

# **Options for Income Support in the Private Rented Sector**

Michael Jones  
Cambridge Centre for Housing and Planning Research  
Department of Land Economy  
University of Cambridge

## **Context**

This paper has been commissioned by the Social Security Department in order:

- To set out a range of options for setting the maximum rent limits in the private rented sector that would be eligible for Income Support;
- to analyse the numbers of tenants in the different bed sizes and types of properties who currently receive Income Support and who would be affected by revised limits; and
- to estimate the possible costs of each option.

## **Recommendation**

That the Income Support limits for rents in the private rented sector should be increased to the average equivalent open market rent of States properties.

## **Background**

The Housing Transformation Programme in Jersey has agreed that rents in the social rented sector should be returned to the policy objective of setting the rent of each social rented property at 90% of the rent which it is estimated that that property would attract in the open market.

Income Support in the private rented sector is currently capped at the 'fair rent' for each bed size and type of property which is applied in the social rented sector to determine the maximum rent which can be charged, irrespective of the possible open market rent for any particular property.

At present, rents in States housing have drifted well below 90% of the relevant open market value, and would need to increase by some 25% to reach the 90% target. The open market rents of States properties are assessed at up to some 40% more than current States rent levels.

The rent proposals in the Housing Transformation Programme will bring the rents of social housing for new lets roughly into line with the average levels of rents in the private rented sector. This is because while the rents of social housing properties will be set at 90% of the current open market rent of the property, many rents in the private sector are not adjusted regularly to keep in line with current open market conditions, with the average rent lagging the market by a small margin.

The Census 2011 counted 7,806 dwellings in the qualified private rented sector. In addition, there were 1,274 dwellings provided as service or tied accommodation, and 1,070 lodgers renting accommodation in other people's homes. There were also 2,563 other non qualified households renting accommodation.

## **Income Support in the Private Rented Sector**

There were 1,522 tenants in the private rented sector (PRS) in receipt of Income Support at October 2011, or 19.5% of the 7,806 qualified private sector tenants. (A relatively small number of tenants without residential qualifications in the PRS are in receipt of Income Support)

80% of tenants in receipt of Income Support occupy bedsits, 1 bed and 2 bed flats and 1 bed houses.

In practice, private sector rents do not 'cluster' around the Income Support limits: 44% of tenants are paying rents below the current maximum limits for Income Support, and 56% of tenants are paying the balance of their rent, above the Income Support limit, from their other resources. Tenants in smaller properties tend to pay smaller weekly amounts in 'excess' rents above the IS limits, and tenants in larger properties tend to pay larger weekly amounts in 'excess' rent.

### **Options for setting rent limits for eligibility for Income Support in private rented sector**

Seven options for setting Income Support limits for private sector rents are set out below.

- One option is simply to continue to use the current limits, updated annually by the Jersey Private Rents Index, or a similar, future index
- Three of the options would link the Income Support limits to different percentiles of rents in the private sector, at the 20<sup>th</sup> percentile, the 25<sup>th</sup> percentile, or the 30<sup>th</sup> percentile.
- Three of the options would link the Income Support limits to different levels of average rents in properties administered by the States owned housing association:
  - at the average of the proposed level of States housing rents, set at 90% of the assessed market rent of each property. This would provide the same average level of cash support to private sector tenants as social tenants, for each property type.
  - at the equivalent average of States housing rents if these were set at their assessed 100% of the market rent of each property. This would recognise that private sector tenants have to pay 100% of the market rent of a property, not 90%.
  - at the 90<sup>th</sup> percentile of the open market rent of States housing, recognising that a small proportion of States properties have high open market values.

The table below sets out the average weekly rent limit that would be created for each bedsize and type of property under each of the seven options.

<b>Options for resetting private sector rent limits eligible for Income Support: weekly rents by bedsize and type of property</b>								
	Number of tenants in receipt of Income Support	Income Support rent limit in 2011	Limit at 20th percentile of PRS	Limit at 90% of average States market rent	Limit at 25th percentile of PRS	Limit at 30th percentile of PRS	Limit at 100% of average States market rent	Limit at 90th percentile of 100% States market rent
Bedsit	201	£109.41	£103.78	£116.08	£113.03	£116.11	£128.98	£148.99
1bed flat	671	£156.21	£153.03	£157.53	£158.13	£165.27	£175.03	£200.11
2bed flat	259	£196.63	£211.22	£215.24	£219.34	£231.52	£239.15	£269.48
3bed flat	23	£223.37	£246.63	£258.61	£262.71	£270.22	£287.34	£296.98
1bed house	82	£177.59	£184.63	£190.42	£193.91	£198.04	£211.58	£214.22
2bed house	126	£231.28	£245.53	£250.07	£252.60	£272.81	£277.86	£303.13
3bed house	132	£258.02	£331.24	£268.56	£346.62	£358.93	£298.40	£331.31
4+bed house	27	£279.16	£418.67	£294.77	£432.28	£458.44	£327.52	£362.31

The table below shows the numbers of tenants who would be affected by each option.

<b>Options for resetting private sector rent limits eligible for Income Support: numbers of tenants affected compared to current limit</b>									
	Number of tenants in receipt of Income Support	Income Support rent limit in 2011	Number with actual rent < limit	Number with actual rent between limit & 20th percentile	Number with actual rent between limit & 90% of States market rent	Number with actual rent between limit & 25th percentile	Number with actual rent between limit & 30th percentile	Number with actual rent between limit & 100% of States market rent	Number with actual rent between limit & 90th percentile of States 100% market rent
Bedsit	201	£109.41	79	-16	24	15	24	50	84
1bed flat	671	£156.21	333	-30	7	10	84	142	246
2bed flat	259	£196.63	91	34	42	48	74	80	120
3bed flat	23	£223.37	12	1	2	2	3	4	6
1bed house	82	£177.59	49	5	7	7	8	15	16
2bed house	126	£231.28	54	5	9	11	31	35	52
3bed house	132	£258.02	46	41	7	57	61	20	41
4+bed house	27	£279.16	10	10	1	10	11	3	5
Total	1521		674	50	99	160	296	349	570
<b>% of total</b>			<b>44%</b>	<b>3%</b>	<b>7%</b>	<b>11%</b>	<b>19%</b>	<b>23%</b>	<b>37%</b>

The percentage of tenants whose rent would be fully supported is the sum of the existing 44% of tenants in that position, plus the total at the bottom of each option column: the recommended option would therefore provide full support to 67% of tenants (44% + 23%).

## The costs of raising the limit rents for Income Support

The table below shows the costs of each option, by bedsize type and total.

<b>Options for resetting private sector rent limits eligible for Income Support: annual costs at 2011 prices for tenants currently in receipt of Income Support</b>						
	20th percentile of PRS	90% States market rent	25th percentile of PRS	30th percentile of PRS	100% States market rent	90th percentile of 100% States rents
Bedsit	-£35,717	£37,029	£20,672	£37,182	£96,072	£147,245
1bed flat	-£61,643	£21,413	£31,816	£140,216	£258,009	£445,669
2bed flat	£112,495	£139,351	£165,954	£237,100	£273,185	£374,927
3bed flat	£13,165	£18,911	£20,830	£24,295	£30,836	£33,377
1bed house	£11,786	£20,107	£24,825	£30,283	£45,197	£47,635
2bed house	£51,920	£67,441	£75,520	£125,889	£136,304	£177,481
3bed house	£245,280	£46,160	£276,319	£294,225	£156,560	£245,444
4+bed house	£53,437	£9,371	£54,853	£56,472	£25,157	£40,355
<b>Total</b>	<b>£390,725</b>	<b>£359,783</b>	<b>£670,788</b>	<b>£945,663</b>	<b>£1,021,321</b>	<b>£1,512,131</b>

Points to note:

1. Setting limit rents at the 20<sup>th</sup> percentile would incur gross additional costs of £488,084, offset by savings of £97,360 from introducing limits for bedsits and 1bed flats that would be lower than the current limits, to produce the net cost of £390,725 shown in the table.
2. The least cost option would be to set the limit rents at the average rents in States housing (i.e. at the average of 90% of the assessed market rent of each bedsize type in the States sector).
3. This option would raise the proportion of tenants whose rent are within the limit from the current 44% to just over half, at 51%.
4. This option is the least costly primarily because it sets lower limits for 3 bed and 4+ bed houses than options based on private sector rents, reflecting the lack of a 'luxury' market in the social housing sector.
5. The option of setting the limit rents at the average of 100% of the assessed market rent in the States sector has the advantage of raising the limits for the 80% majority of tenants in bedsits, 1 and 2 bed flats and 1 bed houses, while restricting the increase in the limits for 3 bed and 4+ bed houses.
6. Setting IS rent limits at the average of States market rents would raise the proportion of tenants whose rent are within the limit from the current 44% to just over two thirds, at 67%.

## **The choice of rent limit**

There are a number of advantages in using States housing rents as the reference point for setting rent limits for Income Support to private sector tenants.

1. The States owned housing sector is relatively homogenous, with a narrow spread of rents. There are few properties with very low rents, and there is no 'top end' or 'luxury' segment (with the exception of a very small number of acquired properties, most of which are under consideration for eventual disposal).
2. The standard of construction, amenity and location of States owned housing is (by definition) considered to represent an appropriate standard for tenants on lower incomes (once the stock is improved to the Decent Homes standards).
3. The States owned housing sector stock is only likely to change very gradually over a period of years, and is unlikely to experience the sharp fluctuations in values which can occur from year to year in the private sector, depending upon short term changes in the balance of supply and demand in the market. This offers a more stable basis for setting rent limits.
4. Rent setting in the States owned housing sector will need to be updated on a regular basis, in order to avoid rents drifting away from 90% of market value. This is presumably best achieved by an annual revaluation of a sample of the stock. If changes in rents are averaged over a two, or three, year period then this will further even out fluctuations and give a less volatile basis for budgeting.
5. If the rent limits for Income Support in the private rented sector are similarly set on a rolling average, then this should also reduce budget volatility for Income Support.

## **The impact of changes in Income Support limits**

The calculations of the cost of each option assume that there would be no behavioural impact of higher Income Support limits: existing tenants would continue to rent their existing properties at their existing rents.

Most new Income Support claims from families will already be established in rental accommodation. Most new claims in respect of young adults leaving home or individuals needing accommodation upon release from prison are limited to hostel and bedsit accommodation.

Nearly half of all tenants (44%) are currently choosing to rent for less than the Income Support limit, when, in theory, they could have the difference between their current rent and the limit paid for by Income Support

The current distribution of rents charged to income support tenants in the private sector does not indicate that landlords are setting rents in line with

maximum rental limits. Income support claimants make up just under 20% of the total (residentially qualified) rental market.

Tenants receiving Income Support who have a valid reason for needing to move within the private sector in the future will be able to consider a slightly wider range of properties within the Income Support limit.

Given the current distribution and the relatively small proportion of private rental properties occupied by income support tenants (compared to other jurisdictions) , there is no evidence to suggest that relatively small adjustments in the maximum income support levels available will have any significant impact on the rental levels in the private sector.