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## **INTRODUCTION & BACKGROUND**

### **What is this report about?**

1. This report explains the findings to date of an inter-departmental staff level working group, set up to investigate public sector recruitment and retention problems. Although known as the “Key Worker Housing Group” (KWHG), the Working Group has not only investigated the provision of housing for “key workers,” but also looked at the impact of housing licence policies and, to a limited extent, pay issues in order to attempt to come up with *a framework* for an integrated corporate strategy to best meet the Island’s needs for “key workers”.
2. The complexities of the issues involved will become clear as the report unfolds. In particular, the report highlights what the KWHG has concluded to date and also sets out recommendations for what needs to happen next.
3. In particular, the KWHG considers that it has identified some solutions which, with political will and adequate staff resourcing, can deliver some positive impacts in a short time frame.
4. The KWHG requests that this report be published as an appendix to the “green paper” to be presented to the States by the Housing and Health and Social Services Departments, with a view to acquainting the community at large with the issues and seeking their comments. In particular, the KWHG would recommend the two boards obtain responses from other States’ departments, States Members, members of the public and, most importantly, those people currently working in “key worker” occupations.
5. The research undertaken and the conclusions reached are examined in the following way. The report:
  - Investigates the nature of the problem(s) and the different contributing factors at play (paragraphs 38 to 91);
  - Examines the effectiveness of current policies and sets out a range of possible options to assist “key worker” recruitment and retention (paragraphs 92 to 357);
  - Revisits some of the key policy issues discussed earlier in the report, in the light of the Working Group’s findings (paragraphs 358 to 376);
  - Recommends consultation with the interested parties referred to above (paragraphs 377 to 379); and
  - Describes the Group’s conclusions, recommendations and plan of action (paragraphs 380 to 381).

### **Why does Guernsey need to review policies affecting the recruitment and retention of key workers?**

6. It is generally acknowledged that Guernsey does not have sufficient people with the appropriate skills and experience to staff fully its essential public services. As a consequence, it needs to attract staff without residential qualifications to work in

its health and social services, to police its streets, and to teach its children. This is further exacerbated by the fact that there are national and international shortages of some professional staff required to service Guernsey's Health, Education and Home departments.

7. Recruiting and retaining those staff, from wherever they are sourced, is difficult because of a number of factors which often work together to hamper recruitment and retention; namely:-

- It is generally considered that Guernsey has a relatively high cost of living<sup>1</sup>: staff recruited from outside Guernsey therefore need to be paid enough money to be able to afford to live in the Island - **a remuneration issue**;
- High housing costs are believed to act as a deterrent to the recruitment of "key workers", with the result that housing subsidies of various kinds are paid to incoming staff (but not residentially qualified individuals who may be doing the same or similar jobs<sup>2</sup>) for limited periods of time - **a housing issue and a remuneration issue**;
- The application of States' population policies limits the length of time a "key worker" may remain in employment in the Island, deterring some people from accepting offers of employment and requiring a number to leave the Island when their preference (and that of their employer) would be to remain - **a population policy and a housing licence issue**; and
- People recruited on housing licences are only able to occupy housing of a rateable value related to their remuneration package, the objective being to safeguard local market housing for Islanders: this provides a further deterrent to the recruitment of "key workers" - **a population policy and a housing licence issue**.

8. Research by the UK Audit Commission shows that recruitment and retention problems in the public sector in the UK have implications in terms of costs and quality of services: the average direct cost of recruiting a new member of staff is around £3,500 and the new recruit performs at only around 60% of their potential when first recruited, rising to 100% only after a year.<sup>3</sup>

9. In Guernsey similar concerns have primarily focused on two of the issues outlined above: high housing costs and the length of housing licences – the former impacting on recruitment, the latter primarily on retention. However, as this report will show, it is the interplay of all four factors which affects the recruitment and retention of public sector "key workers".

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<sup>1</sup> Oxford Economic Forecasting proved that this was not necessarily accurate. Households with incomes of £20,000 or more were shown to have the same costs of living as their UK counterparts (taking into account UK Council Tax, the availability of tax relief on all mortgage interest in Guernsey, differentials in social insurance contributions, the absence of VAT in Guernsey, etc.)

<sup>2</sup> The relocation benefits offered by the Education Department are however available to returning locally qualified staff. Under certain circumstances, returning local health and social service professionals are also entitled to benefits under the Relocation Directive.

<sup>3</sup> "Recruitment and Retention: A public service workforce for the twenty-first century" (2002) Audit Commission.

10. In the UK, the issue of “key worker” recruitment and retention has largely been addressed through various **housing policies**, because recruitment and retention problems are most acute in parts of the UK where property prices are extremely high, notably London and the South-East of England. However, in Guernsey recruitment and retention is further complicated by the necessary restrictions on population growth achieved through the administration of the Housing Control Law.
11. In the Guernsey context, it will thus become clear that while the States has, over the years, adopted some policy measures of its own to assist recruitment and retention, **those policies have never previously been looked at holistically or corporately**. Rather housing, population and remuneration policies have been developed independently of each other, without any consideration of how they may support or conflict with one another. Furthermore, such policies as exist vary both in their content and application between one department and the next, which reflects the fact that they have been developed independently in response to the operational needs of each department rather than to serve the overall interests of the States. As a consequence, their efficacy and efficiency is highly questionable.

#### **In what political context has the KWHG carried out its research?**

12. The political context in which the KWHG has carried out its research is as follows:

- “Key worker” housing is an integral part of Action Area C of the Corporate Housing Programme (the Intermediate Housing Market), which was established by the States in February 2003<sup>4</sup>;
- In debating proposals for new staff accommodation on the Princess Elizabeth Hospital site (John Henry Court) in November 2004<sup>5</sup>, the States resolved that the Housing and Health and Social Services Departments should jointly investigate the feasibility of introducing a “key worker” housing association to the Island to manage John Henry Court and other similar accommodation for “key workers” employed by the States;
- From its inception, the Scrutiny Committee has taken a keen interest in the development of a States-wide policy on “key worker” recruitment and retention, highlighting it as a priority for review and regularly requesting updates on the progress of the Working Party;
- The Strategic Population Review Group, a sub-group of the Policy Council, has been reviewing the Island’s population policy. The Housing Control Law is also being reviewed in conjunction with this work;
- Employing departments have been increasingly vocal about the effects of States’ housing licensing policy on their ability to recruit and retain staff to maintain their operational services.

#### **Who has been involved in carrying out the research?**

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<sup>4</sup> The Development of a Housing Strategy and Corporate Housing Programme – Billet d’État II 2003.

<sup>5</sup> Health and Social Services Department – John Henry Court and Site Development Plan Update – Billet d’État XX 2004

13. Under the Corporate Housing Programme Action Plans for 2005 and 2006<sup>6</sup>, the Housing and Health and Social Services Departments were given lead political responsibility for researching the issues surrounding the provision of “key worker” accommodation.
14. They agreed that, as a result of the above, there was a need to re-convene an inter-departmental staff-level working group to research and reconsider the issues<sup>7</sup>.
15. This has comprised representatives from the following departments:-
- Housing
  - Health and Social Services
  - Treasury and Resources (Strategic Property Unit)
  - Home
  - Education
  - Environment
  - Public Sector Remuneration Committee
16. (A full list of KWHG members is attached as **Appendix A**.)
17. The KWHG’s Terms of Reference (reproduced in full at **Appendix B**) were agreed by all departments concerned at political level, at the start of the Working Group’s work, which began in March 2005. They were as follows:
18. *To investigate the provision of affordable accommodation in Guernsey for Key Workers with the aim of: -*
- i. Defining the term key worker, taking into consideration the limitations of this definition.*
  - ii. Enhancing the ability of the States to recruit and retain local and, where necessary, non-local “key workers” in priority public services.*
  - iii. Addressing the inequalities between residentially qualified and non-residentially qualified persons in respect of meeting housing costs.*
  - iv. Taking into consideration the three interrelated issues of a) key worker housing provision and funding, b) housing licence policies and c) remuneration packages.*
  - v. Rationalising and enabling more cost-effective expenditure on housing subsidies/the provision of staff accommodation to support such recruitment and retention initiatives.*

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<sup>6</sup> Corporate Housing Programme - Progress against the 2005 Action Plan – Billet d’État XXIII 2005.

<sup>7</sup> The Chief Officer of the Housing Department previously chaired a working group on “key worker” housing during 2001 and 2002, which led to the preparation of a draft policy letter being prepared for the States’ consideration. However, a number of issues came to light when the draft policy letter was circulated to other States Committees for consultation at the end of 2002, which substantially delayed the policy letter’s progression. Given the fundamental nature of some of the issues raised during the consultation and a lack of resources to resolve these, the policy letter was not presented to the States.

*vi. Integrating the provision of “key worker” accommodation with other initiatives to meet the housing needs of those on modest incomes (the “intermediate housing market”) without creating further imbalance in the market.*

*vii. Developing a blueprint that can be applied corporately across all stakeholder Departments.*

### **What has the Working Group done?**

19. The Working Group has spent much of its time collecting data in order to evaluate the success of existing recruitment, retention and housing policies, and to evaluate the relative effect of housing licence policy, remuneration packages and costs of accommodation on recruitment and retention.
20. This data collection exercise has taken much longer than expected and this is the main reason why the Working Group did not meet its original target of producing a report by December 2005.
21. The lack of readily available data to assist the evaluation of policies affecting “key workers” is a cause for concern; recommendations with regard to this are included towards the end of this report.
22. The Working Group has also looked at recent developments in the UK and has evaluated a number of different housing policy options to assist the recruitment and retention of “key workers”.
23. The latter research has included a substantial amount of financial modelling work. The Chair of the Working Group, from its inception until January 2006, was from a UK property consultancy, Cambridge Projects, which worked for the Treasury and Resources Department’s Strategic Property Unit during 2005. The majority of the financial modelling work was carried out by the Cambridge Projects’ consultant.
24. The first task facing the Working Group, however, was to decide upon a definition of the term “key worker”.

### **Who should be included within the definition of a “key worker”?**

25. Although use of the term “key worker” has become commonplace, there is no agreed definition of what constitutes a “key worker”.
26. In the UK “key workers” are generally acknowledged to include nurses, teachers and Police Officers, although the debate has recently extended to encompass other relatively low paid workers such as cleaners and local government officials.
27. Details of some “key worker” definitions, which have been adopted in the UK, are provided in **Appendix C**. Analysis of these shows that the primary consideration is the difficulty of recruitment and retention, with levels of pay being a subsidiary

consideration; nevertheless, it is the inability of most of these employees to afford housing on their pay levels which prompts special provision being made for them. For example, recent guidance from the NHS (NHS Housing Guidance, 2003) explains that all NHS workers are “key workers”, but that staff who earn less than £35,000 are being targeted, and those that are most difficult to recruit and retain are “key workers”.

28. In the light of this, the KWHG has considered the question of “Who is a key worker?” in the Island context very carefully.
29. At one extreme, it can be argued that, with full employment, everyone who is employed in the Island is a “key worker” and makes an important contribution to the sustainability of the Island’s economy and community.
30. Others will argue that anyone who is brought to the Island on an employment-related housing licence is a “key worker”: they are either “essential” to the Island because of the specialist skills they possess which are not available locally, or because without their labour particular projects (e.g. construction) or employment sectors (e.g. horticulture and tourism) could not function.
31. A third definition might be people who are employed by the public sector, as public services are “key” to the operation of the Island.
32. Others would wish to narrow this definition to those working in specific public services such as health or education, albeit those who work in private health care or in private schools would argue they equally deliver “key” services.
33. Notwithstanding the above, the Working Group has decided to concentrate on policies affecting employees who: -
  - Deliver a frontline public service; and
  - Are in receipt of incomes that do not enable them to afford to buy or rent in the general housing market; and
  - Where the recruitment and retention of staff has proven to be difficult; and
  - Are in possession of specialist/professional skills, qualifications or experience.
34. This decision has been made because: -
  - The States has very little direct influence on private sector remuneration packages, which affect an individual’s ability to access the housing market;
  - Although some people in the private sector are on even lower incomes relative to the cost of housing and are undeniably also performing a key/important role in society, other States’ strategies and associated policies are already aimed at helping them by other means, e.g. through the Social Security Department and the Corporate Anti-Poverty Programme;

- The Corporate Housing Programme already contains workstreams aimed at meeting the needs of those who require social rented housing or “intermediate market” housing, i.e. for those people who cannot afford to rent or purchase at market prices, but who are ineligible for social rented housing;
- In the UK, housing policies for the provision of “key worker” accommodation **are not aimed at meeting housing need, but are demand-led**: they are primarily concerned with the importance of the delivery of frontline public services to the maintenance of thriving and sustainable communities in areas of high value house prices. (In the Guernsey context, it is important to stress that the diversion of resources to meet the aim of delivering frontline public services must be weighed up/measured against the use of resources to help those in greatest housing need.);
- In many cases Guernsey is in competition with the UK when attempting to recruit/retain certain “key workers”. Furthermore, as the UK is the main source of recruitment for non-local “key workers”, it follows that where pay levels between the jurisdictions are comparable (which they are,) then if the packages of housing assistance offered by UK employers are more attractive (relative to the cost of housing) then Guernsey will find it harder to recruit, particularly when there are shortages in particular specialisms;
- Finally, on a practical level, adopting such a definition of “key workers” was essential to limit the scope of research and to make the work of the Working Group a project of manageable size.

35. Nevertheless, as referred to above, the Working Group accepts that there are still limitations to this definition of “key workers”; in particular, it recognises that:-

- In some cases private sector businesses may be competing with the public sector for skilled frontline staff, e.g. in the case of private sector nursing homes seeking to recruit and retain nurses;
- Guest workers on short-term licences play a key role in certain sectors where, given the current high levels of employment and the nature of the work, there are insufficient local people available (or in some cases willing) to work;<sup>8</sup>
- Whilst the focus of this report is on providing accommodation for public sector “key workers”, the problems of the Non-Governmental Organisations who deliver social services in recruiting and retaining staff due to high housing costs should not be underestimated.

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<sup>8</sup> Short-term licences for such workers are not discussed in detail in this report, but the Working Group does appreciate the important contribution that they make to Guernsey’s economy and community.



36. In light of the “key worker” definition adopted by the Working Group, there is no dissent that qualified nurses, teachers and Police Officers are examples of workers that fall into this category. To these groups of staff, the Working Group has added the accommodation needs of some other health care staff, social workers, childcare workers, Prison and Probation Officers.
37. Although the Working Group considers the above to be the priority groups at this time, it may be possible for a case to be made for other groups of staff to be considered “key workers” at a later date.

**Recommendation 1** – that the States adopt the definition of ‘key worker’ set out above.

## **DEFINING THE PROBLEM & DISCUSSION OF KEY ISSUES**

**What is the evidence that Guernsey is finding it hard to recruit and retain “key workers”?**

38. In May 2005 the KWHG commenced a data collection exercise, which is described in more detail in **Appendix D**.

39. The Working Group considered recruitment and retention statistics for 2004 from the Home, Education and Health and Social Services Departments for the following posts: -

40. Home Department

Police Officers  
Prison Officers  
Firefighters (i.e. excluding those working for the Airport Fire Service who are employed by the Public Services Department)  
Customs Officers  
Probation Officers

41. Education Department

Teachers  
Lecturers  
Educational Psychologists

42. Health and Social Services Department

Nurses

43. (NB Although the Health and Social Services Department intended to include other professional staff in the analysis, because of the number of employees involved only nurses have been included to date.)

44. It is acknowledged by the Working Group that there are limitations in examining the issue of recruitment and retention for the above posts to the exclusion of others. However these posts met the definition of “key workers” adopted by the Working Group.
45. Furthermore, because of resource pressures, different HR systems in different departments, and as databases had not been set up with the Working Group’s purposes in mind, it took until December 2005, i.e. over 6 months, for some of the required data to be available in a format that was comparable across different States’ departments.
46. Interestingly, it was quickly established that there were no difficulties in recruiting local Firefighters or Customs Officers. Turnover in both was very low and no staff were employed on a housing licence. Firefighters and Customs Officers were therefore excluded from any further analysis in this Report.
47. The key findings that emerged from the Working Group’s analysis of the figures for 2004 for the other staff groups were as follows: -

**48. Police: -**

- Out of 160 Police Officers, 32 (20%) were on employment-related housing licences, which is consistent with the current situation.
- 24 out of these 32 Police Officers (75%) were on 15 year housing licences, consistent with the current situation.
- At the time of the data collection exercise 20 Police Constable posts were currently vacant. 23 posts were vacant for more than 6 months during 2004.
- 23 Police Officers left during 2004 (14%) (15.6% of all licence holders).
- A National Audit Office Report, published in June 2005<sup>9</sup>, also showed that Police numbers had been consistently well below the authorised establishment and that wastage rates in the Police Force were high. This report was therefore consistent with the Working Group’s analysis: **it is difficult for Guernsey to recruit and retain Police Officers.**

**49. Prison Officers: -**

- 8 out of 68 FTE Prison Officer posts were vacant (a vacancy ratio of about 12%).
- 10 Prison Officers left during 2004 (14%)<sup>10</sup>.
- 2 Prison Officer posts had been vacant for more than 6 months.
- **This indicated that the Home Department was experiencing difficulties recruiting and retaining Prison Officers.**
- No Prison Officers were then in receipt of an employment-related housing licence, but subsequently the Housing Department agreed to issue three 5-year licences for Prison Officers.

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<sup>9</sup> NAO (June 2005) A review of staffing and operations in the Home Department in Guernsey.

<sup>10</sup> The figure for 2005 was 7.

#### **50. Probation Officers: -**

- The Probation Service only employed 10 people.
- The Working Group did collate statistics for the Probation Service but, because of the small number of staff employed in the Service, it was not thought to be appropriate to include details of the number of staff under licence, to protect the identity of those individuals.
- 1 Assistant Probation Officer post and 1 Probation Officer post were vacant for more than 6 months during 2004. **Whilst this was only a small number of vacancies, it equated to 20% of Probation staff.**
- In addition to the above, the National Audit Office<sup>11</sup> report recommended the creation of two additional Probation Officer posts.

#### **51. Education: -**

- 646 qualified and unqualified teachers, lecturers and deputy head teachers or head teachers were included in the analysis.
- 162 (25%) of these staff were working in Guernsey on an employment-related housing licence.
- Only 9 posts (1.4%) remained unfilled for more than 6 months (2 terms) in 2004 and had to be filled by locum staff.
- 36 teachers/lecturers left during 2004.
- Approximately 50 staff were brought over in 2004 and 36 housing licences were required, so **considerable effort was required to keep the Island's schools staffed.**

#### **52. Health and Social Services Department – nursing staff: -**

- 176 nursing posts were advertised in Guernsey in 2004 and 96 in the six months period 1 January to 30 June 2005.
- 198 out of 966 nurses left in 2004 (21%). 100 (51%) of these had worked for the Health and Social Services Department for less than 2 years.
- Of the 198 leavers, 156 were non-local, of which 107 (54%) were living in accommodation owned or rented by the Health and Social Services Department<sup>12</sup>; 33 were in receipt of a housing licence; and another 8 were the spouse/partner of a non-employee of the Department.
- This proves that **Health and Social Services has difficulty retaining nurses, particularly those who are not residentially qualified.**
- 236 nurses commenced employment between July 2004 and June 2005. 120 of these had left by July 2006. 121 were accommodated in Health and Social Services Department accommodation and 85 of these have since left. 60 were local of which 16 left; and of the 29 with housing licences, 7 have left. Thus, for local appointments and those with housing licences around 25% have left, whereas 70% of nurses accommodated in Health and Social Services Department accommodation have resigned.

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<sup>11</sup> NAO (June 2005) A review of staffing and operations in the Home Department in Guernsey.

<sup>12</sup> A housing licence is not required to live in States-owned property that is being managed by an employing department.

## What States of Guernsey policies affect the recruitment and retention of “key workers” at the moment?

53. Current factors and policies affecting the recruitment and retention of public sector “key workers” include:-

- States’ population policy and Housing Department housing licence policies, including rateable value restrictions (see **Appendix E**).

At the time of writing, a Policy Council sub-group, the Strategic Population Review Group, is in the process of reviewing the Island’s Strategic Population and Migration Policy which will, in turn, influence the outcome of the review of the Housing Control Law.

In the meantime, the influence of the limitation on length of housing licence – generally 5 years – and the influence of rateable value restrictions applied to housing licences - were highlighted as areas of concern for recruitment and retention. Anecdotal evidence suggests that rateable value restrictions make it difficult for even those “key workers” on relatively high incomes to come to the Island and access accommodation.

- The Home Department’s policy on work permits.

This immigration policy works in conjunction with the Housing Control Law and its associated policies. For people who require work permits – generally non-EU nationals – these are normally limited to four years; however, they may be issued for longer periods if the Housing Department first determines that the post merits a 15-year licence (see **Appendix F**).

- Remuneration/ pay and conditions policy.

The Public Sector Remuneration Committee’s (PSRC) responsibility is to discharge collective bargaining on behalf of the States in its role as employer in respect of the remuneration and conditions of service of all staff employed by the States.

- Policies designed to meet the housing needs of “key workers”. These can be subdivided into: -
  - Relocation policies. These include: removal expenses, air/boat fares for house hunting trips and relocation, Rent Allowance and Housing Benefit.

Housing Benefit and Rent Allowance are broadly speaking given to employees coming to the Island to work for the States, or relocating from the UK or overseas, in response to a job advertised off-Island

because the position cannot be filled locally<sup>13</sup>. An individual can be eligible to receive both Housing Benefit and Rent Allowance.

Rent Allowance is available to assist those who wish to rent a property, whilst Housing Benefit is normally given to those who purchase a property in the Island having sold their property elsewhere in order to move to Guernsey, although in some exceptional circumstances Housing Benefit can be awarded to those working in Guernsey in respect of a property they already own off-Island. Normally such employees are residing in the Island under an essential employment-related housing licence.

All these benefits are included as part of a relocation package.

The Relocation Directive for Established Staff (civil servants) is attached as **Appendix G**; these benefits are not generally available to locally qualified individuals returning to, or already living in, the Island – **Appendix G** and **paragraphs 92 to 157** of this report provide further details.

Slightly different schemes apply to the Police, teachers and nurses, who are not Established Staff, but employed on different terms and conditions of service: these are also described in **Appendix G**.

- Provision of States-owned accommodation which is let to employees at a rent which, in most cases, is significantly less than the rent which would be charged if the property was being let commercially.

Controls on occupation do not generally apply to properties owned by the States; e.g. housing licences are not required for nurses living in Health and Social Services Department accommodation.

- Provision of States-leased accommodation which is re-let to employees at a rent which, in most cases, is significantly less than the rent which would be charged if the property was being let commercially.

The States also leases accommodation from the private sector, which is then re-let to staff at a reduced rent, i.e. the employing department pays the difference between the commercial rent and the actual rent paid by the employee which is set by the department. This is a subsidy which costs the Health and Social Services Department alone over £300,000 per annum.

**Almost without exception, the actual rents paid by “key workers” do not cover the costs of providing the accommodation.**

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<sup>13</sup> With the exception of employees of the Education Department, they do not apply to a person with residential qualifications returning to the Island to work.

Housing licences are required for staff to occupy privately-leased properties.

54. Details of the accommodation owned and/or leased to employees of different States' departments are detailed in **Appendix H**; this accommodation is not generally available to residentially qualified individuals returning to, or living in, the Island – again **Appendix H** and **paragraphs 92 to 157** of this report provide further details;

**Why is the recruitment and retention of “key workers” in Guernsey difficult at the present time?**

55. Two major reasons are generally cited in answer to this question: (i) remuneration; and (ii) housing licence policy.

**Remuneration**

56. Dealing first with remuneration, the Working Group noted that:

- Only in recent years (the last 10) had there been widespread problems with the recruitment and retention of “key workers”; but
- In general terms, the pay of the majority of public sector “key workers” had been well above RPI during this period.

57. The Working Party also noted that the cost of borrowing money (interest rates) has also been low, with a current base rate of 4.75%<sup>14</sup>, which means that, perhaps surprisingly, the affordability of house prices is actually better than in the early 1990's (source: 2005 Sustainable Guernsey).

58. It is also important to note that because most groups of “key workers” - Nurses, Medical Consultants, Police Officers, Firefighters and Prison Officers - have agreed pay and conditions packages formally aligned to those of their UK counterparts. This means that for those posts specified above, a Guernsey “key worker” will receive a pay and conditions package which is comparative to a “key worker” in a similar role in the UK.

59. Nevertheless there were concerns within the KWHG that for some groups of “key workers” pay had not moved far enough ahead of inflation to assist with their recruitment and retention, and a perception that the remuneration offered to a “key worker” was not sufficiently attractive to encourage a potential employee to relocate to the Island for a relatively short period of time.

60. What is less contentious is that the Working Group believes that the recruitment and retention of “key workers” has become more difficult for the following reasons:

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<sup>14</sup> Bank of England base rate in October 2006.

- A local labour market imbalance: -

61. Since the mid-1990s the buoyant local economy has produced an increasing number of job opportunities for local people, full employment, and private sector remuneration rates have generally moved ahead faster than those in the public sector. In short an imbalance between the demand for, and the supply of, labour is creating problems for all employers (not just the public sector).

- A greater demand for “key workers”:-

The economic growth has led to population growth which has created a greater demand for public services. In consequence, the total number of “key workers” required by the Island has increased.

- A general reduction in the “supply” of some “key workers”:-

There have been concurrently some chronic national and international shortages of specialist staff, e.g. mental health nurses, modern foreign language teachers, etc.

- An increase in average price of houses/average earnings ratio:-

This is a situation that has been fuelled by the overheated local economy, low interest rates and the imbalance between the demand for, and supply of, accommodation. The average house price/average earnings ratio was 4.9% in 1981 and 9.5% in 2004 (source: 2005 Sustainable Guernsey). Twenty five years ago the cost of a fairly typical (modest) family home was 3 to 4 times the salary of a schoolteacher; it is now about 10 times the salary (possibly more) (albeit that this is offset by the low cost of borrowing as referred to above).

These factors far outweigh the fact that pay for Guernsey “key workers” has never been higher in real terms, and cast doubt upon using increased remuneration as a means to enhance recruitment and retention – which is examined in more detail below.

### **Changes in States Population Policy**

62. Since the early 1990s, when the current States’ population objective was introduced, there have been fewer 15-year licences available for “key workers” compared with preceding years, when 15-year licences were the norm.

63. This is considered by the major employing departments to have had a negative impact on retention and to have increased the recruitment burden. The related policy of limiting the length of employment-related licences for the majority of “key worker” posts to 5 years has not only added to the volume of recruitment as jobs turnover quicker, but it has also arguably made the jobs less attractive in the first place. The changes all add to recruitment costs and personnel staff workload of the employing departments.

64. For example, there are major risks associated with moving out of the UK employment market to come to Guernsey on a 5-year licence, because the

statutory frameworks and working practices differ between the two jurisdictions; consequently, many potential employees want the security of future employment that a 15-year licence offers, as they are concerned about how it will be for them to re-enter the UK after a period of time spent in Guernsey.

65. On the other hand, issuing 15-year licences is perceived as blocking the career paths of staff with residential qualifications. They are also seen as inhibitors of the innovation which the recurrent turnover of staff from outside the Island can bring.
66. There is also no guarantee that the issue of a 15-year licence will ensure that a person makes their home and career in Guernsey, as there is evidence of long licence holders leaving the Island to further their careers elsewhere.
67. Consequently, to assign all recruitment and retention difficulties to housing licence policy would be unfair, as employees are not automatons, but exercise choice about where they live and work according to their own desires and personal circumstances. Indeed, while licence length has been generally reduced since the early 1990s<sup>15</sup>, there is no evidence that the total number of licences issued to “key workers” has reduced. On the contrary there have been increases in the number of licences issued to “key workers”, i.e. health workers, teachers and Police Officers, over the period 2001-2005, albeit for shorter periods.
68. Indeed, the number of “live” essential employment licences<sup>16</sup> for the Education sector has increased from 133 in 2001 to 204 in 2005, and for the Health sector, the increase over the same period has been from 162 to 231. (NB These figures include some licences issued to the private, as well as the public, sector.) This confirms that there are more people working in these essential public services under licence than ever before.

### **How does recruitment and retention of “key workers” in Guernsey compare with the situation in the UK?**

69. The PSRC contends that pay rates for Guernsey’s public sector “key workers” are not low in comparison with people doing identical work in the UK, nor are they generally low in comparison with many other Island workers. They also stress that all public sector pay rates are set by agreement between the PSRC and the recognised staffing body.
70. However, it is interesting to note that Jersey does not have difficulty recruiting Police Officers (source: Jersey Population Office). A possible explanation is that

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<sup>15</sup> Not all licences for “key workers” are granted for 5 years. There a number of posts where 15-year licences are granted as a matter of policy; in addition, the Housing Department will grant longer-term licences where it can be demonstrated that recruitment is exceptionally difficult on a national or international scale.

<sup>16</sup> A “live” licence means that the postholder was living in Guernsey on a housing licence as at 31 March in the year in question. “Live” licences are a better measure of population numbers than numbers of licence issued because the latter take no account of people who have left the Island for whatever reason, including the expiry of a licence.



at every grade Police pay is higher in Jersey than in Guernsey (source: NAO report, June 1995).

71. It is understood that this situation is replicated for other public sector workers in Jersey, including nurses and teachers.

**Is the recruitment and retention of “key workers” in Guernsey likely to improve in the future?**

72. In order to remain competitive and to meet international obligations, the States has agreed that from 1 January 2008 the basic rate of corporation tax on company profits should be 0%, with only a limited amount of regulated business (i.e. specific banking activities) subject to taxation at 10%.
73. In order to make up the predicted deficit between income and expenditure arising from this new strategy, the Policy Council recommends actively promoting economic growth, whilst robustly controlling public expenditure with only modest annual increases<sup>17</sup>. It is possible that more people with the relevant skills will be required in order to achieve the economic growth desired and, if a greater number of higher paid jobs are created, these could create a further imbalance in the supply and demand for “key workers” – especially those with residential qualifications. It may also be that housing costs will continue to rise at a level greater than public sector pay awards.
74. Furthermore, employment markets for nurses, other health and social services professionals, teachers in particular specialisms, and Police Officers, are increasingly competitive both nationally and worldwide.
75. It is therefore highly unlikely that the Island’s need for “key workers” will diminish in the short- to medium-term. Indeed, unless economic growth is managed very carefully, the very opposite is likely to be the case, which has financial implications at a time when public expenditure is being curtailed.

**Recommendation 2 – that the States acknowledge that the Island’s need for “key workers” is likely to grow, not diminish, in the short- to medium-term, which has manpower and budgetary implications for the employing departments.**

**How could the recruitment and retention of “key workers” be improved? What options/interventions has the Working Group considered to address these issues?**

76. The Working Group has recognised that whilst economic growth is both probable and desirable, there is likely to be a greater demand for “key workers” in the coming years through a continued labour market imbalance and due to a tendency towards increasing specialisation in all aspects of the labour market.
77. Although that economic growth will have to be achieved with due regard to the Island’s population policy and limited land supply, these factors will continue to affect “key worker” recruitment and retention.

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<sup>17</sup> Billet d’Etat XI 2006.

78. During the course of its deliberations the Working Group has, therefore, taken into consideration the States' strategic and corporate policies and has considered the factors affecting the recruitment and retention of "key workers", and their ability to access the housing market. These are strategies and policies which can be changed, whereas the States cannot increase the national/international supply of "key workers" nor it is likely to be able to reduce the demand for them without damaging the provision of 'essential' public services such as health and education.

79. The next sections of this report thus set out the advantages and disadvantages of retaining the current situation, and outline three other possible options to assist with the recruitment and retention of "key workers"; namely:

- Increased remuneration;
- Changes in housing licence policy;
- Accommodation/housing market intervention options.

**In considering these, the Working Group has tried to focus on realistic and pragmatic solutions rather than attempting to meet/deliver ideals.**

80. It has also borne in mind:

- The need to take into consideration the three interrelated issues of: a) "key worker" housing provision and funding; b) housing licence policies; and c) remuneration packages;
- The need to rationalise and enable more cost-effective expenditure on the provision of staff accommodation to support public sector recruitment and retention initiatives;
- The need for "key worker" housing policies to be applied **corporately** across all stakeholder departments, with an integrated policy on recruitment and retention being the aim;
- The need to integrate the provision of "key worker" accommodation with other initiatives to meet the housing needs of those on modest incomes (the "intermediate housing market") without creating further imbalance in the Guernsey housing market;
- The political objective of addressing the inequalities between residentially qualified and non-residentially qualified persons in respect of meeting housing costs.

81. To these it has added:

- The need to establish the aspirations of "key workers" before any policy initiatives are implemented.

82. Although the Working Group is yet to establish the aspirations of "key workers", it is essential that these are obtained before major expenditure is outlaid to ensure

that these schemes are what staff (not just staff organisations) desire, rather than what the States thinks they require.

83. Some “key workers” have very specific aspirations or aspirations that are difficult to meet locally because of high housing and building costs. As there are variations in the salaries of “key workers”, there is also a need to provide accommodation options tailored to the staff that are being recruited.
84. For example, nurses recruited from Asia may have traditionally preferred more basic accommodation at very low rents in order that they can send back money to their families.
85. However, it is more complex than what staff can afford (or want) to pay on accommodation costs. Many “key workers” have different aspirations for accommodation.
86. For example, it is believed that often teachers, some health workers and law enforcement staff, do not want dedicated “key worker” accommodation, but prefer to have greater anonymity in the community and to be able to separate work and home life.
87. There is also the issue of the lack of staff accommodation, or accommodation options, available to certain groups, such as mature entrants and couples/families (especially for those who have pets).
88. For example, Health and Social Services’ nurse recruitment information makes it clear to potential applicants that little married or family accommodation is available for non-senior qualified nurses and that housing licenses are not available. In consequence, few nurses with family responsibilities apply for positions locally. If they are appointed, they often struggle to cope with the prolonged family separation involved and resign prematurely.
89. It is also particularly difficult to recruit mature entrants with families to the Police Force. Often teachers and some Health and Social Services’ non-nursing staff are in the same position.
90. There are also locum staff that may be in the Island for only a short period of time (less than one year) and who may be retaining property in the UK, towards which they are already committed financially.
91. The Working Group therefore recognises that there is a need for a variety of solutions to cater for diverse “key worker” circumstances.

## **MEASURING THE EFFECTIVENESS OF CURRENT POLICIES**

**How do current policies influence the recruitment and retention of “key workers”?**

92. The Working Group attempted to analyse the effects of the policies detailed in **paragraphs 38 to 91**, through analysing data collected from employing States' departments on the recruitment and retention of their "key workers". This is because until the success of current policies is evaluated, it is very difficult to determine what the real problems are and how to fix them.
93. The data collection exercise is briefly described in **Appendix D**.
94. The Working Group was particularly interested in looking at trends in the data. (For example how far into their housing licence do employees tend to leave?) Although such techniques do not prove cause and effect, they can provide a useful indicator of possible factors triggering employee turnover.
95. Ideally it would have been useful for the Working Group to analyse several years' worth of data. Unfortunately, none of the employing departments stored recruitment and retention data in a way that could be usefully analysed by the Group electronically, which made the entire exercise highly labour intensive. Often staff had to resort to individual files to find out information. For example, how many staff were under licence, their length of licence, how long they had been employed by the department; and for leavers (e.g. in 2004), how far into their housing licence they had been when they left etc, what States-owned accommodation (if any) they had lived in, what subsidies they had received and when, etc.
96. This meant that the Working Group was only able to investigate the profile of leavers in 2004, which for many employee groups meant that the number of leavers was too small to draw any statistically meaningful conclusions.
97. The individual departments represented on the Working Group were also asked to provide data on recruitment costs, including the number of posts advertised, the number of interviews given, the number of jobs advertised but refused, the reason for refusal (e.g. housing costs are too expensive), and the cost of staff time for the recruitment process. Again, for some departments this information was either not easy to obtain, could not be obtained in a format that could be readily compared across different States' departments, and/or staff costs were too difficult to apportion.
98. Data regarding the destinations of "key workers" leaving States' employment would also have been useful. Although such data is available from the Policy Council's Human Resources Section, unfortunately it cannot be analysed alongside housing licence and relocation package information, which is managed by individual departments, not centrally.
99. As a result, it is impossible to measure accurately the number of people who may have been deterred from applying for "key worker" jobs in Guernsey by the Island's housing costs, the policies applied in administering the Housing Control Law, and the type of accommodation they were offered.
100. Data on the number of people who have been offered jobs and then refused, and the reason(s) given for their refusal are a critical omission from the Working

Group's research and should be obtained before any new policy initiatives are put in place.

101. The key conclusions to emerging from the Working Group's limited analysis were: -

#### **102. Police**

- In 2004 and 2005, 9 offers of Police posts were refused: 6 on the ground that housing was unaffordable, and 1 on the ground that the housing licence offered was too short.
- 75% of Police Officers on employment-related licences were on 15-year licences, **so the length of housing licence granted did not, at that time, appear to be a significant factor in the recruitment and retention of Police Officers.** Indeed of those employees leaving in 2004, all licence holders had more than 5 years remaining on their housing licence<sup>18</sup>.
- The Police Officers who left in 2004 had either recently ceased to receive Rent Allowance/Housing Benefit or this was due to expire within 1 year. **The expiry of their Housing Benefit/Rent Allowance might therefore have been a factor that encouraged these Officers to leave.**
- Housing Benefit/Rent Allowance is currently only given to a minority of Police Officers (albeit the majority of those on employment-related licences.) In general, these Officers have completed less than 5 years' service in Guernsey. The majority of those Police Officers not on employment-related licences had completed more than 5 years' service, but these employees had not, and had never been, entitled to receive any Housing Benefit/Rent Allowance. This had a negative effect on the morale of those Officers.

#### **103. Prison Officers**

- In 2004 and 2005, 4 Prison Officer positions were offered, but refused, on the grounds of low salary.
- When the data collection exercise was carried out, no Prison Officers were on employment-related housing licences or in receipt of any form of Housing Benefit or Rent Allowance<sup>19</sup>.
- One Prison Officer/member of staff lived in States-owned accommodation.
- The numbers were too small to draw any meaningful conclusions.

#### **104. Probation**

- All holders of employment-related housing licences had been with the Probation Service for less than 3 years. Therefore it was difficult to evaluate the effect of relocation packages and housing licence policies on recruitment and retention without a longer series of historic information.

#### **105. Education**

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<sup>18</sup> Two licence holders left in 2003, only one of whom left for Police work in the UK. In 2005, two of the leavers returned to work with a UK force.

<sup>19</sup> Two 5-year housing licences have since been agreed, for whom no benefits are currently payable.

- 189 out of 484 of staff who were not on an employment-related housing licence (39%) had taught for the States for more than 15 years.
- 23 of leavers in 2004 (64%) were not on an employment-related licence. 10 of these individuals had worked for the Service for over 15 years and the majority were retiring,
- 162 (25%) of teachers were on an employment-related housing licence.
- Of these, 99 (61%) were on licences >3 years but <=5 years, in accordance with licensing policy.
- 46 (28%) had 15-year licences, predominantly in higher paid positions (i.e. the £35,000-£70,000 salary band category), again in accordance with licensing policy.
- The housing licences of 116 teachers were due to expire within 5 years. This represented 18% of all teachers or lecturers. Assuming teachers stay in the Island for the full duration of their housing licence, the greatest concentration of leavers (68 teachers) would thus be expected to take place in 2007-2009.
- 6 of the teachers/lecturers who left during 2004 had less than 1 year remaining on their housing licence.
- 28 teaching staff appointed on 5-year housing licences that were due to expire in July 2004 or 2005 had either left after 4 years (i.e. with one year left on their licence), left when their licence expired, had their licence extended to 7 years, moved to a 15-year licence (e.g. on promotion), or acquired residential status.
- **These results suggest that for many teachers/lecturers, but not all, the expiry of their Housing Benefit/Rent Allowance was not a deterrent to them remaining in the Island, (although it may have encouraged them to come to the Island in the first place). Over 66% of licence holders who were teachers either stayed for the full five years of their licence, or obtained/extended their housing licence or became residentially qualified.**
- At a glance it would appear that the recruitment and retention of teachers in Guernsey was not working too badly in terms of annual turnover and the number of positions unfilled. **However, expiry of their housing licences did appear to be a factor affecting the retention of teaching/lecturing staff in the Island and the view of staff from the Education Department was that many teachers on a 5-year licence would like to stay for longer if they were able.**
- **The Education Department spends over £250,000 a year on Housing Benefit/Rent Allowances. This expenditure is likely to be compounded by a higher turnover of teachers/lecturers when their housing licence expires than might otherwise be the case.**
- **From January-June 2005 the Education Department offered jobs to 8 people, who declined to take up the offer. One of them said that the housing licence offered for the post was too short, and 5 said that they could not afford accommodation in the rateable value band specified.**

#### **106. Health and Social Services Department – nursing staff**

- Out of 198 nurses who left in 2004, 133 lived in the Department's own accommodation and paid a 'reduced' rent. These staff were not eligible to

receive Housing Benefit/Rent Allowance to live in the private sector and in some cases did not need an individual housing licence, as they lived in Health and Social Services-owned property. (NB They were not eligible for licences under existing policy.)

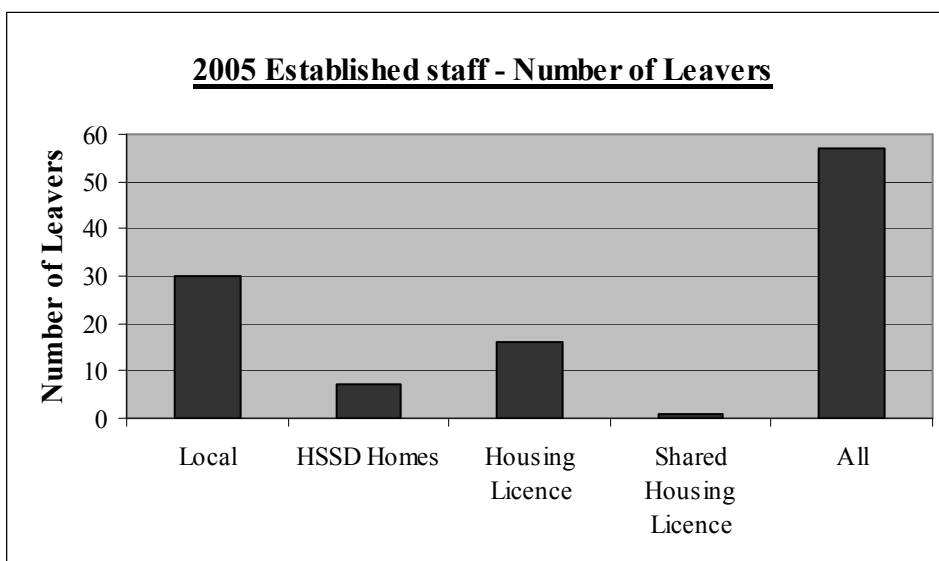
- Around 10% of nurses left before completing two years' service (100 in 2004). (This represents 50% of all leavers.) **This suggests that the provision of housing subsidies and housing licences (or lack of) cannot be the main/only factors behind the difficulties experienced by the Health and Social Services Department when recruiting and retaining nurses.** Indeed, anecdotal evidence suggests that many qualified nurses who come to the Island have no intention of staying for more than two years; they are in the Island to gain experience before moving up the career ladder.

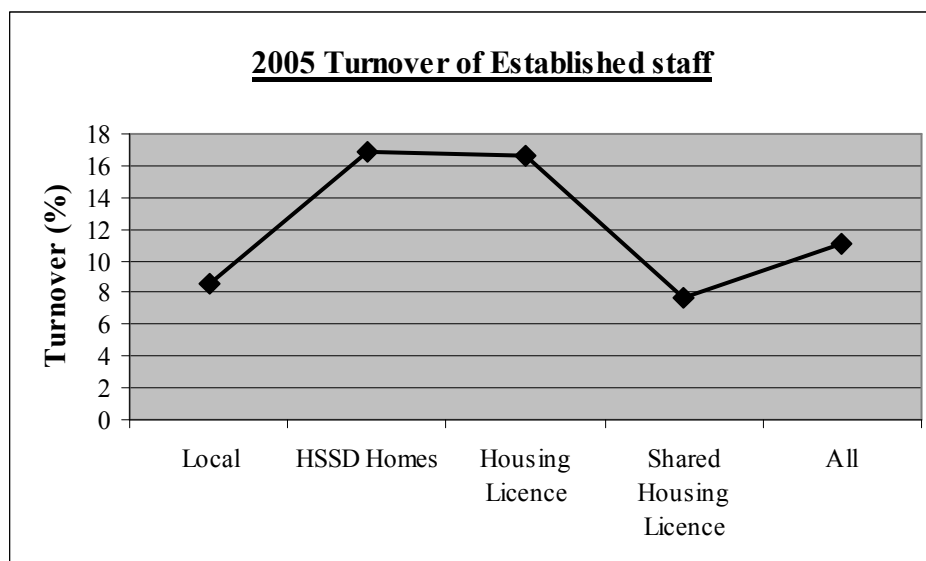
These are such significant issues that it is important to look at the experience of the Health and Social Services Department in more detail.

Unlike the other employing departments which are primarily reliant on housing licences, the Health and Social Services Department is able to accommodate many of its staff – predominantly nurses - in States-owned accommodation for unlimited periods of time, because housing licences are not required for such accommodation. While the problems experienced by Health and Social Services in respect of housing licences replicate those experienced by other departments, it is perhaps surprising that its greatest retention problem – by some considerable distance – concerns nurses housed in accommodation which it manages itself.

**Health and Social Services Department - Staff retention patterns by residential status for 2005**

Established Staff





N.B. "All" includes Nurses in Alderney and those on temporary right to work documents.

107. The above graph demonstrates the turnover of those Established Staff (i.e. not nurses) living in the community under a housing licence (whether in their own right, or by virtue of being the spouse/partner of another licence holder employed outside the Department) compared with those with residential qualifications. The turnover is comparable with the figures for “key workers” employed by other departments.
108. However, while the turnover of staff under licence is numerically small compared with the turnover in residentially qualified staff, it must be understood that the non-local staff are specialist healthcare staff, many of whom are in professions where there are national shortages in the UK.

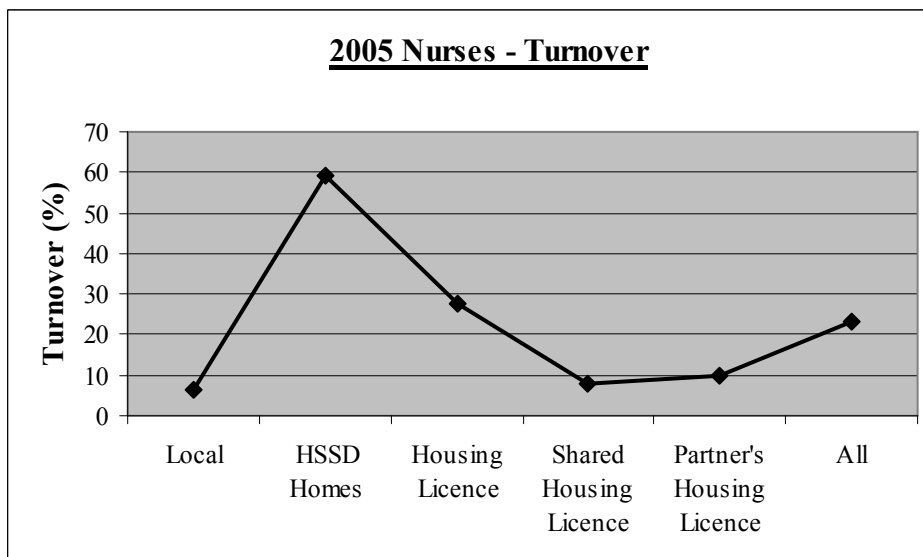
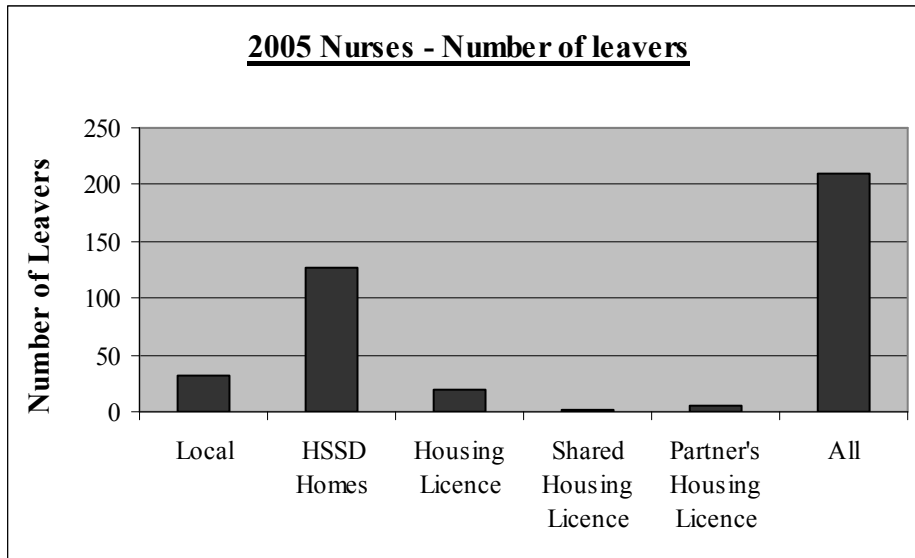
#### Nursing staff

109. The graph below shows turnover statistics for all permanent nurses on Agenda for Change<sup>20</sup> conditions of service, i.e. both qualified and unqualified nurses.
110. As a result of housing licence policy, all unqualified nurses are residentially qualified; and their turnover rates are much higher than for qualified local nurses. Even so, the numbers and turnover rates for all local nurses are substantially below those for nurses accommodated in Health and Social Services’ own accommodation, which are non-local staff.
111. Some nurses who would otherwise be living in Health and Social Services Department accommodation (because they are ineligible for a housing licence in their own right) are living in the community by virtue of the fact that they are a spouse/partner of another licence holder. Although the numbers are small, turnover is halved, which suggests that it is the type, rather than the price of accommodation, which is the significant factor.

<sup>20</sup> Agenda for Change refers to the pay, and terms and conditions of service for nurses employed by the Health and Social Services Department.

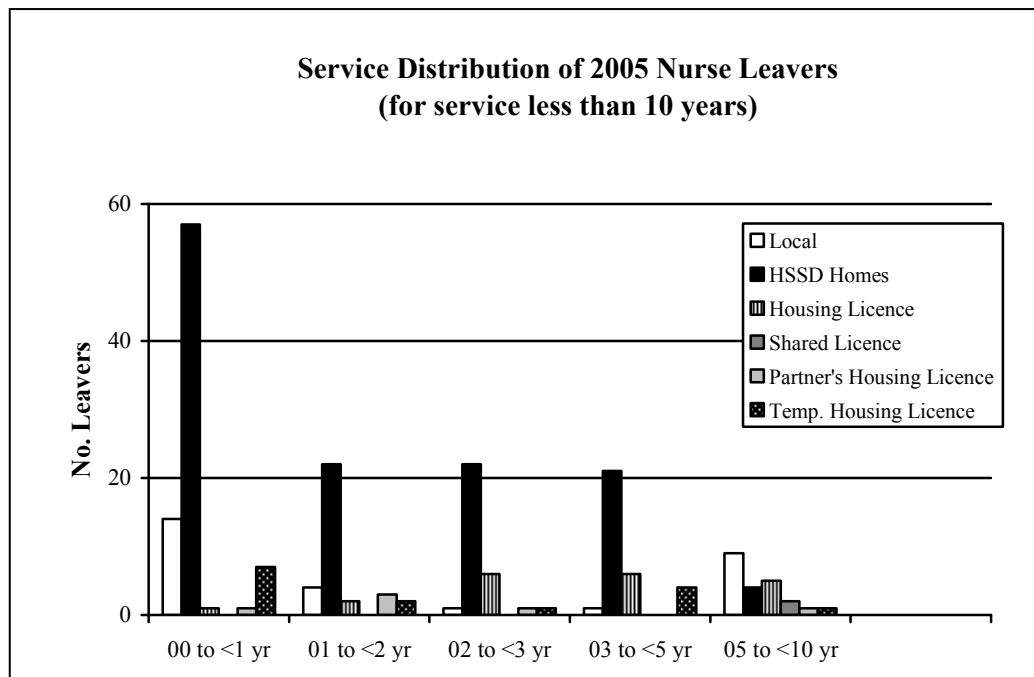


112. Housing licences available to senior nurses and those nurses relying on a spouse/partner's licence show greater stability.
113. The Health and Social Services Department also suggest that for “key workers” recruited off-Island, their inability to apply ‘family friendly’ working practices restricts the pool of labour from which the Department can recruit. For example, housing licences are invariably not available to part-time workers, and, whereas a local nurse can request a change in hours or even a period of unpaid leave, these types of options are not available to those members of staff on a housing licence.



Lengths of Service by Right to Work

*Nurses*



114. The graph above shows the stark contrast in length of service between nurses housed in accommodation directly managed by Health and Social Services compared with those nurses who are residentially qualified or live in the community under some form of housing licence.
115. Somewhat surprisingly, despite having unlimited residence in Health and Social Services' accommodation because no housing licence restrictions apply, there is considerable turnover in employees. By contrast, nurses who live in the community by virtue of the fact that they are a spouse/partner of another licence holder tend to be employed for longer periods than those directly accommodated by Health and Social Services.
116. From this data, the following tentative conclusions may be drawn:
- Extending housing licences will not necessarily solve the problem of staff turnover;
  - Nor will providing accommodation at below market rents.
117. Is turnover, therefore, a natural phenomenon associated with the career patterns of nurses, or is the accommodation provided unsuitable for long-term residence? Or are some other factors at work?
118. To test these theories, a limited study was undertaken into nurse retention and ongoing information is available from nurse exit interviews. Comparisons of the responses for local and non-local nurses on issues like *Morale in the Work Area*, *Recruitment Procedure*, *Training Opportunities*, *Working Conditions*, *Management Quality*, *Equipment*, *Workloads*, *Induction Procedures*, and *Career Prospects* all show few local/non-local differences. The variations in responses occurred when comparisons were made of the types of accommodation available to different nurses.

**119. This suggests that the type of housing provided is a main cause of high turnover.**

120. Similarly, it can be demonstrated that many qualified nurses who come to the Island have no intention of staying more than two years.

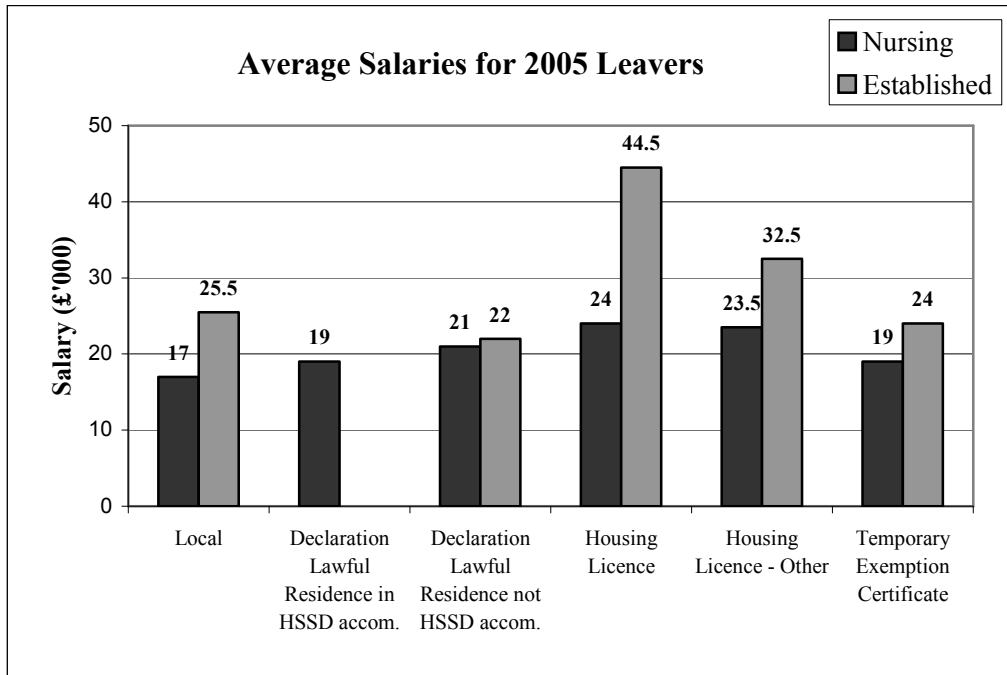
121. However, it is argued that if you provide igloos you will recruit Eskimos, but you will not recruit nurses from the UK. Similarly, if the housing provision is single-person accommodation you will not attract nurses with families, but you will attract single people: the former are likely to provide a stable workforce, while the latter a fluid one.

122. In short, it is primarily the form of the accommodation, in conjunction with licensing restrictions that determines the kind of nurses that are recruited, and that, in turn, determines their probable length of stay.

#### Average Salaries of Nurse and Established Leavers in 2005

123. The average salaries shown in the graph below are necessarily approximate but they illustrate three things:

- That nurses (generally senior nurses) have lower salaries than other “key workers” employed with housing licences;
- That the salaries of those nurses in Health and Social Services Department accommodation (£19,000) are lower than those competing in the local housing market with housing licences. This is not surprising because most of these nurses are basic grade qualified; and it is why they are provided with States’ accommodation at less than market rates;
- That residentially qualified nurses living in the community have the lowest average salary. Again this is not surprising, as this group comprises all the employed nursing auxiliaries.



**How do “key worker” recruitment and retention policies differ between States’ departments?**

124. The results from the data collection exercise were, in the main, not a surprise to the Working Group as the data largely reflects the current uncoordinated policies that are in place.
125. As illustrated in **Appendices G and H** individual committees, and now the new departments, have adopted different policies with regard to meeting the **accommodation needs** of their “key workers”, which have grown piecemeal over the years: a process of evolution which, as is evidenced below, is continuing right up to the present day.
126. These policies include a mixture of direct provision and management of specific accommodation, the ownership and leasing of properties, through to the provision of various direct and indirect housing subsidies for employees renting or purchasing privately. These policies are characterised by their lack of uniformity, their discrimination in general in favour of holders of housing licences (and those for whom accommodation is directly provided by the employing department), and their overall lack of coordination States-wide (which results in inefficient duplication of administration).
127. In the absence of any corporate policy on “key workers”, one question that needs to be considered is whether or not there should be a greater degree of uniformity in the treatment of “key workers” all working for the States but for different departments, or whether the differences in circumstances between departments justifies department-specific policies. The KWHG concluded as follows.

128. In general, the Working Group felt that, regardless of their employing department, “key workers” should, in principle, be able to access accommodation provided by the States (or a third party contracted for the purpose), but that this accommodation would need to reflect that different “key workers” may have different needs and aspirations.

129. The Working Group therefore recommends the following:

**Recommendation 3** – that, as far as possible, there should be consistency in the treatment of “key workers” across the States, regardless of who is their employing department.

**Recommendation 4** – that department-specific policies that depart from the corporate strategy should have an explicit rationale and be evidence-based.

130. However, the issue is much broader than simply providing access to housing. The Working Group was set up to review the provision and funding of “key worker” housing, and housing licence policies, and remuneration packages, with the aim of “developing a blueprint that can be applied corporately across all stakeholder departments.”

131. For example, the Working Group’s data collection exercise confirmed that “key workers” were treated differently depending on their employing department, because:-

- **Licensing policies** differ between departments and between different types of “key worker”;
- **Relocation packages** differ in their application between departments. In practice this means that “key workers” are treated differently depending on who is their employer, and what type of accommodation they occupy or licence arrangement they are under, e.g. Education, and in some circumstances, Health and Social Services, offer re-location packages to returning locals which other Departments do not (see the next section below); and
- **Housing policies** for “key workers” recruited from off-Island are not uniform across the States - some Education and Health and Social Services Department staff are offered States-owned or States-leased accommodation, an option that is not open to Home Department staff. As a result, notwithstanding this report, the Home Department is currently seeking, independently, to obtain States-owned accommodation in order to be able to offer Police, Prison and Probation Officers similar arrangements.

In addition, a nurse living in Health and Social Services Department accommodation would currently be treated very differently to a nurse who is a tenant of the Housing Department or of the Guernsey Housing Association (GHA).

The Health and Social Services Department’s accommodation is subsidised, with the levels of subsidy being set at between 30 and 50%

of what the Department judges to be a fair rent for each property, regardless of the income of the tenant/occupant. This subsidy takes the form of a reduced rent when compared to the rent that could be charged if the property were being let commercially, i.e. it is an indirect not cash subsidy. As a result, Health and Social Services is not recovering the level of income it should if rent were commercially based.

By contrast, Housing Department tenants and GHA nominated tenants receive a rent rebate, so that they pay what the Housing Department policies determine they can afford to pay based on their income and household circumstances, whereas Health and Social Services' staff pay the same rent *irrespective* of their earnings.

**Who is currently eligible to receive financial support aimed at the recruitment and retention of “key workers”?**

132. In the above analysis, frequent reference was made to Housing Benefit and Rent Allowance.
133. **These schemes for assisting “key workers” with their accommodation costs (detailed in Appendices G and H) generally only apply to non-residentially qualified staff relocating to Guernsey; no assistance with housing costs is available to the local population as a result of the jobs they perform.** The Health and Social Services Department alone pays out over £500,000 per annum on Rent Allowance.
134. Significantly, this direct financial assistance is only available for a limited time to staff living under licence in privately owned or rented accommodation. Compare this with staff living in States-owned (or leased) accommodation, where reduced rents are not time limited and are given to staff irrespective of the length of time they occupy the accommodation.
135. While there is strong political support for achieving equality between staff recruited off-Island and local staff, different departments have adopted different ways of achieving this: for example, the relocation policy adopted by the Education Department for teachers. Teachers returning to the Island receive a relocation package including Housing Benefit and Rent Allowance regardless of whether they are coming to work in the Island under an employment-related housing licence. Under certain circumstances, Health and Social Services also offer relocation benefits to returning local health and social service professionals, previously permanently resident elsewhere, in respect of posts for which applications have been invited from UK residents. Payment will only be made if the candidate were not otherwise intending to return to live in Guernsey. In other departments, this package is restricted to employment-related licence holders only. The ineligibility of local nurses and local Police Officers to receive these housing subsidies was shown to affect morale in both these services.
136. Another example is the recent decision of the Home Department, albeit for budgetary reasons, not to offer Housing Benefit and Rent Allowance as part of

the recruitment package for Police Officers. If the Police are unable to recruit the Officers required, then the Home Department will consider reinstating these benefits.

**What does the States of Guernsey currently spend on “key worker” recruitment and retention?**

137. Substantial sums are spent on Rent Allowance/Housing Benefit/housing subsidies for “key workers”.
138. During 2004 the Police spent approximately £66,806 on Housing Benefit/Rent Allowances distributed between approximately 31 officers, an average per annum of £2,155. (NB It is possible for an officer to receive both Rent Allowance for renting a property and then Housing Benefit for the purchase of a property. Therefore, in practice, the number of officers benefiting may have been slightly lower.) This figure increased to £117,970 in 2005.
139. The 5 Police Officers who left in 2004 had received £48,531 - an average of £9,706 - in Housing Benefit/Rent Allowance.
140. In 2004 the Probation Service spent £12,057 on these benefits (£9,784 in 2005.)
141. The Education Department had 50 employees living in States-owned or States-leased accommodation in 2004. The rent subsidy given to these employees in that year equated to £79,200. In addition the Education Department spent £259,514 on Housing Benefit/Rent Allowances for 56-66 employees, an average per annum of approximately £3,900-£4,600 per employee.
142. The Health and Social Services Department spent £84,644 on Housing Benefit; provided the cash equivalent of £754,657 in rent reductions to those living in Health and Social Services’ accommodation; and also paid out Rent Allowance to 122 employees, comprising 76 nurses and 46 other Established Staff posts<sup>21</sup> totalling an additional £538,740, an average per employee of £4,416.
143. In 2004, Rent Allowance plus Housing Benefit plus indirect/hidden subsidies given to employees living in States-owned/leased accommodation cost at least **£1,795,618** for the posts included in this report, excluding expenditure on recruitment costs, house hunting visits, etc.
144. The Working Group also attempted to quantify the other expenses associated with recruitment, interview expenses and other relocation expenses, e.g. house hunting visit, removals.
145. For the six months January to June 2005, for the Health and Social Services Department’s staff, teachers and Police Officers this figure (including the cost of staff time except for Health and Social Services) is estimated at **£553,418**.

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<sup>21</sup> In 2005, Rent Allowance payments totalling £581,484 were made to 104 staff: 51 nurses and 53 other members of Established Staff. Currently, Rent Allowance is in payment to 68 staff, of which 36 are nurses, 3 medical staff and 33 other members of Established Staff.

146. This suggests that on top of Rent Allowance and Housing Benefit, an additional amount in excess of **£1m** per annum is spent on the recruitment and retention of Health and Social Services' staff, Police Officers and teachers<sup>22</sup>.
147. This is corroborated by the June 2005 National Audit Office report on staffing levels for the Home Department, which identified that relocation costs for Police Officers were currently costing about £235,000 a year in total.
- 148.** The total financial assistance provided to “key workers” in the forms of Housing Benefit/Rent Allowance (using the 2004 figure of £1,795,618 above) and other relocation expenses (using the 2005 figure of approximately £1 million) was approximately **£2,800,000**.

**Is assistance currently being given in the most cost-effective way?**

149. The Working Group considered whether Housing Benefit/Rent Allowance was a cost-effective way of providing subsidised housing for “key workers”; it concluded it was not.
150. Taking the Education Department as an example: in 2004, £259,514 was spent on Housing Benefit/Rent Allowance for 56-66 employees. Over a 30-year period this would equate to approximately £7.78m which the States would not see again.
151. Assuming the States owned land with the necessary infrastructure that could be made available for housing and had the necessary finance to put into “key worker” housing without recourse to borrowing, at a build cost of £120,000 per house, 64 houses could be built and let out rent free for the same amount (excluding maintenance and administration costs).
152. Also the buildings themselves would be likely to increase in value during this time thereby providing the States with an appreciating asset.
- 153. In other words, it appeared that the same number of employees could be housed directly by the States over a 30 year period for a capital cost equivalent to the payment of Housing Benefit/Rent Allowance presently being paid. Payment of a reasonable rent over this period would significantly increase the financial benefit.**
154. Although this scenario is over-simplified, the Working Group decided to explore these ideas in more detail using financial modelling to analyse whether providing a Housing Benefit/Rent Allowance as part of a relocation package was a cost-effective way of providing subsidised accommodation for “key workers” or whether direct provision was more cost-effective<sup>23</sup>. These issues are explored further in **paragraphs 248 to 260**.

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<sup>22</sup> The other Home Department “key workers” [e.g. Probation staff and Prison Officers] have not been included in the analysis of other expenses, as the number of staff involved is much smaller.

<sup>23</sup> In view of the analysis above, it would be too simplistic to require all employees to live in States-owned accommodation, as this would not be attractive to all prospective employees.



### **Why is maintaining the status quo not an option?**

155. The problems of retaining and recruiting staff are highly relevant issues with an impact on public services and the economy as a whole: to do nothing is not an option.
156. Doing nothing:-
- will perpetuate the gross inefficiencies and policy contradictions that apply to the recruitment and retention of “key workers”;
  - will not help “key workers” to access accommodation they can afford;
  - will not achieve a corporate policy on assisting “key workers” with meeting accommodation costs that sits comfortably within the States Housing Strategy and Corporate Housing Programme;
  - is not the most cost-effective way to assist “key workers” to access accommodation suitable for their needs; and
  - at a time when States’ finances are under pressure, will not reduce the costs associated with staff turnover.
157. The following sections of this report thus examine the ways in which policy changes may be made to address these issues.

### **REMUNERATION**

#### **Could improved remuneration packages enhance the recruitment and retention of “key workers”? What would be the costs and benefits of this option?**

158. Pay is often cited as a major reason why it is difficult to recruit and retain staff in key public sector posts.
159. The Working Group established that there are approximately 1,400 employees who meet the definition of a “key worker” who earn £35,000 (+/- £2,000) per year (excluding overtime). Two-thirds of these are employed by Health and Social Services, with the remaining staff employed in roughly equal numbers by the Home and Education Departments. £35,000 was chosen as a benchmark, as those staff earning less than this are the target of support provided by the NHS (NHS Housing Initiative Guidance, 2003.)
160. Unpublished figures from the PSRC suggest that between 1994 and 2004 public sector pay increases were, with one exception, well above RPI (average 50% cf. RPI of 41%).
161. However, average house prices over the same period have increased by 193%, with the lower quartile value increasing by approximately 160%. Whilst pay is an issue, it cannot be divorced from the high cost of living in Guernsey, of which housing is the major element.

162. However, Mike Parr's report into the Operation of the Housing Market in Guernsey in February 2003<sup>24</sup> said that although in historic terms current average prices, both nominal and real, are at a high as measured by the standard price/earnings ratio, the fall in nominal interest rates has meant that on average property is still affordable. Furthermore, the Policy and Research Unit's affordability index suggests that because of low interest rates, house prices are actually more affordable than they were in 1981 or in the early 1990s (source: 2005 Sustainable Guernsey).
163. Another way of looking at the situation is to say that, at the time of writing, the average purchase price of a house is £311,961, with the lower quartile standing at £224,625 (source: Policy and Research Unit House Price Index Q2 2006). This is 8.9 and 6.4 times respectively, the earnings of a single "key worker" on a salary of £35,000 per annum; as a result many of the "key workers" who earn less than this amount, will find home ownership unaffordable.
164. While this situation does not obviate the PSRC from its responsibility to see that public sector staff are fairly remunerated, it is clear that salaries would have to double to allow staff to afford market prices. In turn this would fuel the housing market, increase prices and a never-ending "catch up" situation would be likely to occur.
165. It is also important to note that the PSRC - and the Civil Service Board before it - have never accepted the argument that house price inflation is a justification for higher pay. This is because for every person having difficulty getting their foot on the housing ladder, there are far more existing staff who own properties, whose asset value has increased over the years, and who would also benefit from a pay rise linked to house prices.
166. Therefore increasing salaries across the board does not appear to be "the answer".
167. Nevertheless, over the years, employing departments have consistently argued that pay increases for "key workers" should not be dismissed too readily and that for certain groups, pay is an issue in the recruitment and retention of "key workers".
168. Employing departments represented on the KWHG also believe that the pay on offer to "key workers" influences the quality of the workforce that they are able to recruit and retain.
169. However, in considering this issue, the KWHG noted the following information provided by the PSRC: -
- The public sector employs some 4,500 staff;
  - The annual paybill is roughly £150m;
  - An extra 1% on pay for everyone translates to an extra £1.5m per annum on the paybill (2% = £3m etc);

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<sup>24</sup> Billet d'État II, 2003

- An extra 1% on pay would give a teacher, a Police Officer or a nurse an extra £4 - £7 per week; this is not an amount that would be likely to be the difference between buying a house or not.

170. Indeed, even if pay increases were limited to those employees meeting the definition of “key worker” included in this report,<sup>25</sup> (i.e. where there is a significant recruitment and retention problem), a 1 or 2% pay increase would be too expensive and make little difference to housing affordability.

**171. Consequently, the Working Group believes that increasing pay *across the board* for “key workers” is not an option.**

**172. However, it is of the view that pay could continue to be used to address particular recruitment and retention “hot spots”, whereby pay may be an issue that restricts the housing options available to “key workers”.**

**173. It is also of the view that pay rates must be competitive: (i) in the local labour market; and (ii) in comparison with employing authorities elsewhere from which staff are sourced to work in Guernsey.**

**Recommendation 5 – that the Public Sector Remuneration Committee continue to give serious consideration to the pay of particular groups of “key workers” or staff with specialist skills that are proven to be in short supply in the UK or internationally, as a means of addressing identifiable recruitment and retention difficulties, as part of its normal pay determination process.**

## **HOUSING LICENSING POLICY**

**What is the purpose of the Housing Control and Right to Work Laws and how do these relate to “key workers”?**

174. The current States’ population policy is shown in **Appendix E**.

175. Population policy is set by the States – not by the Housing Department - and is normally reviewed annually as part of the Policy and Resource Planning Report (although see paragraph 199 regarding Guernsey’s Strategic Population and Migration Policy).

176. The Housing Control Law supports the population objective and is focused on maintaining sufficient housing stock for the resident population. Housing licences are therefore a strategic tool to control occupation of the local housing market and to act as a population control measure.

177. The Housing Department has a number of long-established policies in respect of the grant of housing licences to certain public sector workers – see **Appendix E**.

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<sup>25</sup> NB It would be difficult for PSRC to defend this action to other employees not deemed to be “key workers”.

178. The Department's policy, endorsed by the States, is that wherever possible the period of validity of essential employment-related housing licences is limited so that the majority of such licence holders do not reside in Guernsey for more than five consecutive years.
179. Generally the Department will only grant a licence which enables an essential licence holder to live in Guernsey for more than five consecutive years if it is satisfied that long-term continuity in the post is essential, and/or the skills required are in short supply on a national basis so that recruiting is exceptionally difficult. Where continuity in the shorter term is necessary – for example, to cover another employee's maternity leave or while a replacement is completing his/her training – the Department sometimes grants 7 year licences.
180. Licences for "key workers" therefore have to be looked at in the broader context of States' policy limiting the majority of essential licences to 5 years.

**How is the recruitment and retention of "key workers" affected by the Housing Control Law? What is the evidence?**

181. Employers in all sectors of the economy generally complain that the granting of 5 year licences causes a number of difficulties. Such complaints come from both public and private sector employers; thus although this report focuses on those most commonly cited by those in the public sector, the private sector cannot be ignored in the implementation of any policy changes arising from its consideration.
182. The first commonly cited problem is that if employees come to Guernsey as the holders of 5 year licences, the employer is likely to obtain a maximum of only 2 years' truly productive time from them. The initial 12-18 months are spent familiarising themselves with the organisation and the Island, whilst most people start looking for a post in the UK after about 3.5 years in post because they do not wish to risk finding themselves without a job in the UK when the 5 year licence term is completed.
183. A second issue is the cost of relocating licence holders from the UK (or sometimes further afield) to Guernsey. For some States' departments these costs were set out in **paragraphs 92 to 157** of the report. A common argument put forward is that because employees are forced to leave the Island when their housing licence ends, the turnover of staff and relocation expenses, are higher than would otherwise be the case.
184. The Working Group's aforementioned study of staff turnover in 2004 (**paragraphs 92 to 157 and Appendix D**) found that **the length of housing licence granted would at the present time not appear to be a significant factor in the recruitment and retention of Police Officers. Housing licences are also not the only or main factor affecting the recruitment and retention of nurses.**
185. The Working Group's data collection exercise did support previously anecdotal evidence that many teachers (and health care workers/social services staff) on a

5 year licence would like to stay for longer if they were able. Indeed over 66% of teachers whose licences were due to expire in either 2004 or 2005 either stayed for the full 5 years of their licence, or obtained/had extended their housing licence or became residentially qualified.

186. In general, housing licences would appear to be affecting the Education Department's ability to recruit and retain staff.
187. However, these conclusions need to be tempered by two notes of caution.
188. First, the data provided by the Education Department was of a high quality, combined with a large number of employees and leavers to study. On the other hand, the number of leavers (not the percentage turnover which was high) from the Home Department especially, was too small to analyse the underlying causes of recruitment and retention difficulties in great detail.
189. Secondly, the Housing Department's "live" licence figures at 31 March 2005 show that the greatest increases compared with the previous year were to be found in the health (8.5%) and education (7.4%) sectors. (NB These figures include some licences issued in the private sector and exclude States' employees who reside in States-owned or leased accommodation.)
190. These figures confirm that the Housing Control Law is being administered in a way that represents a compromise between: a) meeting the States' high level economic and social objectives; whilst at the same time b) maintaining the population objective. They also indicate that factors other than housing licences are influencing recruitment and retention of health staff and teachers.
191. There is one further factor of relevance here; and that is that staff recruited on housing licences are only able to occupy housing of a rateable value related to their remuneration package, the objective being to safeguard local market housing for Islanders<sup>26</sup>.
192. Nevertheless, the direction of licence holders to particular parts of the housing market may provide a further deterrent to the recruitment of "key workers". For example, five out of eight Education applicants who refused job offers between January and June 2005 stated that they could not afford accommodation in the rateable value band specified for their remuneration package.

**Will there be any changes to the above position arising from the review of Guernsey's Strategic Population and Migration Policy and the review of the Housing Control Law?**

193. The Strategic Population Review Group, a sub-group of the Policy Council, is currently charged with reviewing the Island's population policy.

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<sup>26</sup> It is acknowledged that there is not a perfect relationship between rateable values and house prices; however, they are the best approximation currently available to fulfil this objective.

194. In December 2005 the Group produced a “green paper”, which was put out for public consultation by the Policy Council. The Group is in the process of reviewing the document, taking into account the comments made during the consultation and it is the intention that the policy will be brought before the States in January 2007.
195. The consultation document proposes a number of work streams; one of which is for the Housing Department to review the Housing Control and Right to Work Laws, in light of the policy that is agreed by the States and the findings of the other work streams arising from its implementation.<sup>27</sup>
196. This is because the Housing Control Law is a strategic tool to ensure that there are sufficient properties for those who are either residentially qualified, or under licence. The Housing Control Law is thus in force to support the States’ population policy. Therefore the Housing Control Law cannot be reviewed ahead of a States’ decision on the Island’s future Strategic Population and Migration Policy.

**Can the issue of housing licences for “key workers” be considered independently from the above reviews?**

197. It follows from the above that, ideally, housing licences for “key workers” should not be considered independently of the above reviews, and certainly not before the States has decided upon the Island’s strategic Population and Migration Policy.
198. Notwithstanding this, the Working Group has identified – but, to date, not discussed in detail - a number of possible options to assist in the recruitment and retention of “key workers” that require further investigation. This is the subject of the remainder of this section of the report.

**What possible options could be considered to assist the recruitment and retention of key workers?**

199. The options set out below outline some first thoughts of the KWHG on ideas that could be investigated as part of the forthcoming review of the Housing Control Law, in order to aid the recruitment and retention of “key workers”. **Once the Strategic Population and Migration Policy is decided, it will be a matter for the Housing Department to review all these options in greater detail and make recommendations to the States accordingly.**
200. Where research has already indicated that options are likely to be unworkable, the rationale behind these conclusions is given.

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<sup>27</sup> The Housing (Control of Occupation) (Guernsey) Law 1994 came into force on 1 July 1994 and was originally set to remain in force for 10 years. Provision was made for it to be extended by ordinance for up to 5 years. It is currently extended under Ordinance until the end of June 2007.

- **Allow “key workers” to stay in the Island for an unspecified period of time, whilst they remain in their post of essential, or “key worker”, employment.**
201. The suggestion has been made that public sector employees ought not to be subject to the constraints imposed by the Housing Department in terms of licence duration. It has been argued that a “key worker” ought to be able to remain on the Island for as long as he/she remains employed in his/her post of essential employment.
  202. First, it may be worth explaining that all essential licences are issued in respect of specific posts of employment. There appears to be a belief that persons can come to the Island, obtain an essential licence and then switch jobs with ease. The only way that this could happen is if the licence holder were to take up a second post of employment that also warranted an essential licence. In practice, this is unlikely as such licences are issued to people with very specific skills, who are likely to move from one employment sector to another.
  203. For example, it would be unlikely that a teacher would have the necessary skills and experience to take up a senior post in the finance industry, assuming that he/she wanted to make such a career change in the first place. Staff of the Housing Control Section of the Housing Department are unable to recall a single instance of an essential licence holder relinquishing a licence in one industry to take up a licensed post in another.
  204. Equally there can be no guarantee that staff employed on longer term licences will remain employed by those departments through to retirement age, particularly once they have established residential qualifications after 15 years’ residence under licence. In addition many staff with local residential qualifications may decide to change the nature of their employment, or leave the Island to achieve promotion and/or to gain more experience within their field, even where specialist training has been provided locally.
  205. There are also a number of potential problems with the idea of granting licences that are not time-limited. For example, once a person has lived in Guernsey for a reasonable period, it can prove very difficult to refuse them further licences because they build up strong connections with the Island. Such a policy would therefore be likely to run counter to the current (and possibly future) States’ population policy.
    - **Instead of limiting essential licences so that such licence holders do not reside in Guernsey for more than 5 consecutive years, consider issuing essential licences for longer periods of residence, such as 7 years where appropriate.**
  206. Unfortunately the possible extension of 5-year licences by, say, 2 years does not necessarily aid the retention of staff, as the knowledge they have to move back to the UK may mean that staff will still decide to move as soon as a career opportunity arises or because they want stability for their children’s education, rather than serve the full 7 years.

207. Extending the length of licences offered also increases the number of people that can build up connections with the Island.
208. This option could potentially reduce some of the recruitment costs of employing departments and help to minimise staff time spent on recruitment processes.
209. Extending essential licences to 7 years (but no longer) is an option that needs to be considered in greater detail by the Housing Department. However a full appraisal of the costs and benefits of this option cannot be undertaken: -
- without seeking the advice of the Law Officers; and
  - until the new States' population policy has been agreed.
- **Consider greater flexibility with regard to short-term licences and/or consider extending short-term licences to up to 5 years.**
210. The suggestion of extending short-term licences for up to five years has been made, but is not as straightforward as it may at first seem.
211. Essential licences and short-term licences are issued for different reasons, but under this suggestion both could be offered for the same time period.
212. Short-term licences are issued where, in the opinion of the Housing Department at the time of application, there is a shortage of suitable manpower in Guernsey to undertake that work.
213. Essential licences are intended for people who are essential to the community on account of their skills, qualifications or experience.
214. Short-term licences are, as they are labelled, supposed to be short-term and, unlike essential licences, do not give holders the right to occupy a self-contained unit of accommodation and bring dependents with them. Permitting some 5-year licence holders to have different rights to others because of the nature of their employment would, therefore, be open to challenge.
215. The numbers involved could also be considerable as the Housing Department has no control over the number of family members that essential licence holders can bring with them. Extending these rights to short-term licence holders would thus be certain to prompt population growth and place further demands on public services, requiring more "key workers" to be employed, etc.
- **Devolve decisions regarding housing licences to the individual employing departments.**
216. It has been mooted that decisions concerning the granting of housing licences should be delegated to employing departments. This has not been researched in detail but there are some fundamental issues that render this suggestion unworkable at the present time.



217. The biggest barrier to this solution is that the Housing Control Law vests the power to grant or deny housing licences in one body; namely, the Housing Department. Consequently, it would not be in accordance with the current Law for others to make such decisions. It would also present particular difficulties if an unsuccessful applicant wished to appeal against a decision. The Law explicitly states that any appeal must be issued against the Minister of the Housing Department. If he or his representative had not made the initial decision a situation could result whereby a summons was issued against him in respect of a third party's decision.
218. It could be argued that the current Law could be amended to provide for decisions to be taken by different bodies. The Law Officers have not been consulted on this point but it is difficult to see how consistency could be maintained if a number of different bodies were making decisions and effectively all administering the same Law. The only way in which this could possibly be achieved would be to have a set of States- endorsed policies to which each department had to adhere rigidly in its decision making. This would cause difficulties in situations where a decision-maker was required to exercise any discretion.
219. It also has resource implications for the Civil Service, as departments would inevitably have to take on additional staff to cope with the demands of administering the Law (over and above those currently employed in this area by the Housing Department.)
220. In addition, if States' departments were able to issue licences within certain parameters to their own employees, there would inevitably be approaches from private sector employees seeking the same degree of autonomy and it could prove difficult to resist allowing them some flexibility.
221. Ultimately, such a method of administering the Law would be likely to prove unworkable because there would be no one body responsible for ensuring that the strategic policies of the States were correctly implemented in accordance with that Law.
- **Allow “key workers” to reside in dedicated “key worker” accommodation provided that they remain in their post of employment. This could be controlled under a “blanket” housing licence, controlled using individual housing licences, or uncontrolled.**
222. Under the Housing Control Law, people living in States-owned accommodation are not required to hold housing licences.
223. In addition, the Housing Department does not issue individual housing licences for a number of properties leased by the Health and Social Services Department, many of which are in multi-occupancy by nursing staff<sup>28</sup>.

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<sup>28</sup> The Home Department is interested in exploring this option.

224. One way of overcoming the need for licences would be to build dedicated accommodation for “key workers” which would mean these workers could reside in the Island without taking up a unit of accommodation that would otherwise not be available for Islanders with local residential qualifications.
225. It has to be acknowledged such a solution would only be financially viable (or desirable for the staff concerned) for a relatively small number of “key worker” households compared with the number of households in the Island who include a “key worker” staff member.
226. Such an option is also not guaranteed to solve “key worker” accommodation problems, since even in the Health and Social Services Department where subsidised accommodation is provided for staff recruited off-Island, approximately 10% of nurses leave before completing two years’ service.
227. The system could also be open to abuse/discriminatory practice if only “key workers” whose housing licence application was refused were offered such accommodation.
228. Despite these drawbacks, this option remains worthy of further consideration.
- **Consideration could also be given to allowing private sector employees, such as care homes, the option of housing their nurses in dedicated or purpose-built accommodation that does not reduce the number of local market dwellings.**
229. It is understandable that other care providers should find it difficult to accept that the States has access to accommodation not subject to controls. However, it must be borne in mind that much of the accommodation owned by Health and Social Services is purpose-built or has been acquired at considerable cost and refurbished (e.g. Arlington Court). In other words, the States have invested in the provision of appropriate accommodation and, in so doing, have not reduced the pool of housing available for occupation by locals (although Health and Social Services’ employees with local qualifications often feel aggrieved at being denied the opportunity to avail themselves of this (subsidised) accommodation).
230. Assuming there is no desire to change the Housing Control Law to make States-owned properties subject to controls, one potential solution would be to decide, as a matter of policy, that where a nursing or residential home provides staff accommodation without reducing the pool of local market dwellings (for example by building a staff block or acquiring a disused hotel) the Department will be more generous in licensing the individuals who occupy that accommodation. This mirrors what has happened in bank-owned staff houses.
231. The biggest problem with this approach is that, even if the Department is more relaxed in its licensing of occupants of such accommodation, it would be unwise to allow them to have licences that were not time-limited. They would be accruing residential qualifications through such residence, albeit that they would have to live in the property for 20 years before qualifying.

232. A further option would be to consider issuing blanket licences for such buildings.
233. Such licences have previously been used in respect of bank accommodation where finance companies have created accommodation for staff by purpose building or converting Open Market dwellings. Consequently staff accommodated in such dwellings did not need to hold individual licences and there was generally no time limit on an individual's occupation of such a dwelling.
234. When the Right to Work Law was introduced, the Housing Authority abolished the concept of blanket licences and decided that occupants should hold individual licences.
235. However, there is no reason why the concept of blanket licences should not be revisited as part of the review of the Housing Control Law. For example, it might prove possible to introduce provisions whereby persons occupying a dwelling where a blanket licence is in force are entitled to Declarations of Lawful Residence.
236. If the Housing Department is to investigate such options, it should first ascertain whether the care providers are prepared, in principle, to provide accommodation for staff that does not come out of the existing local market stock.
237. It is recommended that this idea should be pursued only if the care homes and other employers can demonstrate a commitment to creating such accommodation.
- **Explore the option of providing longer licences to “key worker” households where two or more key workers reside within an individual household.**
238. This option has not yet been researched in detail, but could mirror some housing licence policies for nurses who meet particular criteria (see **Appendix E**) and is worthy of further consideration in the future.
- **Review the level of qualifications that “key workers” require to be classed as essential, with particular reference to care staff.**
239. At present, nurses below Band 6 and unqualified care staff are not granted essential housing licences. The result of this is that, unless they have access to States-owned accommodation, such employees can stay in Guernsey for only 3 years without taking a break in residence. Their accommodation options are also restricted to board and lodgings.
240. There have been calls from the owners of residential and nursing homes to allow care staff to remain on the Island for up to 5 years, particularly as their employers are investing in them by paying for them to complete compulsory

NVQ training. At present, this could only be achieved by granting them essential housing licences, which would allow them greater access to the housing market.

241. However, it is difficult to see how private sector staff could be allowed to access “key worker” accommodation until the needs of all States’ departments had been satisfied.

- **Review the policy of restricting properties that licence holders can inhabit according to the rateable value so that licence holders are directed to a particular part of the market and properties of lower value are kept for local residents.**

242. This policy will need to be reviewed in light of the States’ decision to press ahead with reviewing the tax on rateable value system (Billet d’État VII, 2006). Further tax on rateable value proposals are due to go back to the States in March/April 2007.

243. In the meantime, it was suggested earlier in this report that the influence of rateable value restrictions applied to housing licences was affecting recruitment and retention, as even those “key workers” found it difficult to find affordable accommodation within their options.

244. On the other hand, essential licence holders in the public sector are treated very generously in comparison with other such licence holders. Their Housing Benefit/Rent Allowance is not taken into account when calculating their total remuneration package for the purpose of setting rateable value options – which it is with everyone else – and, as a matter of policy, they are automatically allowed to occupy properties of rateable value £5 less than the options set.

245. Conclusions

246. The majority of the suggestions set out above would represent significant policy changes, the full consequences of which have yet to be examined in detail. Consequently, even if these options find favour with States’ departments, States Members, “key workers” and members of the public, the KWHG recognises that **it is inappropriate to make any firm recommendations for definitive action at this stage.**

247. However, the Working Group would not want any of these suggestions to be ignored, as they are a core element in the integrated strategy that it recommends the States to adopt.

**Recommendation 6 – that the Housing Department review all options for modification of housing licence policies in relation to “key workers”, in liaison with the employing departments, as part of the review of the Housing Control Law.**

## **ACCOMMODATION/HOUSING MARKET INTERVENTION OPTIONS**

### **What are the accommodation/housing market intervention options?**

248. As noted in the introduction to this report, the UK has concentrated on housing policies as the primary means of resolving recruitment and retention problems.
249. For example, a Key Worker Living Scheme has been applied in London, the South East and East of England, where house prices are high and recruitment and retention is difficult. Groups of “key workers” eligible under the Scheme vary by region according to specific local recruitment and retention problems, but the main groups include: -
- Nurses and other NHS staff;
  - Teachers in schools and in further education and sixth form colleges;
  - Police officers and some civilian staff in some police forces;
  - Prison service and probation staff;
  - Social workers, educational psychologists, planners (in London) and occupational therapists employed by local authorities; and
  - Whole-time junior fire officers and retained firefighters (all grades) and in some fire and rescue services (currently only Hertfordshire).
250. The UK Key Worker Living Scheme, the history behind it, and the take-up and response to the Scheme, are detailed in **Appendix I**.
251. The KWHG has similarly concentrated its efforts on the financial arguments concerning the best way to subsidise accommodation costs for “key workers”; for example, whether providing Rent Allowance or Housing Benefit as part of a relocation package is a cost-effective way of providing subsidised accommodation for key workers or whether direct housing provision is more cost-effective.
252. During the course of its investigations, the Working Group considered the following options: -
- Changing, increasing or removing the housing subsidies provided through the Relocation Directive;
  - Opening up social and intermediate housing options, currently available only to local residents, to incoming “key workers”;
  - Renting accommodation in the private sector for public sector staff;
  - Adopting one or more of the UK schemes (**see Appendix I**);
    - Key Worker HomeBuy
    - Key Worker Shared Ownership
    - Intermediate Rent
  - Modifying one or more of the UK schemes to suit Guernsey’s needs; including: -
    - Building additional accommodation specifically for “key workers” to rent from the States (either through the individual employing departments or corporately);

- Building accommodation specifically for “key workers” to be rented from a third party provider, e.g. a housing association.

**Could the level of support given just be increased under the current system?**

253. This report has highlighted inequities between local and non-local “key workers” and between “key workers” working for different States’ departments. Increasing the current levels of financial support given to “key workers” to meet housing costs under the current system would only accentuate this position.
254. In 2004 Rent Allowance plus Housing Benefit plus hidden subsidies given to employees living in States-owned/leased accommodation cost at least £1,795,618 for the posts included in this report, without including recruitment costs, house hunting visits etc. The amounts of such benefits tend to increase annually, but in the current financial climate it would be unreasonable to recommend a big increase in the level of support given over and above this amount.
255. This money is lost to the public purse and another “key worker” is likely to become eligible to receive these benefits for a certain period of time, as stipulated in the Relocation Directive. This accentuates the need to consider whether the current levels of subsidies given to “key workers” in respect of meeting housing costs could be delivered more cost-effectively.

**How about renting more accommodation in the private sector for public sector staff?**

256. Renting properties from private landlords and then re-letting them to staff is very uneconomic way of providing accommodation for “key workers”, as can be demonstrated by the experience of Health and Social Services.
257. The rents paid by staff for these properties are less than the Department is charged by landlords. This arises because the staff living in these privately-leased units cannot be expected to pay more rent than those staff that live in the Department’s directly-managed accommodation, otherwise they would object. There is thus a substantial cost to Health and Social Services in renting these units, which is not fully recovered through the rental income it receives.
- 258. An audit carried out in 2003 estimated that the Department was “losing” between £350,000 and £400,000 per annum on these properties because of the low rents it was charging its staff relative to the actual rents the Department was paying for the accommodation; and this for units where there were often complaints about the standard of accommodation.**
259. In the light of this experience, renting more accommodation in the private sector for a large number of “key workers” is not considered by the Working Group to be the most cost-effective option in the longer term.

**Recommendation 7 – that the Treasury and Resources Department be responsible for ensuring that the leasing of properties from the private sector for occupation by “key workers” are phased down, once the accommodation can be replaced by purpose-built properties owned and/or managed by the States and/or a “key worker” housing association.**

260. Further financial arguments to support this recommendation follow below.

## **EVAULATION OF ALTERNATIVE HOUSING OPTIONS**

### **What alternative housing options were examined?**

261. The Cambridge Projects’ consultant evaluated the cost-effectiveness of the current methods and levels of subsidy given by the States and compared these with:

- a rental subsidy scheme (delivered via new, purpose-built accommodation); and
- an equity loans scheme.

262. Both schemes, which were based on “key worker” schemes in the UK (see **Appendix I**), demonstrated cost advantages.

263. Financial modelling showed how low cost rental accommodation and/or equity loans could be provided at less cost to the States over a 45-year period than leasing or renting properties from the private sector, directly providing subsidised accommodation and paying out Rent Allowances and Housing Benefit.

### **Why look at two schemes?**

264. Two schemes were examined because “key worker” research in the UK (see **Appendix I**) shows that teachers and Police Officers, in particular, tend to prefer to choose properties to buy on the ‘open’<sup>29</sup> market, rather than residing in purpose-built “key worker” developments.

265. The equity loan model is therefore included as a potential solution to assist “key workers” whose wish is for home ownership. These are likely to be staff in receipt of higher salaries and/or longer housing licence terms and/or with larger families.

266. By contrast, “key workers” on relatively low salaries and/or shorter-term housing licences and/or no dependants are more likely to wish to occupy rented accommodation.

267. The two models are explored below, beginning with the provision of rented accommodation.

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<sup>29</sup> In this paragraph “open market” is used to mean free choice.

## **Provision of submarket rental accommodation for “key workers”**

### **How could the recruitment and retention of “key workers” be managed more efficiently and effectively in the future?**

268. The Working Group started from the premise that it would be more cost-effective for one body to manage any purpose-built “key worker” accommodation, rather than the current situation whereby each employing department manages its own accommodation.
269. It is believed that this will lead to administrative savings/efficiencies being made and also ensure that “key worker” accommodation policies are applied corporately and consistently across the States.
270. The Cambridge Projects’ consultant recommended using a housing association to provide submarket rental accommodation for “key workers”.
271. He further recommended appointing a housing association that specialised in providing accommodation to “key workers”, rather than other forms of social or intermediate market housing, on the basis that being demand, rather than needs-led, it requires specialised marketing as well as tenancy management expertise.
272. The Working Group agreed, in principle, with these recommendations; however, it remains to be proved whether the number of “key worker” units required would be sufficient to sustain a specialist housing association establishing itself in the Island.
273. In this respect it would seem essential that there is a commitment to transfer the management of all existing staff accommodation to the housing association as part of the package on offer. It is understood that the department with the greatest number of units in its management – Health and Social Services – agrees with this proposal in principle.

**Recommendation 8 - that the Housing Department, in liaison with the Health and Social Services Department, undertake an “expressions of interest” exercise to determine if there would be sufficient interest for a specialist “key worker” housing association to set itself up in Guernsey; to be followed by a tendering exercise if the interest were sufficient.**

**Recommendation 9 - that, in principle, the responsibility for the management of existing ‘key worker’ accommodation owned by the States be transferred to a specialist “key worker” housing association.**

274. The consultant also recommended that the States establish an “Employers’ Consortium” from the existing members of staff on the KWHG to provide coordinated planning, ongoing reporting, and advice and recommendations on required policy revisions; for example, with regard to the eligibility criteria for accessing “key worker” accommodation. Again, this is supported by the Working Group.



275. Any policy decisions with regard to helping “key workers” to afford accommodation would have to be referred through the Employers’ Consortium at staff level in the first instance. The Employers’ Consortium would be responsible for both setting eligibility criteria and deciding which posts should be given priority for assistance/accommodation.

276. The Employers’ Consortium could then: -

- either report to the Housing Department at political level, as well as individual working group members reporting to their respective departments; or
- a separate political group, comprising of a representative from each of the employing departments, plus the Housing Department and Treasury and Resources Department, could be formed.

277. The third party provider would then be responsible for administering the rental scheme in line with the agreed policies.

**Recommendation 10** – that, under the leadership of the **Housing Department**, the States establish an “Employers’ Consortium” from the employing departments on the KWHG to provide coordinated planning, ongoing reporting, and advice and recommendations with regard to the eligibility criteria for accessing “key worker” accommodation, and other policy and procedural issues.

**How would the submarket rental scheme work from a “key worker” point of view?**

278. At the time of applying for a position, a “key worker” would be advised of the housing association’s accommodation options, including the eligibility criteria; if they wished to be considered for accommodation and were eligible, they would then need to agree to their details being provided to the housing association and the Employers’ Consortium, etc. Once approved by the Employers’ Consortium, they would then liaise directly with the housing association as the manager of their tenancy.

**What levels of demand were assumed in the financial modelling exercise and how did the Working Group arrive at these figures?**

279. During the course of its financial modelling work, the Working Group had to make a number of assumptions.

280. The first assumption concerned the level of demand for assistance with accommodation costs; the second assumption incorporated an assessment of how much “key workers” could afford to spend on accommodation costs.

281. This model assumed that the States would replace the current subsidies with **newly-built accommodation at current levels of demand, whereby demand is defined as the number of people currently receiving some form of subsidy towards meeting accommodation costs**, (i.e. either residing in States-

subsidised accommodation or in receipt of Housing Benefit or Rent Allowance), based on 2004 figures.

282. In **paragraphs 92 to 157** it was shown that, in respect of housing subsidies, in 2004 a total of 40 States' employees were in receipt of Housing Benefit totalling £182,358 expenditure in that year.
283. In addition, the Working Group initially estimated that 496 employees (from the same groups) were in receipt of either Rent Allowance or living in States' accommodation in 2004 – the effective subsidy (including the “hidden subsidy” given to those living in States' accommodation at subsidised/below market rents) totalled £1,072,211 in that year.
284. However, unfortunately the Health and Social Services' figures only included the number of employees either in receipt of Housing Benefit or living in its own accommodation, which is indirectly subsidised; they did not include its employees in receipt of Rent Allowance, which were excluded as a result of a misunderstanding at the data collection stage<sup>30</sup>.

#### **How were these demand figures then used in the modelling exercise?**

285. One of the reasons that housing associations in the UK are prepared to let accommodation to “key workers” at submarket rents is that this takes place in return for the employer or local authority guaranteeing the rental stream and taking on much of the risk associated with voids and loss of income.
286. To mitigate this risk, the Cambridge Projects' report recommended that 75% of the demand for “key worker” accommodation be met through building dedicated accommodation to let at a below market rent. The remaining 25% of the demand would be met by continuing to lease properties in the private sector and providing these to “key workers” at a subsidised rent. In so doing, this would provide a “buffer” to avoid significant ‘void’ payments if the number of “key workers” requiring accommodation fell for whatever reason.
287. The model thus identified that there was currently a requirement for 239 units of dedicated “key worker” accommodation for rental.
288. However, it should be borne in mind that: -
- There has been no research into the housing aspirations of “key workers” before or prior to recruitment. The Working Group is of the opinion that this research should be undertaken before any firm decisions are taken to implement this (or the equity loan) scheme;
  - The implementation of new housing support policies will, inevitably, result in changes in demand for home ownership versus rented accommodation, which will need to be closely monitored;
  - The demand assumptions in the models are based on the premise that only those “key workers” who are currently eligible to receive assistance with

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<sup>30</sup> These errors do not affect the main conclusion that subsidies towards accommodation costs for “key workers” could be delivered more cost-effectively, as proven in **paragraphs 377 to 379** of this report

housing costs will continue to do so. Any decision to widen eligibility criteria – for example, by opening up “key worker” housing to residentially qualified individuals – will, of course, change the levels of provision required.

### **How much can “key workers” afford to pay on accommodation costs?**

289. In **paragraphs 92 to 157** it was explained that the Health and Social Services Department’s accommodation is indirectly subsidised, with the levels of hidden subsidy being set at between 30% and 50% of what the Department judges to be a fair rent for each property, regardless of the income of the tenant/occupant.
290. By contrast, Housing Department tenants and Guernsey Housing Association (GHA) nominated tenants receive a rent rebate, so that they pay what the Housing Department policies determine they can afford to pay based on their income. Normally, Housing Department and nominated GHA tenants pay no more than 25% of their gross income on rent or the standard rent for the property, whichever is the higher.
291. However, household circumstances are also taken into account so that in practice the proportion of tenant income paid on rents varies between 12 and 25% of gross income according to assessment of income and other household circumstances.
292. Similarly, the repayments of first-time buyers who take out a States Home Loan to purchase a property are calculated based on 25% of their gross income.
293. In order to achieve consistency across departments and to ensure that, for example, a “key worker” living in a States House is treated the same as a “key worker” living in “key worker” accommodation, the Working Group decided to set 25% of gross income as an affordable amount for “key workers” to spend on housing costs.
294. For the initial modelling work, a salary of £23,154 was used: the mid-point of a grade 5 nurse. 25% of £23,154 would result in a nurse being assessed as capable of paying a rent of £482.38 per month. Currently, however, some nurses living in Health and Social Services Department’s accommodation only pay £135 per month in rent, regardless of their grade. This is considerably below the 25% of gross income for many Agenda for Change nursing grades and accentuates the perceived inequality in the levels of accommodation support given to local and non-local nursing staff (NB The Health and Social Services Department is currently phasing in higher rents for its properties over a four-year period, 2005 to 2008).
295. **The Working Group considers it fundamental that all “key workers” be asked to pay a realistic unsubsidised, yet affordable, proportion of their income on housing costs, for which it recommends that the minimum that should be applied for rent purposes be 25% of gross income.**

**Recommendation 11** – that, in principle, all “key workers” directly housed by the States (or by a housing association) be asked to pay a realistic unsubsidised, yet affordable, proportion of their income on housing costs; and that the minimum that should be applied for rent purposes be 25% of gross income.

296. It is also recommended that to keep the numbers, costs and land use requirements manageable, not all “key workers” should be eligible for this purpose-built rental accommodation.

297. Instead an income threshold should be applied whereby “key workers” earning above a certain income – say £35,000 - would be deemed able to house themselves independently.

**Recommendation 12** – that, in principle, persons earning in excess of an income threshold figure (in the region of £35,000 per annum) shall not be eligible for rental accommodation provided for “key workers” by the States or a housing association. This threshold figure would be reviewed on an annual basis, in line with inflation, by the Employers Consortium.

#### **What did the modelling show?**

298. The financial modelling used the Guernsey Housing Association’s cost appraisal model (slightly modified in some scenarios to allow for the accumulation of interest on positive cash balances) and the build costs for the new Health and Social Services’ staff accommodation at John Henry Court, and applied these to the 239 units of accommodation identified.

299. The model showed the rents that the accommodation provider (whether a States’ department or a housing association) would need to charge in order to break even at different points in time based on a 30-year loan period and a 45-year life for a building. It also identified the level of subsidy the States would be required to contribute to make up any shortfall between the rent required for the development to be financially viable and the amount that “key workers” could reasonably be expected to pay.

300. Naturally the further in time the break-even point, the lower the level of subsidy required. For example, depending on build costs, it would be possible with a break-even point of say 15 or 25 years for the rents to be so low that the difference between them and what some “key workers” could afford to pay (based on 25% of their gross income) to be so small as to require little or no States’ subsidy. Conversely, the higher the build costs, the greater the level of subsidy required.

301. However, if 30% of gross income was assessed for rental purposes, then either build costs could be increased or the break-even timescale reduced.

302. The level of subsidy required on an annual basis was then compared with the cost of real and hidden subsidies currently being expended on “key workers” accommodation to determine the potential for its reduction, while still providing “key workers” with affordable accommodation.

303. The total subsidy reduction over the 45-year life of the buildings was then calculated and discounted to a Net Present Value (NPV).
- 304. The Cambridge Projects’ report suggests that, based on the assumptions outlined above, even for a break-even in Year 0 there is a positive NPV, i.e. that this model of providing dedicated “key worker” accommodation for rental is a sound investment and more cost-effective than the current arrangements. In addition, the model shows a positive cash balance at Year 45 for the housing provider which could be reinvested in additional “key worker” accommodation.**
305. However, it is important to note that the estimated subsidy “saving” is not an immediate actual “cash” saving, because the model did not take into account that Health and Social Services actually owns some of its existing “key worker” accommodation. Nevertheless, this does not detract from the conclusions arising from financial modelling work that, there is potential for the States to spend less and still provide assistance to “key workers” to meet their accommodation costs more cost-effectively than under the current system of supporting “key workers” with housing subsidies.

#### **Will this scheme really save money?**

306. As noted above, the Cambridge Projects’ report and financial modelling work was based on the build cost of John Henry Court.
307. However, John Henry Court was a very economic build, at an average of just under £92,000 a unit. This was partly due to the type of units being constructed (bedsits and 1-bed flats); partly due to the fact that much of the road infrastructure etc. was already in place; and partly due to the fact that a relatively large build can achieve economies of scale.
308. At present, other social housing developments in the Island are costing up to £150,000 a unit.
309. The financial model was, therefore, run again using build costs of an average of £110,000 per unit, £120,000 per unit and £130,000 per unit. In this regard, it was reassuring to note that the new-build option would be financially advantageous except: -
- where the development was required to break even in year 2 and where the build cost was greater than that of John Henry Court (£92/93,000); or
  - where the average unit build costs was at or higher than £130,000 and where the development was required to break even before year 15.

#### **What else needs to happen for the States to benefit fully from the scheme?**

310. The modelling assumed that a commercial approach to the provision of “key worker” accommodation would be taken over the next 45 years.

311. The States could adopt, if it so wished a totally “hands off” approach to the provision of “key worker” housing by leaving it to a housing association to purchase and develop suitable sites. Whereas this is an option that could give the States the highest financial payback – because there is no capital investment and tenants would pay a full rent based on each project’s development costs - it is not necessarily the most appropriate solution to satisfy the objectives of providing affordable housing for key States’ employees.
312. To achieve a rent affordable to newly-qualified teachers and nurses, for example, it will be necessary for the States to in some way subsidise the development of key worker accommodation.
313. In the present financial climate this will be challenging.
314. The most obvious approach would be for the States: (i) to provide capital grant funding; or (ii) to meet the revenue deficit between the rents chargeable and what the “key worker” tenant could afford to pay. Neither of these are recommended as the preferred<sup>31</sup> option.
315. Instead, as has been highlighted elsewhere in this report, the various departments are presently spending significant sums of revenue on providing direct and indirect rental subsidies or housing benefits of one form or another: most of this giving little or no return on the investment being made. To simply plough this back into subsidising the rent available through a housing association could achieve the desired rental levels but would be a continuous drain on precious and ever-scarcer revenue funding. Saving this revenue and putting it to better purpose in sustaining or developing essential public services would be a far more efficient use of States’ funds.
316. So if revenue is not used, how else could the States ‘subsidise’ key worker rentals?
317. As suggested above, it could provide a capital loan or grant, but again, at a time of financial constraint, this is not really desirable. So what option is there?
318. At the present time the States may not have a lot of capital but it does have a lot of land, not all of which is being used to best purpose. Indeed there is a Policy Council sub-group looking into strategic land planning, which has already identified the importance of effectively managing the States’ land assets, by looking more strategically at their future use.

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<sup>31</sup> The Health and Social Services Department subsidises “key workers” living in its own accommodation, because the capital depreciation is not considered - even though the provision of accommodation by the Health and Social Services Department would not stand up commercially - and no money effectively changes hands, the current rent subsidy itself is “hidden” or notional. If that money were then to be paid out to a third party, the true costs of providing that accommodation would immediately become a whole lot more real. If the capital costs were properly taken into consideration, then the long-term potential to save money would be far easier to identify at this stage.

319. The financial modelling that underpins this report has assumed that a housing association would have to buy land on which to develop “key worker” housing. The rents shown in the modelling, although already lower than they would be in the commercial sector, are still higher than the 25% gross income level the Working Group considers should be used to determine an affordable rent for a large cross section of “key workers”.
320. So if the States were to offer to a housing association parcels of land suitable for “key worker” housing at a peppercorn rent for, say, 45 years, the housing association’s development costs would be significantly reduced and hence so would rent levels.
321. In addition, the States would retain the land as a strategic asset; and although, in theory, it would have made a capital injection into “key worker” housing, in practice because of the accounting methodology used within the States there would be no impact on available capital balances. So, the housing association has land to develop; “key worker” tenants will pay affordable rents; and the States has invested no capital and saved significant sums (£000s) in revenue.
322. In identifying suitable sites for “key worker” housing, the Treasury and Resources and Environment Departments should be asked to take account of the importance of providing States-owned land for “key worker” accommodation on the future sustainability and development of essential public services and the significant savings to general revenue that have been identified by this type of provision, as outlined above.
323. In particular, it is vitally important that suitable sites are not sold off to generate short-term income, but instead are ring-fenced at an early stage.

**Recommendation 13 - that, the Treasury and Resources Department, in conjunction with the Environment Department, be directed, as a matter of urgency, to identify States-owned sites that are suitable for housing development and on which “key worker” accommodation could be developed, to be sold/leased/transferred to a “key worker” housing association in order to subsidise the rentals paid by its tenants.**

324. In addition to the above, in order to gain the full benefits from the implementation of this scheme, there is also the opportunity for the States to divert the funding that is currently used on accommodation subsidies for “key workers” to provide working capital for new developments.
325. Provided that the monies currently expended were ring-fenced for this purpose, the source of this funding could come from the transfer of existing States-owned staff accommodation to the management of the housing association (providing it with an immediate income stream); the non-renewal of some or all of the properties leased from the private sector to accommodate “key workers”; or through the sales of States-owned sites that are no longer fit for purpose for the provision of “key worker” accommodation.

**Recommendation 14 - that the Treasury and Resources Department, in collaboration with the Housing and Health and Social Services Departments, review all States-owned and States-leased “key worker” accommodation to determine: -**

- **which properties/leases should be kept for “key worker” accommodation;**
- **which properties/leases should be kept by the States for other purposes;**
- **which properties/leases should be disposed of.**

326. It does, however, need to be acknowledged that if a housing association were to manage “key worker” accommodation on behalf of the States, then it, not the States, would retain the rental income from the tenants. It would also mean that the money that is currently included within States’ departments’ general revenue budgets to manage “key worker” accommodation would no longer be required. This may introduce some short-term cash flow issues for the Health and Social Services Department in particular, because of the large number of units it owns, and because it currently relies on this income to pay for services other than its accommodation service.

#### **What about a pilot project?**

327. The Housing Department, Health and Social Services Department, Treasury and Resources Department and Guernsey Housing Association (GHA) have already collaborated over a pilot project of 10 units of “key worker” accommodation at the Priaulx Garage Site, within walking distance of the Princess Elizabeth Hospital.

328. Health and Social Services already administered one of the two properties to be redeveloped; the other was owned by a developer who originally planned to convert both properties into self-contained accommodation to be leased back to Health and Social Services (at commercial rents that would need to be subsidised) to provide accommodation for health workers employed at the Hospital.

329. The Housing Department intervened and helped to negotiate an arrangement whereby the same accommodation will be being provided with **no capital grant funding from the States**. This means that even with the entire costs of the scheme (over £800,000) including the £300,000 acquisition costs for the privately-owned properties being charged to commercial borrowing, the rents to be charged for the scheme will be affordable to “key workers” employed at the Hospital, **without any further on-going revenue subsidy from Health and Social Services**.

330. The development is thus being built and managed by the GHA, but the States will have 100% nomination rights.

331. When the scheme is assessed on a life-cycle basis, it demonstrates that had any capital grant monies needed to be put into the development they would have



been recovered many times through revenue savings to Health and Social Services from it not having to heavily subsidise rents on accommodation leased in from the private sector.

332. Additionally, by having the GHA own and develop the site, it will make it easier for the States to develop a full “key worker” housing scheme on the wider Priaulx Garage site at a later date.
333. However, no commitment has been made that the GHA would be the operator of such a scheme, as it will need to compete with other providers who may be attracted to work in the Island to build and manage “key worker” accommodation.

## **B. Equity Loans**

334. Under the Homebuy Scheme in the UK, participants can receive an equity loan of up to £50,000. No repayments are due on this loan until either the property is sold or the owner ceases to be a “key worker”.
335. The amount repaid is the same percentage of the sale price as the percentage of the original purchase price that was covered by the loan.
336. If the occupier ceases to be a “key worker”, then the amount has to be repaid over a two year period. The money can then be used to assist another “key worker”.
337. To assess the financial viability of the States introducing equity loans, the consultant from Cambridge Projects ran an equity loan risk model, which could be applied to either dedicated “key worker” accommodation or to properties bought on the “open”<sup>32</sup> market.
338. This model looked at a 45-year investment period and 40 houses, each with an equity loan of £50,000, i.e. an initial investment of £2.0m.
339. As the States would obtain a share of the equity growth in the value of the properties supported at the assumed rate of inflation, the equity loan scheme would effectively become self-funding over a period of time.
340. The model was run for 500 iterations to show the likely probability distribution of the final States’ balances. Assuming a normal distribution, the model showed with **95% confidence**<sup>33</sup> that the final States’ balance would be likely to be between -£349,749 and -£533,233.
341. **Since the States spent at least £182,358 on Housing Benefit in 2004, this would equate to a total expenditure of £8.2 million over 45 years compared with the average equity loan model figure of £0.44 million, a “cash” saving of approximately £7.76 million over the period.**

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<sup>32</sup> In this paragraph “open” market is used to mean free choice.

<sup>33</sup> 5% confidence that this would not be the case, i.e. the model is not risk free.

- 342. Based on an initial investment of £2.0 million required to commence the scheme and an interest rate of 5.48%, the model shows that there is a benefit for the equity loan model which, when measured in net present value terms, equates to approximately £1.44 million.**
343. The cost-effectiveness of the equity loan model would not change regardless of the demand. The only factor that would change would be the initial equity required to meet the increased demand at the outset of the scheme. The higher the number of people participating in the scheme, the greater the overall benefit is likely to be (compared with the current situation); but for each person who enters the scheme, equity of £50,000 is required.
344. Interestingly, the higher the turnover of loans in the scheme, the greater the potential benefit to the States, i.e. if people can only remain on the Island – and thus in the scheme - for a set period of time (e.g. because of their housing licence length), the turnover is higher and the faster money can be recycled.<sup>34</sup> On the other hand, if loans were given to “key workers” that were likely to reside in their properties for 10-20 years (remaining “key workers” throughout that time), funds would become locked up and unavailable for use for another “key worker”.
345. Importantly, for the equity loan scheme to generate surpluses, house prices must increase annually at a higher rate than general inflation (RPI). If house price inflation is below general inflation then the return to the equity loan provider (whether the States or a third party) would be negative.
346. It should also be noted that whilst the financial viability of the model relies on house price inflation rates remaining above general inflation rates, this scenario will gradually decrease the amount of the loan when expressed as a percentage of the value of the property. However, if the differential between house price inflation and general inflation continued to be sufficiently high, consideration could be given to raising the maximum level of equity loan offered.
347. In addition, the greater the number of people participating at the outset, the greater the risk to the States.
348. The benefits of this scheme are by no means guaranteed, but at this stage of the investigations there is the potential for significant savings to be made in the long-term. However, further sensitivity analysis needs to be carried out to model the effect of changing inflation rates; and the historical relationship between house price inflation rates and general inflation rates needs to be examined.
349. Accordingly, the Working Group has not reached a final conclusion on the relative merits of the equity loan model versus its inherent risks.

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<sup>34</sup> Note that the UK scheme does not have a time limit – the proportion of the equity is only due to be repaid if the property is sold or the loan holder ceases to become a key worker.

350. It also considers that further work is necessary to determine whether there is a need for such a scheme to operate in parallel with the States Home Loans Scheme or the Partial Ownership Scheme administered by the GHA, both of which are currently closed to people without residential qualifications, but which could be modified to allow “key workers” to access them.

**Recommendation 15 - that the concept of an equity loans scheme be researched further by the Housing Department.**

**The future of Rent Allowance and Housing Benefit**

351. At this stage, the KWHG’s research suggests that providing Rent Allowance and Housing Benefit to employees moving to the Island is not as cost-effective as would be providing purpose-built rental accommodation, managed through a housing association.
352. In addition, an equity loan model could be both more cost-effective than the Housing Benefit currently given and improve the ability of “key workers” to purchase a property.
353. There is, therefore, an opportunity, over time, to reduce significantly the numbers of people to whom these benefits are payable, thereby providing a revenue saving for the States.
354. However, the Working Group was keen to establish how many other Civil Service postholders were receiving Rent Allowance or Housing Benefit and who would not be “key workers” as defined by the Working Group.
355. However, it proved difficult to reconcile the figures given to the Working Group from the States’ payroll system with the figures provided by the individual employing departments, due to variations in accounting practice both within departments and across the States. In addition because the subsidies given to employees living in States-owned accommodation are hidden subsidies (i.e. no money is effectively paid out by the States to the employee, because the latter are charged below market rents) it was impossible to quantify who was in receipt these benefits using the Payroll system alone.
356. Instead, the Housing Department analysed the records of housing licence decisions to see if other States’ employees (other than those included in the definition of “key worker” adopted in this report) could be in receipt of Rent Allowance or Housing Benefit. These results are given in **Appendix J**: they show that there are one or two States’ departments where employees could potentially be eligible to receive Rent Allowance or Housing Benefit, but are either not currently doing so or this is not showing up in the Payroll system.
357. While the numbers are very small compared with the numbers from the larger “key worker” employing departments (Home, Health and Social Services and Education), nevertheless, the implications of totally withdrawing these housing subsidies and replacing them with dedicated “key worker” accommodation for

submarket rental (and, possibly an equity loans scheme) requires further consideration.

**Recommendation 16** – that Rent Allowance and Housing Benefit are *progressively* phased out through the provision of alternative, more cost-effective means of providing “key workers” with affordable accommodation, such as those already described.

## **KEY POLICY ISSUES CONSIDERED**

**How would the provision of dedicated “key worker” accommodation tie in with other housing initiatives in Guernsey? Will adopting the recommendations contained in this report mean that there is less money to spend on other forms of social and intermediate housing?**

358. The provision of “key worker” accommodation in the UK is not aimed at meeting housing need, but is primarily concerned with the importance of the delivery of frontline public services to the maintenance of thriving and sustainable communities in areas of high value house prices. This is a very different philosophy to targeting housing support at those in greatest need.

359. Programmes aimed at meeting housing need in Guernsey include:

- social rented housing provided by the Housing Department and the Guernsey Housing Association;
- the Guernsey Housing Association’s Partial Ownership Scheme; and
- the States Home Loan Scheme.

360. The Working Group decided that it would be inappropriate to use States’ funds for the development of “key worker” accommodation, if it meant diverting funding away from those in greatest need. Accordingly, it agreed:

- To keep housing intended for those in greatest need separate to housing intended for “key workers”; and
- To concentrate on how the money currently being spent on Housing Benefit and Rent Allowance could be spent more effectively to assist “key workers”, rather than considering applying Corporate Housing Programme funds dedicated to other social housing and intermediate housing initiatives to include the provision of housing for “key workers”.

361. This strategy is backed up by a Cambridge sub-region report on “key workers”, which concluded: -

362. *“However important key workers are to the community, their need for affordable housing has to be set alongside other requirements for affordable housing in the sub-region. It would be wrong to consider this report in isolation and to conclude that the amount of housing for key workers identified should have priority over the need for affordable housing of other groups. It will be for the*

*sub-region and individual districts to decide how they can strike the balance between competing demands for the finite supply of affordable housing which the sub-region can deliver”.*

363. Nevertheless, it is very important that accommodation for “key workers” is looked at in the context of the other housing options that are available, in particular those which are exclusive to those “key workers” who are residentially qualified and meet the relevant criteria, e.g. States’ housing, housing association accommodation, partial ownership, private rented accommodation, etc.

**Should initiatives aimed at recruiting and retaining “key workers” be open to a) residentially qualified people returning to the Island, and b) local people already residing in the Island?**

364. Whilst it would be politically desirable to open up “key worker” accommodation to residentially qualified “key workers”, the Island’s current financial situation may mean that this goal is an ideal which is both unrealistic and impractical: at least, in the short-to-medium term.
365. Even by applying the narrow definition of “key workers” used in this report, many hundreds of employees would be potentially eligible for “key worker” accommodation. A principled, general opening up of “key worker” accommodation to the residentially qualified would thus immediately make the potential demand for this accommodation substantially greater than it would be if only non-residentially qualified persons were to be accommodated. This clearly has major implications for any model of housing provision, in that the more people are eligible, the more land and accommodation that needs to be provided and funded.
366. If that dedicated “key worker” accommodation was then to be subsidised, i.e. the rents were lower than in the private rented sector, it would then be highly sought after by the local populace.
367. The States would then be faced with not only providing cost-effective affordable accommodation for those employees recruited from off the Island, but also from within the local population.
368. This raises the question of whether it is right that just because a residentially qualified person happens to work in a “key worker” job they should access subsidised accommodation, which they would be denied if they worked in a different profession.
369. It also begs the question of why their needs cannot be met through other housing options available exclusively to persons who are residentially qualified, e.g. States’ housing, housing association accommodation, partial ownership, etc.
370. For example, would it not be more cost-effective to provide priority to “key workers” under those schemes, rather than to allow them to access purpose-built “key worker” accommodation that is needed to house incoming workers?

371. In view of the above, the KWHG would not recommend opening up “key worker” accommodation to residentially qualified staff without first establishing the level of demand from the local population and whether this can be met without detriment to meeting the housing needs of “key workers” recruited from outside the Island.

**Recommendation 17 – that “key worker” accommodation is not made available to residentially qualified staff in the short- to medium-term without first establishing the level of demand from the local population and whether this can be met without detriment to meeting the housing needs of “key workers” recruited from outside the Island.**

372. The current practice of making available Housing Benefit and Rent Allowance to locally qualified returning “key workers” will continue.

373. The questionnaire exercise will inform the final policy towards “key workers” in this regard.

**How could the success/failure of “key worker” initiatives be monitored more effectively in the future?**

374. One of the main conclusions arising from this piece of work has been the amount of time it has taken to obtain data from which the success of current recruitment and retention policies can be evaluated. As a result, it is essential for the States to adopt a central/corporate human resource database for collating cross-departmental statistics, albeit that access to the system would have to be carefully restricted and pass word protected for data protection and confidentiality purposes.

375. The samples presented in this analysis are statistically small and ideally further years of accurate data would be helpful. This is clearly a matter that needs to be urgently resolved if the States is ever to have any idea of the influence of “key worker” policies on recruitment and retention.

376. The Working Group thus recommends that the Treasury and Resources Department and Policy Council Human Resources Unit be asked to review how this may be achieved, so that the effect of new initiatives introduced as a result of the recommendations contained in this or subsequent reports can be regularly monitored and analysed.

**Recommendation 18 – to agree that, as a matter of urgency, the Treasury and Resources Department and Policy Council Human Resources Unit review and make recommendations as to how to improve the real-time collection of statistics identified in this report associated with the recruitment and retention of “key workers”.**

## **CONSULTATION**

### **Whose views should be sought?**

377. In recommending that this report form part of a “green paper”, the KWHG is mindful that before any new policies are adopted and implemented, views on the issues raised by this report are sought from “key workers”, States’ departments, States Members, unions and staff associations, and the general public. For example, there is no point in seeking to attract a specialist housing association to embark on a major building programme of “key worker” accommodation for rental if this is not what “key workers” want.
378. In particular, the KWHG recommends that it be charged by the Housing and Health and Social Services Departments with developing a questionnaire to be sent out to all public sector “key workers”, to seek their views.
379. The KWHG recommends that this questionnaire be issued as soon as possible and ask very specific questions about “key workers” current circumstances, as well as about their future needs and aspirations, in order to obtain quantitative (statistical) information to support and inform the new policies proposed.

**Recommendation 19** – that, through the KWHG, the **Housing and Health and Social Services Departments** issue a questionnaire to all “key workers”, to seek their views on their housing needs and the other issues raised by this report, in order to inform future policy-making.

## **CONCLUSIONS, RECOMMENDATIONS & PLAN OF ACTION**

### **In summary, what are the Working Group’s conclusions and recommendations?**

380. The KWHG believes that in order to successfully recruit and retain “key workers”, the States should adopt an integrated corporate strategy that encompasses the provision and funding of suitable “key worker” housing initiatives, and the adoption of tailored housing licence and remuneration policies;
381. Set out below are the 19 recommendations which the KWHG considers the Housing and Health and Social Services Departments should adopt and place before the States in the form of a “green paper”:

**Recommendation 1** - that the States adopt the definition of “key worker” as set out in this report.

**Recommendation 2** - that the States acknowledge that the Island’s need for “key workers” is likely to grow, not diminish, in the short- to medium-term, which has manpower and budgetary implications for the employing departments.

**Recommendation 3** - that, as far as possible, there should be consistency in the treatment of “key workers” across the States, regardless of who is their employing department.

**Recommendation 4** - that department-specific policies that depart from the corporate strategy should have an explicit rationale and be evidence-based.

**Recommendation 5** - that the Public Sector Remuneration Committee continue to give serious consideration to the pay of particular groups of “key workers” or staff with specialist skills that are proven to be in short supply in the UK or internationally, as a means of addressing identifiable recruitment and retention difficulties, as part of its normal pay determination process.

**Recommendation 6** - that the Housing Department review all the options for modification of housing licence policies in relation to “key workers”, in liaison with the employing departments, as part of the review of the Housing Control Law.

**Recommendation 7** - that the Treasury and Resources Department be responsible for ensuring that the leasing of properties from the private sector for occupation by “key workers” are phased down, once the accommodation can be replaced by purpose-built properties owned and/or managed by the States and/or a “key worker” housing association.

**Recommendation 8** - that the Housing Department, in liaison with the Health and Social Services Department, undertake an “expressions of interest” exercise to determine if there would be sufficient interest for a specialist “key worker” housing association to set itself up in Guernsey; to be followed by a tendering exercise if the interest were sufficient.

**Recommendation 9** - that, in principle, the responsibility for the management of existing ‘key worker’ accommodation owned by the States be transferred to a specialist “key worker” housing association.

**Recommendation 10** - that, under the leadership of the Housing Department, the States establish an “Employers’ Consortium” from the employing departments on the KWHG to provide coordinated planning, ongoing reporting, and advice and recommendations with regard to the eligibility criteria for accessing “key worker” accommodation, and other policy and procedural issues.

**Recommendation 11** - that, in principle, all “key workers” directly housed by the States (or by a housing association) be asked to pay a realistic unsubsidised, yet affordable, proportion of their income on housing costs; and that the minimum that should be applied for rent purposes be 25% of gross income.

**Recommendation 12** - that, in principle, persons earning in excess of an income threshold figure (in the region of £35,000 per annum) shall not be eligible for rental accommodation provided for “key workers” by the States or a housing association. This threshold figure would be reviewed on an annual basis, in line with inflation, by the Employers Consortium.



**Recommendation 13** - that, the Treasury and Resources Department, in conjunction with the Environment Department, be directed, as a matter of urgency, to identify States-owned sites that are suitable for housing development and on which “key worker” accommodation could be developed, to be sold/leased/transferred to a “key worker” housing association in order to subsidise the rentals paid by its tenants.

**Recommendation 14** - that the Treasury and Resources Department, in collaboration with the Housing and Health and Social Services Departments, review all States-owned and States-leased “key worker” accommodation to determine: -

- a. which properties/leases should be kept for “key worker” accommodation;
- b. which properties/leases should be kept by the States for other purposes;
- c. which properties/leases should be disposed of.

**Recommendation 15** - that the concept of an equity loans scheme be researched further by the Housing Department.

**Recommendation 16** - that Rent Allowance and Housing Benefit are *progressively* phased out through the provision of alternative, more cost-effective means of providing “key workers” with affordable accommodation, such as those already described.

**Recommendation 17** - that “key worker” accommodation is not made available to residentially qualified staff in the short- to medium-term without first establishing the level of demand from the local population and whether this can be met without detriment to meeting the housing needs of “key workers” recruited from outside the Island.

**Recommendation 18** - to agree that, as a matter of urgency, the Treasury and Resources Department and Policy Council Human Resources Unit review and make recommendations as to how to improve the real-time collection of statistics identified in this report associated with the recruitment and retention of “key workers”.

**Recommendation 19** - that, through the KWHG, the Housing and Health and Social Services Departments issue a questionnaire to all “key workers”, to seek their views on their housing needs and the other issues raised by this report, in order to inform future policy-making.