worth saying that we have done a lot of work. The Ministerial oversight group has done a lot of work on this subject of the 90 per cent, of how the 90 per cent could be brought in, at what levels and we have had hours of discussion among the Minister for Housing, myself, the Minister for Social Security and the former Chief Minister and the current Chief Minister about this whole issue of the 90 per cent, what the maximum rent uplift per week should be, what the options are of doing it at £10, £5, over 5 years, 10 years. There are all sorts of things. I think you can see our thinking that has been applied to that final policy proposal, and of course it is a proposal that the Minister for Housing is welcoming feedback on that.

The Deputy of St. Ouen:

I am interested to know.

Treasurer for the States:

Sorry, there were 2 parts. So that is one part of the funding, which is internal really, and the second part of the funding would be the external borrowing to which you referred earlier. What we would be looking to do is to secure that at obviously the most attractive rates that we can for Housing, and there will be different vehicles that we could use to achieve that, and it would make sense for us to be thinking about the borrowing needs for Housing at the same time as we are thinking about the borrowing needs for the new hospital and to use that purchasing power, if you like, to get the most attractive deal.

The Deputy of St. Peter:

I see.

Treasurer for the States:

We would be looking to where we ... we are already doing work on profiling the likely borrowing requirement. We do not want to over-borrow. Of course it is very tempting to borrow now, because the rates are extraordinarily low, especially long-term rates are extraordinarily low. So we are going to have a difficult choice to make as between borrowing and maybe over-borrowing early in order to benefit from those excellent rates in the longer term, and we will have to strike the right balance between those 2 things.

The Minister for Treasury and Resources:

I mean, we have always said that there is a long-term benefit for Jersey's prudent financial policies, and Jersey in the next 10 years will benefit from being able to be access funding for absolutely legitimate projects of improving our social infrastructure, improving our housing and health estates. We will be borrowing at the right time, unlike other places that have now loaded up their balance sheets with debt

and have got no capacity to improve their services; in fact, they are having to do cuts. We are very, very cautious on this subject of borrowing. We are ultra, ultra-cautious and we will continue to do so, but it is appropriate, having had the good experience of effectively allowing some borrowing in the Jersey Homes Trust and seeing how that has massively improved the supply of social housing without it in any way undermining the public finances of Jersey. We think that the new housing organisation should and can access long-term funding, whether that is a bond, whether that is bank borrowing, whether that is private placements or whether or not it is a local placement. We are looking at all different options.

The Deputy of St. Peter:

But the new Housing Association will not just have to finance its loans, it will also have to finance the Treasury, because it will be fiscally tied to yourselves.

The Minister for Treasury and Resources:

Well, let us just examine our Housing Association compared to some others. They are getting 4,400 units of stock debt-free. Let us just ponder that, compared to housing associations ...

Senator A. Breckon:

What it is saying here is - this is in point 3 of the summary - it says: "The new wholly States-owned Housing Association is established to improve the States own 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." So that is on there, then ...

The Minister for Treasury and Resources:

But that is to pay for the Social Security system.

Senator A. Breckon:

Yes, but then that is they need to pay it as opposed to trusts, who do not. Trusts do not make a return to the Treasury. Trusts have had it the other way, and then there is borrowings in there, there is declining sales figures. I mean, how robust is this financial model, to set the Housing Department loose as an agency when there is some doubt over the finances?

Treasurer for the States:

There is not any doubt over financing, Chairman. The financing is absolutely clear in the model. Sorry, Minister.

The Minister for Treasury and Resources:

That is all right. You are the Treasurer. If it gets past you, it will ...

Treasurer for the States:

The costs of the Social Security contributions for the housing element of income support have to be met. We have a model of managing those, which involves that money cycling through from Housing to Treasury to Social Security, and the new arrangements to de-link that, because the contribution back from the Housing Association is not: "Hand back everything." It is not based on handing back everything that is collected from the Social Security element of income support. In

future, it will be based on a lump sum, which is the current position around £23 million uprated for inflation, but it is not a return in the sense that we have a return from the utilities where we have a share of profits, so it is not a return in that sort of sense.

The Deputy of St. Peter:

We do understand that, but there are 2 points really, and the 2 consequences, and one is will we be retaining enough money to maintain properly the housing stock that we have, because that has been the criticism of past, and this movement of money, that the Housing Department have not been allowed to hoard enough money to maintain their stock properly which is why we are in the position we are in. Then the consequence of raising the rent to 90 per cent of market rent is that there will be more people potentially moving into income support brackets, therefore income support will need extra funds to pay more income support. How have you resiled this? I know that there have been discussions about setting the rate at 80 per cent of market rate and 70. How did you justify settling on the 90 per cent rate?

Treasurer for the States:

The modelling was done to see where we would break even and if you go to an 80 per cent rate, we would not break even, even after 30 years, but the 90 per cent rate we will break even after 21 years. So the modelling was done to establish just what was going to be required in order to make the whole package work. The thing that really helps improve the standard of the stock is the new investment that will come from the borrowing, and that also helps to expand the stock as well, and it is £148 million - it is in the notes that I have just given to Abigail - £40 million of which will come from the Infrastructure Fund and £108 million from the borrowing. That is the current proposal.

Senator A. Breckon:

But the difference, Laura, between the trusts - as Philip knows - for example, Le Coie Hotel we wrote off £12 million of the development costs and handed it over to the trust. What we are saying here is that there will be £40 million worth of borrowing, there will be annual return to the Treasury and then the department will be set up so they are set up on a different basis to all the trusts were. The trusts were given interest subsidies, they were given capital write-offs. There was other things in the Housing Development Fund that enabled them to get where they are today. It is like what Philip says. They are ...

The Minister for Treasury and Resources:

But hold on a minute, and I know you have got very strong views about this, Alan, but let us just compare the balance sheet and the profit and loss if we were just being a really external investor, which we are not, of the Housing Department and the Jersey Homes Trust. The Jersey Homes Trust have got 860 units of accommodation. They have got £90 million worth of debt. Their net asset position is... I cannot remember, but we have got their accounts, and they are worth looking at. Let us compare the new incorporated Housing Department: 4,400 units of accommodation going in with virtually no debt and an ongoing ... I mean, what is that worth? What is the net asset position of that?

Treasurer for the States:

It is about £1 billion.

The Minister for Treasury and Resources:

About £1 billion, so you have got £1 billion worth of net assets. Even if we are going to be ultra-cautious, let us call it £0.75 billion, that is £0.75 billion net asset position of that organisation, and we are then going to just simply give it the ability to be investing capital in its new stock, and the issue of 90 per cent, it is viability for the entity itself, but it is also an issue of not having the unintended consequences of hidden subsidies for some people. That is a really important issue. It is really important that you should not be able to effectively get this hidden benefit without it being explicit. We need to direct public subsidy into areas that are needed, not give people lots ... and it is not 100 per cent of rentals, it is 90 per cent.

Senator A. Breckon:

You mentioned at the start the reason people are interested in this housing is because they cannot afford the market, so they go in ...

The Minister for Treasury and Resources:

Then they will get the income support.

Senator A. Breckon:

So we are just on the money-go-round again.

The Minister for Treasury and Resources:

But the money going round is a much more transparent issue, and I need to convince you - I know you have got very strong views, you have brought proposition after proposition to the States on this - I believe that we should have an open, transparent arrangement of housing subsidy, which you cannot get if you effectively keep people's rents artificially low. It is not right.

The Deputy of St. Peter:

But then are you not doing the same thing if you increase the level of income support that they receive?

The Minister for Treasury and Resources:

Yes, but you are targeting it and you are creating a much more transparent ... the Treasury is against hidden anything. We want open, transparent numbering, we want to know where money is and where it is being spent. We want to know where capital is, what the cost of operating different capital is. We want to see it. We do not want it hidden, we do not want disguised remuneration, we want open and transparent accounting so that the public can see where their money is going. You show where the money is going by on the one side getting a reasonable ... 90 per cent is not 100 per cent of market for homes, and they get effectively the subsidy if people need it on the income support system. It is much more transparent, it is a much fairer system, and it also does not discriminate between the Housing Department and the Homes Trust.

Treasurer for the States:

I think there is about 70 per cent of housing tenants who are in receipt of income support, which means...

The Minister for Treasury and Resources:

Housing component income support? Yes.

Treasurer for the States:

Yes, which means that about 30 per cent are not, so the question is by how much are we subsidising that 30 per cent of people who potentially could pay the market rate, so that is the sort of thing that we are trying to take into account.

The Deputy of St. Peter:

An interesting question would be to find out how many of those 30 per cent are not going through the means test process, because it seems that perhaps one of the consequences of this policy will be that more people will choose to go through the means test process than currently do.

The Minister for Treasury and Resources:

Is that a bad thing?

Treasurer for the States:

Your very first question was about why do we have social housing, and it is to meet the needs of people who would not be able to afford decent housing otherwise and that is the 70 per cent plus a proportion of the 30 per cent, so it is very important that we target our resources appropriately to meet that need.

The Minister for Treasury and Resources:

We are not as developed as we ought to be and that we can be in terms of delivering different tenures of accommodation. Those 30 per cent, those people if they want need to be given the opportunity of home ownership, perhaps not 100 per cent home ownership, perhaps a shared equity arrangement, a New Start arrangement. I was in London yesterday and I was looking at some accommodation, in a private capacity, I was just interested in it. The New Start policy in the U.K. (United Kingdom) is apparently quite successful and I would like to see different tenures of accommodation being provided. Everybody should be at least given the option of getting into some form of home ownership.

The Deputy of St. Owen:

Do you think it is right that we should consider social housing as a strategic investment, bearing in mind that we are required, as you rightly say, to provide accommodation for those who could not otherwise afford it?

The Minister for Treasury and Resources:

I do not regard social housing as a strategic investment. I think it is really important that we do not mix our terms. I am not regarding the social housing entity in the same way as Jersey Telecom or Jersey Electricity, which is an investment that is held by the public. That is not the same for housing. The fact that we are using money from the currency fund and investing it strategically in housing is not the same thing as saying that housing is regarded as a strategic investment for profit, because it is not. I think I need to be careful with the way we answer questions so that we are not giving the wrong impression.

The Deputy of St. Ouen:

Can I just remind you that strategic investment is not a word I used. It is used not only in the White Paper but it is also used in the Medium Term Financial Plan that is your document that you produced. It speaks about requiring the Housing Department to make a return and that return is going to be increased because of the fact that the rents are going to go up. I come back to ...

Treasurer for the States:

I think you are misunderstanding. That label is just for our convenience in terms of where we are going to show the ownership of housing within the States accounts. It is not meant to imply anything more significant than that. The return is very much as we have discussed. It is there because of meeting the costs of the social security element of income support. There is no sense in which Treasury is looking for a financial return in the same way as Treasury is definitely looking for a financial return from Jersey Telecom, Post, Water and Electricity.

The Deputy of St. Ouen:

I just draw your attention to number 137 on page 114 of the Medium Term Financial Plan and it says: "The decision on incorporation would, however, affect the balance sheet."

Treasurer for the States:

I wrote it.

The Deputy of St. Ouen:

It speaks about: "£543 million worth of net assets would be moved to the balance sheet of the newly incorporated entity to be replaced with a strategic investment that would be valued on an annual basis." So basically what you are saying is that you are wanting to acknowledge a value for our social housing stock and you are looking for a return on it.

The Minister for Treasury and Resources:

Do not get hung up on the words. If you go down that path you could interpret something that we do not intend. We do not intend housing to be turned into a Jersey Telecom. We are suggesting that a standalone entity with some of our own resources invested in it and encouragement of the entity to go and get some other resources under our control or under our supervision, and that should not be misrepresented in any way. All the public's money is invested. It is invested in either our social infrastructure or in infrastructure in housing or other things. We are a not-for-profit organisation. We are the States of Jersey. This is not a profit-making entity. You are not speaking to the managing director of Jersey Limited. We are a not-for-profit.

The Deputy of St. Peter:

I think you have made the point. Could Abigail quickly ask a question?

Ms. A. Davies:

It is a very quick question, Treasurer. Can you confirm in the current system, the £21 million or so that goes back to the Treasury, does that mean that the 70 per cent of States tenants who get income support collectively receive £21 million?

Treasurer for the States:

No.

Ms. A. Davies:

Right. Thank you.

The Deputy of St. Peter:

There is an element that is retained by the Treasury, is there not?

Treasurer for the States:

No, there is not.

The Minister for Treasury and Resources:

It is all handed to Social Security.

Treasurer for the States:

If you would like a note on that we will do you a note and we will show you what is coming in, where it goes. We will show you the cost of the housing element of income support and we will show you that.

The Minister for Treasury and Resources:

If we need to get a better glossary of terms so that we are not confusing people with what we mean by return and strategic investment then we will change our glossary of terms so that they are not misinterpreted. It is capable of being, I recognise that, but we know what we mean and we mean what we say.

The Deputy of St. Peter:

Earlier you mentioned your involvement with the development of this Housing Transformation Programme. What time period has that been over and how many different models have been considered in that time period?

The Minister for Treasury and Resources:

I have been involved since the start and as an interested politician in housing I have been really active in the discussions and the deliberations on this. I think there was a Green Paper, was there not? We considered standalone, sales. We have considered every single type of option that you could for the future of the Housing Department and our view is that what is being proposed is the right one. We have considered sell-offs, we have considered creating an entity and putting debt in it, as a standalone trust. We have considered all the different options.

Treasurer for the States:

Just to remind the Minister.

The Minister for Treasury and Resources:

Yes, that is it. Seven options and they are all set out in the ...

Treasurer for the States:

That is an extract from the full business case which you are welcome to have

The Minister for Treasury and Resources:

Status quo, States department with internal borrowing, arm's length management organisation, an A.L.M.O., a trading operation, hybrid trading company, wholly owned housing company and free sale wholesale to a new social landlord. So each one of those has been identified, discussed, risk assessed and all the rest of it.

Treasurer for the States:

We did do a lot of work on that.

The Deputy of St. Ouen:

Have you completed that work?

The Minister for Treasury and Resources:

It is completed, yes.

The Deputy of St. Ouen:

The Minister did mention earlier ... I think you called the White Paper embryonic. Could you explain, perhaps, what you mean by that?

The Minister for Treasury and Resources:

I must be very careful with the words I use here. It is a set of proposals which are now the considered view of the Council of Ministers, which are fit for purpose. There are some elements of the White Paper that, of course, are subject to consultation and your work is certainly addressing some of the detail of what is in that White Paper. I assume that we are going to be focusing on how not whether, and there is always some discussion about how.

The Deputy of St. Ouen:

So you fully support the majority of the proposals contained in the White Paper?

The Minister for Treasury and Resources:

I would not be sitting here. I strongly support it.

The Deputy of St. Peter:

Thank you. Are there any further questions?

Treasurer for the States:

Would you like any detail on that modelling work, Chair? We can provide it if you want to see it.

The Deputy of St. Peter:

It would be useful to have the outline business case.

Senator A. Breckon:

Could you express a view about the Strategic Housing Unit? That is seen as the sort of driver with planning issues, with the States of Jersey Development Company, with health and whatever people's needs are. If that becomes a unit then how is that going to operate to make things happen?

The Minister for Treasury and Resources:

It is going to deal with housing policy because the problem for the Minister for Housing is he has been the chairman of housing incorporated, which is the delivery body. We are becoming much more sophisticated in the States of separating out policy from implementation. Government Ministers should be focusing on policy. I am not sure that we as States Members should be involved in the day-to-day management or operational side. Housing is a really good example. As we have been discussing, it is massively capital hungry, £1 billion tied up in this endeavour, and it has got to be run very properly from an operational point of view.

[09:45]

Ministers and the Chief Officer of Housing ideally should be involved and focused on policy, and you need to separate out the 2. By the way, the Housing Department cannot be operator and regulator. You need a separation. You need to separate out. So what are we doing with this overall? If you take a very high level position, we are putting the Housing Department and its 4,400 units of stock into a proper entity with good governance and a clear purpose and a transparent accounting process. We are putting a regulator in the Strategic Housing Unit and we are creating a policy function to drive not only the policy of social rented housing but the policy for all sorts of tenures of housing. For example, that Strategic Housing Unit is working on our joint proposal to have a new deposit lending facility for people where we recognise the credit crunch means that home ownership is more difficult because of lending criteria and we want to use some of the resources available on the housing funds that we have in order to fund people with a deposit.

Senator A. Breckon:

How does somebody get the clout to make anything happen? You can have talking shops, you can try to bring people together, but it needs to translate into affordable, better quality housing for people. How does anybody, be it the Assistant Minister or somebody, bring that together?

The Minister for Treasury and Resources:

Put the right people with the right remit and give them encouragement and motivation, like we do in every other area of government.

Senator A. Breckon:

Why have we not done it so far then? Why have we failed?

The Minister for Treasury and Resources:

I do not think the States of Jersey has failed in terms of housing. We have got 4,400 units of accommodation with virtually no debt, which has improved massively in terms of its standards in the last few years, and we have got to build to make it better. We need to also have different tenures of accommodation, New Start, shared equity, first time buyer, and make the housing market itself continue to function well with the least amount of intervention, with the least amount of unintended consequences. Politicians are benevolent, we want to do good things, but sometimes our decisions can have unintended consequences for the market to operate efficiently.

The Deputy of St. Peter:

May I just ask one very quick question before we close, and that is about the idea of the housing trusts giving a proportion of the increase in rent to the Treasury in order to help fund social security income support?

Treasurer for the States:

We did not think that would be very popular, Chair.¹

The Deputy of St. Peter:

Thank you. I thought I would ask.

Treasurer for the States:

But I understand why you raise the point. Can I bring one other thing to your attention?

The Deputy of St. Peter:

Please do.

Treasurer for the States:

We have talked about the new housing association and the housing trusts but you will know that there is also a role for the parishes in providing appropriate accommodation for particular groups. So we are also, in Treasury, looking to find ways in which we can support parishes and the development of their local housing. The Minister has worked with the Minister for Housing and the Chief Minister to look at how we could do that and we have a proposal for a project in Trinity, that Trinity have requested that we provide support to. That is something that we are going to be taking to the Connétables generally to offer as a future route to support the local development of projects in parishes.

The Minister for Treasury and Resources:

One of the things we have not discussed this morning is the important role of senior citizens' housing. Parishes provide excellent senior citizen homes within a parish village community. The examples of St. Peter, which is opening tomorrow in your parish, Chairman, and the Trinity homes are hugely successful and we are delighted that we have come to an agreement with Trinity that we are going to provide them with some resources. They only want a short term ...

Treasurer for the States:

It is just borrowing on short term £6 million over a couple of years to forward fund some new affordable homes in their locality.

The Minister for Treasury and Resources:

They have come up with a brilliant scheme for shared equity, the best of the parish system at work. The States have been trying to deliver a shared equity scheme. We have delivered some, which is good, but the parish honorary system has come forward with a shared equity scheme, got all the legal advice, which is going to allow the dream of home ownership to be realised for some young Trinity families. I want to see all parishes being able to access similar opportunities and similar funding. It requires planning permission but Trinity had a field gifted to them. I think it was the field that was gifted to them on the road from the pub, and now we are going to be

delivering some shared equity homes. I think the ministerial decision is going to be signed imminently.

Treasurer for the States:

On Monday.

The Deputy of St. Mary:

Could that be expanded a little bit, not just to include first time youngsters but there are a lot of middle-aged people and there are a lot of people that, through different circumstances, have had to sell their homes and cannot get back on the property ladder?

The Minister for Treasury and Resources:

There are 2 things there. Is the concept of getting lifetime homes on the Jersey ownership model or could you include having the right of ownership for your life something that should be available in Jersey? Should people be able to release the capital that is tied up in their homes and downsize to a smaller unit of accommodation which has got the appropriate amount of certainty for care with arrangements for Family Nursing and Home Care or home visits? People want to continue to stay in their own homes as people's life expectation is going to rise. The Trinity homes are just fantastic examples of lifetime homes where grandparents can have their grandchildren to stay in an extra bedroom, there is the facilities of care, wide doors, wet rooms for the bathrooms. It is really good and we want to see more of that.

The Deputy of St. Peter:

We are already a little over time, but our adviser would like to ask a very final question.

Ms. A. Davies:

It is very quick. You said earlier that you are considering options for the borrowing, whether that is loans or funds or anything. The early conversations you have had around that, do you have any indication that the rates of borrowing could be altered by the existence of the regulator and the functions that regulator fulfils?

Treasurer for the States:

I think that having a regulator, that funders will always be interested in a stable market environment and a regulator will help stabilise. It is a good thing to have, it will help stabilise the market environment and it will give some certainty around future arrangements because the regulator will be looking at rents and other matters which are going to be of interest to lenders. So I do think it will add value in that regard but I also think that the presence of the States and the fact that there is no borrowing against the existing stock will make a great deal more difference in terms of the rate that we will attract for housing.

The Minister for Treasury and Resources:

It is not appropriate to say publicly what rates the Treasurer has been discussing. We can say that in confidence, but they are very good. The States of Jersey covenant is excellent. Senator Breckon asked one thing earlier and I did not respond to that but it is an important point. We have now got a much better clarity in terms of the roles of the different property agencies that the States have, if you like. S.o.J.D.C. (States of

Jersey Development Company) is now clear. By the way, we have put our own special Treasury representative and an expert from housing associations on the board of S.o.J.D.C. S.o.J.D.C. is going to have a role in creating and developing social housing. They are not going to hold it but they are going to be certainly developing it and whether or not those properties end up being in the homes trust or the Housing Department itself, they are going to have a role in creating new and refurbishing housing stock. There are a number of estates that are owned by the Housing Department that have significant opportunities for creating new units of accommodation, particularly within town. There is a huge opportunity and we want a constructive, clear discussion within the Treasury as to the respective roles of the housing entity which will be created, S.o.J.D.C., Property Holdings, and each one of them is going to be at work in their respective area in order to deliver long-term housing opportunities in a variety of different tenures. Having the clearing house of the Treasury at one step removed is hopefully going to mean that the co-ordination is going to be much better. Added to the Strategic Housing Unit, I think we have got a really strong platform of delivery and long-term thinking and long-term securing of all sorts of different tenures of accommodation. I am anxious that we get on and implement this over the period of this Government because I think the opportunities are enormous.

The Deputy of St. Peter:

Thank you very much for your time today. I am glad we managed to find a slot that was convenient to everybody and I will close the meeting.

The Minister for Treasury and Resources:

I do apologise for standing you up yesterday.

Treasurer for the States:

If there is anything that you want just ring us.

[09:55]

ⁱ In a letter dated 8th August 2012 the Treasurer submitted the following supplementary information to the answer given at the Hearing:

“The reality is that the Housing Trusts will benefit from increased rent income as a result of the planned move from 70% to 90% of market rents. The aim is that, insofar as this increase relates to Housing Trust tenants who are in receipt of Income Support, this additional income will be passed to Treasury to fund the additional increase in Income Support that will arise, as a result of the rent increase. This means the tenant is fully protected.

“This issue is covered in the Housing White Paper and also in the Medium Term Financial Plan – Appendix 6 (Pages 294 – 296). The table on page 296, “Revenue Financial Implications” identifies the estimated cost to Social Security of this and the corresponding funding stream from the Housing Trusts (£825,000 in 2013 and £1,100,000 in 2014.”

A copy of the full submission is available at the following link:
<http://www.statesassembly.gov.je/ScrutinyReviewSubmissions/Submission%20-%20Housing%20Transformation%20Programme%20-%20Treasurer%20of%20the%20States%20-%208%20August%202012.pdf>