

# **Dutch Housing Minister Dekker's speech to the Dutch Parliament September 2006**

Further considerations following general discussions about future policy for housing corporations

Dear Mr Speaker,

## **1. Introduction**

On August 31<sup>st</sup> of this year, I spoke with your House about my letter of December 12<sup>th</sup> 2005: "The View of Future Policy for Housing Corporations." (legislative documents II, 2005-06, 29 453, nr. 30). During those discussions, I promised to produce a reaction within three weeks to a number of issues raised. Furthermore, I agreed to inform your House before November 1<sup>st</sup> about several points to be worked out as well as my reaction to the advice formulated by Prof Dr A Schilder concerning the supervision of housing corporations. My vision of how that supervision will take shape will be based in part on this advice. Under separate cover, I shall provide a reaction shortly to the advice of the Leemhuis Committee.

Following are the points I shall cover in this letter:

- The allocation norm of € 33,000 for regulated rental housing
- The limits for state support of rental housing
- The expansion of activities for state supported housing corporations into areas of urban restructuring and home ownership schemes
- In addition to a legal division, also an accounting division between the activities with and those without state support
- Free subsidiaries

I will also provide further details about the following points:

- Making it possible to retain one management after legal separation
- Placing a time limit on mediation
- Formulating the housing corporations' mission.

## **2. The allocation norm of € 33,000**

In my letter of December 12<sup>th</sup> I formulated the objective as being the allocation of regulated housing primarily to the groups of special focus. I also indicated that I wanted to make the objective more concrete and be able to hold the housing corporations to adherence, thereby putting an end to the current noncommittal attitude. There was support from within your House for establishing a financial limit for allocation of regulated rental housing by the housing corporations, but there are varying views as to what the appropriate limit should be.

I would like to point out first that this is only about identifying the target group for allocation of regulated rental housing and not about an income limit connected with the housing corporations' mission. This mission is much broader in scope, also encompassing rentals of

higher-priced housing and realising new owner-occupied flats for households with an income higher than € 33,000.

The definition I used for the special focus group followed along the lines set out in the rent policy. In that policy, I based the amount of regulated housing stock on the number of households with an income of about € 33,000, which corresponds with the limit set by the National Health Service and effective until January 1<sup>st</sup> 2006. Incidentally, this criterion is not applied by municipality but by region or geographical area. As far as the percentage of regulated housing which is to be allocated to the special focus group, I quoted 90% in my letter of December 12<sup>th</sup>. So, income is not the only criterion for the housing corporation's focus group. It can also have to do with elderly people in need of care, for example, or because a desirable income level should be maintained in a certain neighbourhood.

Incidentally, within the stated objective - that regulated housing must be allocated primarily to the special focus group – there is a priority for households whose income makes them eligible for rent subsidy.

I am of the opinion that obligations must be placed upon the housing corporations in order to prevent a freewheeling attitude. As your House has heard, I would agree to making it possible to tailor these obligations to local situations. That is, as part of a performance contract between the city and the housing corporation(s) active there, the allocation criterion of € 33,000 could be adjusted according to the local situation. But if and when local parties are not in agreement over any other variation, the € 33,000 limit for the allocation of most of the housing corporation's regulated rental housing must be adhered to. In this respect, I am aware that the differences in average Dutch rental prices (for example, by province) are slight.

### **3. The limits of state support for rental housing**

There were voices within your House in favour of expanding the number of housing corporation rental dwellings for which state support may be applied. This means that a greater amount of this rental housing will be eligible for state support than I had indicated in my proposal, as outlined in the letter of December 12<sup>th</sup> 2005 ('Policy vision of the future of housing corporations').

Here too, it is a question of delineating the rental housing for which state support may be applied and not of curtailing the housing corporation's mission. All of its housing – regulated, non-regulated and transitional (i.e. housing which is still regulated but will be in the free sector in four years'time) - is in the service of the corporation's mission and not just the regulated rental housing.

In response to the House's wishes, I would agree to expand the number of housing corporations' rental dwellings eligible for state support for as long as the housing market is not quite in balance. In that sense I would continue the parallel with rent policy - that also housing in the transitional sector (which also has a form of regulation) should be allowed to be eligible for state support – with the well-known precondition of sufficient housing production taking place in order for the transitional status to continue.

### **4. Urban restructuring and low-cost home ownership**

Many voices in your House were urging that urban restructuring and low-cost home sales should also fall under the activities receiving state support. In my letter of December 12<sup>th</sup> 2005 I made a very clear and simple distinction, i.e. that no state support shall be applied to the realisation of new owner-occupied housing. In the case of rental housing, it depends on whether it is regulated or not. In short, state support is allowed for regulated rental housing only: whether it has to do with new construction, housing management, maintenance or services needed for improving the quality of life in this housing. Furthermore, state support is acceptable for the realisation and management of social real estate.

Within this context, I am prepared to meet the members of your House on a number of points: by analyzing whether urban restructuring (as long as it is well defined and delineated) could be named as an activity eligible for state support. This requires making an objective definition of restructuring that can serve as an unambiguous test of performance. It is, after all, important to make a clear distinction between activities with and those without state support. In my letter to be delivered before November 1<sup>st</sup>, I shall use a number of details to work out the actual style of this delineation of restructuring. Generally, we understand urban restructuring to be the transformation of a neighbourhood whereby opportunities are created for the residents to move up the housing ladder, for example by building (social) owner-occupied housing. On balance, this means that the construction of social owner-occupied housing in such urban restructuring areas (and built for just that reason) could be an activity to be carried out with state support.

#### **5. Division on the books as well as a legal division**

In my letter of December 12<sup>th</sup> 2005 I expressed a preference for a legal division between the activities with and those without state support, rather than an administrative division. At the same time, I set the specific condition that the integral governance of the housing corporations' investments must remain safeguarded. I stated explicitly that at the very least, the investment objective must also be effective for the activities without state support. I indicated that I would investigate this further.

A point was made in your House that it must also be possible to make only an accounting division and not a legal one as well. When I ask the Central Fund for Social Housing and the Financial Markets Authority for advice (at the request of your House) on what the most appropriate division would be between the housing corporation's activities with and those without state support, I would also like to find out under what conditions this accounting division could take place. An absolute precondition would be that an accounting division is as impenetrable as far as state support is concerned and that it all can be done practically and maintained without too much difficulty.

#### **6. Free subsidiaries**

I have seen that quite a few housing corporations have a tendency to develop activities with which they think that they are having a major effect on the local or regional housing market, only to discover that they do not fit within what the Housing Act and the Social Housing Sector Rules describe as "in the interests of social housing". I am quite interested in such initiatives and would like to allow some manoeuvring room for them but at the same time, I do not want this to be at the cost of what we have described as 'in the interests of social housing.' I also do not want to become constantly tied up in time and money-consuming legal disputes over the boundaries of what is and is not acceptable. Some regulation is called for.

This is why in my letter of December 12<sup>th</sup>, I proposed allowing - under strict conditions - housing corporations to create subsidiaries which have no connection with their own work terrain. These conditions see to it that no damage is brought to state interests by:

- preventing any loss of the social equity;
- limiting state support;
- keeping the housing corporation's focus on its mission.

Concerning content, the strict preconditions are:

- A limit will be set as to how much total equity the housing corporation may use for share capital/participation in the free subsidiary(ies). This limit is set at a (modest) percentage i.e. of the total balance or the parent company's equity – something like 1% or 2%.
- To prevent any liability to the parent company for debts incurred by the free subsidiary, there may be no other relations between the parent and subsidiary, other than those they might have as shareholders.
- The subsidiary's starting capital must be repaid from its own profits within a limited number of years.

Objections were raised in your House about these 'free' subsidiaries, based on the idea that housing corporations 'should stick with what they know.' I agree with that, which is why the financial resources allowed to be used for these free activities have been limited. But if there can be certainty that the free subsidiary's activities are marginal in relation to those of the parent corporation's, I see no reason not to allow the housing corporations the opportunity to develop new subsidiaries.

Based partly on the principle of 'centralise what you have to; decentralise what you can' and partly on the goal of providing social enterprises with more opportunity by removing unnecessary barriers, I feel that I should hold on to the free subsidiary concept. At the same time, when the rules are being worked out, I will take another good look at how small the appropriate financial buffer must be for the free subsidiary, in relation to that of the parent.

## **7. Further details**

At the time of my letter of December 12<sup>th</sup>, I had not delved deeply enough into the issue to address the question of what the governance structure must be in a corporation's situation when a legal separation is brought about between the activities with and those without state support. I also did not address the possibility of one executive body to manage both the parent corporation and the subsidiary, each of which formally has its own management, of course. However, I feel that unity in management would be desirable because the activities of parent and subsidiary sometimes compliment each other.

The precondition to this management structure is that it may not lead to a situation in which the parent corporation is liable for debts incurred by the subsidiary. After all, that could lead to the parent making financial contributions to the subsidiary, using state support. And that would be cross-subsidising, which must be avoided because it interferes with a 'level playing field' and honest competition with other market competitors. The best solution, therefore, is to find a practical and workable construction whereby liability is out of the question and both the parent corporation and the free subsidiary work under one management.

In addition, your House rightly pointed out that there should be a deadline set for the length of time mediation may last between the municipality and the corporation concerning

performance contracts. That applies, incidentally, to the whole process: from the publication of the municipal view of housing/living environment through to the application of the investment objective, should the occasion arise. In the circular about this issue being prepared, I will set deadlines for this but first, I would like to meet with the VNG and Aedes to see what is reasonable and feasible. Personally, I would think that a maximum of three or four months for mediation should be enough.

In my letter of December 12<sup>th</sup> I indicated that, through the rules and regulations, I want to briefly and concisely restate the mission for housing corporations. The formulation of this mission is expressed in two sentences from that letter: “The mission of housing corporations is the broad care for housing. That includes good quality housing and revitalising entire neighbourhoods, with the aim being a balanced housing mix and good housing quality.”

As indicated later on in the letter, providing good housing and revitalising neighbourhoods belong explicitly to the formulation of the mission. The plea was heard in your House for additional elements being included in the mission’s formulation and there were a number of good suggestions. I think of terms such as ‘quality of life’ and ‘those who are not capable of providing housing for themselves.’ As I promised during the discussions, I will adjust the mission’s formulation, although I will not abandon the basic premise of brief and concise. I will return to these points in my letter with a number of detailed points before November 1<sup>st</sup>.

I trust I have informed you satisfactorily.

Yours sincerely,  
Minister of Housing,  
Regional Development and the Environment