Government of JERSEY

Review of social housing rents

The Income Support system

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Summary

- Income Support provides a sole, unified system to assist Islanders with essential living costs, including housing costs through the housing component.
- Whilst the 30% rental stress calculation can indicate that a household is experiencing financial pressure, this measure is insensitive to the way in which housing is subsidised, and may not provide meaningful results where the housing support is provided through benefit payments
- In Jersey, Income Support benefits can contribute to covering some, or all, of these housing costs.
    - Eligible social housing tenants have their full rent included in their Income Support calculation if their home has the right number of bedrooms for their needs.
    - Eligible private sector tenants can have their full rent included in their Income Support calculation up to a capped amount.
- Assessing housing affordability requires a clear understanding of how policies, including the payment of Income Support benefits, interact with household incomes, housing costs and non-housing costs.

Introduction

The Income Support system provides a unified, means-tested framework designed to help low-income households in Jersey with meeting their essential living costs. An important element of the Income Support system is the *housing component*, which provides targeted financial assistance to help households meet their housing costs. The level of assistance provided varies depending on the type of housing a household occupies; for example, whether they live in social housing, private rental or owner-occupied accommodation.

Income Support plays an important role in mitigating financial pressure for many social and private housing tenants. However, the impact of Income Support benefits in alleviating financial stress and assisting with housing costs is not always fully reflected in housing affordability measures, particularly affordability measures based on rent and gross income. To meaningfully assess affordability and the potential financial pressure experienced by low-income households in Jersey, it is important to understand how Income Support is structured and operates, particularly in relation to the housing component.

The rent abatement and rebate schemes

Prior to the introduction of the Income Support system in January 2008, two separate schemes provided assistance to low-income households with rental costs:

- **A rent abatement scheme** applied to tenants of the former Housing Department. Rents were capped relative to household income, based on an assessment of the income and benefits received by a household[1].
- **A rent rebate scheme** for the private rented sector was introduced in 1990. Rebates covered the gap between the actual rent paid – up to a maximum limit related to the States *fair rent* – and a proportion of household income, scaled progressively.

[1] 'Income Support System', Employment and Social Security Committee, P.86/2005
https://statesassembly.je/getmedia/73f908fa-e193-4df6-b8ac-c6dffdb227d2/18359-2429-2642005.pdf?ext=.pdf

These schemes were phased out with the introduction of Income Support, which consolidated housing assistance into a single, unified income assessment and benefit system.

A key reason for this transition was to provide a more efficient process and remove the multiplicity of benefit systems that had developed across various departments. Furthermore, this transition alleviated the concern that the previous schemes focused solely on limiting rent as a percentage of income, without considering whether the remaining income was sufficient to meet wider household needs.

Income Support and the housing component

How Income Support works

Income Support is a single, means-tested benefit designed to help low-income households in Jersey cover essential living costs including housing costs. It is available to people who have been living in Jersey for at least five years.

Income Support payments are calculated by comparing a household's income and assets against its assessed needs. If a household does not have a sufficiently high income compared to these needs, the Income Support benefit can provide a payment to top up the household's income.

A household's Income Support entitlement comprises different allowances called *components*, each targeting a specific need such as basic living costs, housing, childcare or impairment-related components. This structure makes it easier to assess a household's eligibility for Income Support, and to provide an appropriate allowance to meet each of these needs.

The eligibility criteria for Income Support and the financial rate of each component is set out in Schedule 1 of the Income Support (Jersey) Regulations 2007[2]. The total Income Support payment is calculated by adding up all applicable components, then subtracting a portion of the household's income (the *disregard* policy) to determine the final payment.

Social housing rents and Income Support: key changes from P.33/2013

In approving P.33/2013, the States Assembly agreed that social housing rents should *"return to near market fair rent levels"*, set originally at 90% of market value. The Minister for Social Security was charged with taking action to address the Income Support implications of the social housing rents policy, enabling implementation of the policy by April 2014.

The Minister brought forward Amendment Regulations P.001/2014[3], which introduced the following provisions to the Income Support (Jersey) Regulations 2007 in respect of the housing component of Income Support:

- Separate housing component rates depending on housing tenure.
- Removal of the cap on the social housing component, allowing the full rent to be covered in the Income Support calculation.

[2] Income Support (Jersey) Regulations 2007, available at: https://www.jerseylaw.je/laws/current/ro_125_2007

[3] P.001/2014 Draft Income Support (Amendment No.10) (Jersey) Regulations 201- ,available at: https://statesassembly.je/getmedia/e374fc74-bffe-4b70-b9c2-1741ca888b92/P.001-2014.pdf?ext=.pdf

- A separate component for private rental accommodation, which is capped to avoid influencing market rents.
- Rules for paying components where properties are shared by multiple households, or when under-occupied.

A key change following the approval of P.33/2013 was the removal of the cap that restricted the amount of component that could be paid on social housing rents. This allowed Income Support to cover the full rent for a social housing property, enabling Andium Homes and the Housing Trusts to set rents at [then] 90% of market value, and now 80% of market value.

Income Support also takes into account situations where a household is living in a property that is too large for its needs. In such cases, households are given a period of time to right-size to a smaller, more appropriate social housing property. At the end of this period, the housing component payment is adjusted to reflect the rent of a suitably sized property.

The impact of payment cycles and income fluctuations

Income Support is a single, means-tested benefit system, with a payment cycle chosen to support low-income households. Benefit payments are made weekly in advance. Weekly payments help households manage day-to-day costs, and payments in advance ensure that households are not left without funds following a reduction in income. This choice of payment method is designed to support the needs of the majority of benefit claimants and to minimise the risk of financial stress. However, there are some situations where claimants may still feel that they are under financial stress.

A range of other Social Security benefits are paid on a four-week cycle, including the old age pension and long term incapacity allowance. This means that total benefit income will fluctuate from week to week over a four-week period.

While a payment in advance will help to support immediate need following a reduction in income or an increase in benefit entitlement, it can also lead to an overpayment of benefit when household income increases. The upfront benefit payment that is already in the system will be too high for that week and the overpaid benefit will be recouped in agreed instalments from future benefit payments.

As with all large administrative systems, errors will occur in the Income Support system from time to time. Claimants may not report household changes promptly and operational delays and errors will sometimes be made. Where the error leads to an overpayment of benefit the household will experience a higher total income for a period followed by a reduced income as the overpaid amount is repaid in instalments.

For low-income households reliant on Income Support, with little financial resilience in the form of savings, such fluctuations in income can lead to concerns and the perception of financial stress. The household may find it more difficult to regulate their finances and meet not just housing but also wider costs.

The Minister for Social Security has introduced policies to support benefit claimants and minimise income disruption. The Minister also holds discretionary powers to support individual households who experience financial stress in exceptional circumstances.

Private sector support

Due to the limited supply of social housing at the time of P.33/2013, Income Support also provides financial assistance to households living in private rental accommodation. The Income Support (Jersey) Regulations 2007 provide a set of maximum housing component rates for private rental accommodation[4]. The level of the component was originally set based on the average market rental of Andium Homes properties. Private sector rental components have been increased on a regular basis since then, subject to resource limitations. Around half of private sector tenants see the full value of their rent included in their Income Support calculation.

The housing component of Income Support is also available for owner-occupiers at a lower rate, helping towards the cost of building insurance and Parish rates. It does not help towards the cost of paying a mortgage.

The Income Support disregard policy

Income Support applies a system called *disregards* to some forms of income. The disregard policy allows an eligible household to retain a portion of its income without affecting its Income Support entitlement.

This mechanism creates a tapering effect. As household income increases, and the household pays more of its housing and non-housing costs directly from their income, the disregard ensures that Income Support payments reduce gradually, rather than dropping off sharply. This results in a household always being better off in real terms as its income increases.

A household's income can increase through a higher earned income, and the disregard policy means that earning more provides the household with additional income rather than the entirety of this increase being offset by a reduction in benefits. This acts as an incentive for a household to improve their financial circumstances through improving their earnings.

The effect of the housing component on housing costs and affordability measures

The housing component is one of the components that makes up an eligible households' Income Support entitlement. This component directly reflects the cost of the rent as part of an overall benefit calculation. The full rent for social housing tenants is included in their entitlement calculations without limit, and the full rent up to a capped amount is included for private tenants.

Where, for example, a social housing tenant has a proportionally high rent of over 30% of their gross income, an income-to-rent ratio measure assumes '*rental stress*'. However, this high proportion of rent is also reflected in the housing component when Income Support calculate the benefit they receive. Essentially a relatively high rent results in a relatively high benefit provided through the housing component, and a proportionally high rent results in a proportionally high housing component relative to their overall entitlement, and overall income.

The benchmarking of the housing component to the rent effectively offsets the sense of financial strain that can be indicated through '*rental stress'* income-to-rent ratio measurements.

[4]Detailed information on the setting of components and the provision of Income Support can be found in the Income Support Policy Guidelines, available at: https://www.gov.je/SiteCollectionDocuments/Environment%20and%20greener%20living/Benefits%20and%20financial%20support/ID%20Income%20Support%20Policy%20Guidelines.pdf

In relation to any rent increase, as the housing component of Income Support adjusts in direct alignment to rent changes, this ensures that any increase in rent is matched by an equivalent increase in benefit. Whilst this will reach a cap or limit for those in private rented tenures, it is uncapped for those in social housing, meaning that all the rent is reflected in their benefit calculation regardless of increase.

When rent goes up, benefits increase by the same amount, meaning that the household's actual residual income stays the same and they have the same money left over after rent has been paid.

If looking at this through a proportional measure, such as income-to-rent ratio measurements, it can appear misleading as the higher rent is now a larger percentage of their income and so assumes higher '*rental stress'*, even though their real situation hasn't changed and the actual financial impact on the household is neutral.

Case Studies

How this works is often best demonstrated through example, and the following case studies explore these dynamics in greater detail, illustrating how household income, eligibility for Income Support and housing affordability measures interact in practice.

Case study 1 – moving to a higher rent

This case study explores how a change in a social housing rent affects a low-income household, its Income Support payments, and the resulting impact on the household's financial situation and the relevance of different housing affordability measures.

Case study 1 – ***Lucy's move to a new Andium Homes property with higher rent***
Lucy is a single parent with a full-time job on minimum wage. She lives with her school-aged son, David, in an Andium two-bedroom flat. Lucy and David have lived in this flat for a number of years; it is one of Andium's older stock and due for refurbishment, so they are expecting to move into a new flat soon. Lucy uses childcare for 2 hours each day during the week so she can finish work before collecting David. As a low-income single parent, Lucy is entitled to Income Support. Lucy is entitled to the following weekly components: ▪ Adult component at £125.79; ▪ Lone parent component at £49.14; ▪ First child component at £103.60; ▪ Household component at £70.14; ▪ 10 hours of childcare at £83.70; and ▪ Housing component, which for Lucy's flat, meets the full weekly rent of £220. When these are added up, Lucy's total Income Support entitlement is £652.37 per week. Income Support will take into account Lucy's earnings and will disregard her 6% Social Security contribution and 26% of her wage when considering how much benefit to pay, meaning that overall Income Support disregard 32% of her earnings. ▪ Lucy is on minimum wage at £13 per hour and works a 40-hour week, giving Lucy a weekly wage of £520.

- Income Support will disregard 32% of Lucy's earnings, which is £166.40, and the remaining income of £353.60 is the amount considered against Lucy's benefit entitlement.

- This means that Lucy will receive a weekly top up payment of £298.77 from Income Support (£652.37 entitlement minus Lucy's £353.60 considered income equals £298.77). When added to her earnings this means that she has a total of £818.77 gross income.

- Income Support will pay the rent on Lucy's flat, at £220 per week, directly to Andium.

- This leaves Lucy an actual weekly income after her rent has been paid of £598.77 to budget for the rest of her household costs.

As a percentage, Lucy's rent of £220 represents nearly 27% of Lucy's gross income of £818.77. As such Lucy is below the standard 30% rental stress threshold of a housing expenditure-to-income ratio measure, and so under this calculation is not experiencing 'rental stress'.

Move to a new social housing tenancy with higher rent:

A few weeks later, Lucy is informed that a new build two-bedroom flat has become available. The rent for this new flat is £390 per week. Lucy is keen to move into a new home with David but is worried that she will not be able to afford the extra rent, and that it would mean she has less money to spend on her family's weekly shopping.

However, when Lucy discusses this with an officer in Income Support, she is reassured to hear that her Income Support entitlement will be adjusted to take account of the new, higher rent. She will have the same amount of income remaining for non-housing costs.

- The housing component in Lucy's entitlement will now increase from £220 to £390, making this the same as her new rent charge.

- Lucy's entitlement to other non-housing components stays the same, so overall, with this higher housing component her Income Support entitlement level has now increased from £652.37 to £822.37.

- Lucy's wages have not changed, so Income Support apply the same amount of disregard to her earnings, meaning that the amount Lucy will receive in benefit is still reduced by £353.60.

- As Lucy's housing component has increased in line with her new rent, she will now receive a higher overall level of Income Support benefit, up from £298.77 to £468.77.

- As before, when adding Lucy's benefit to her earnings, she now has a new overall gross income of £988.77.

- However, this is not more money for Lucy to spend in her non-housing budget, and as before, once Income Support have paid the £390 rent to Andium, Lucy's actual income after housing is the same at £598.77.

Lucy and David are very pleased with their new home, and Lucy has the same amount of money each week to spend on shopping and bills.

The percentage of Lucy's gross income spent on rent is now just over 39%. This is higher than the previous percentage of nearly 27%. If using a 30% rental stress calculation, this would indicate that Lucy is now quite deeply in rental stress, and the expectation is that she would be suffering financially as a result. However, Lucy and David have a new home, which costs less to heat, and the amount of income she can spend on non-housing costs, i.e. her residual income, has not changed.

In this case study, the proportion of Lucy's gross income spent on rent has increased from 27% to 39%, surpassing the commonly used 30% threshold for identifying rental stress. However, this increase does not reflect actual, additional, financial pressure. Lucy's housing component was adjusted in line with her rent, resulting in a corresponding increase in gross income that offsets the impact of the rent rise.

Assessing rental stress solely through the rent-to-income ratio may suggest that Lucy is experiencing financial pressure due to the higher rent. However, Lucy's gross income has also increased. Although a larger share of her income is now allocated to housing costs, the rent-to-income ratio does not account for the policy mechanisms that increased her income proportionally, which highlights a key limitation of using this measure in isolation.

A more comprehensive understanding of housing affordability requires consideration of how policies interact with household income and housing costs. In this context, the residual income approach – that is, the amount of income remaining after rent is paid – offers a more accurate appraisal of Lucy's situation. Lucy's residual income has remained unchanged, indicating that her capacity to meet other essential living costs has not diminished in practice.

Case study 2 – the effect of increasing earnings

Lucy's situation reflects the experience of a household where the housing component of Income Support covers the entire rent payment to Andium Homes. This demonstrates how Income Support can fully meet housing costs for some households.

However, not all households receive the full housing component of Income Support. In many cases, the payment only partially covers rent, requiring households to contribute the remainder from their own income.

The following case study examines a household, Philip and Karen, whose financial situation improves over time. As the household's earnings increase, the disregard allows for a gradual transition away from Income Support. This tapering effect assists households as they move towards greater financial independence.

Case study 2 – ***The effect of increasing earnings on Philip and Karen's Income Support***

Philip and Karen are both working full time on minimum wage earning £520 each per week and live in a relatively new three-bedroom Andium Homes' house with their teenage son, Mark, and six-year-old twin daughters Helen and Mary. The rent on their home is £460 per week and, as a low-income family, they are entitled to Income Support.

This family household are entitled to the following components:

- Two adult components totalling £251.58;
- First child component of £103.60;

- Two subsequent child components totalling £174.58;
- Household component of £70.14; and
- Housing component at £460, reflecting the rent charged by Andium Homes.

These components add up to £1,059.90 per week.

The family's income comes from Philip and Karen's full-time minimum wage jobs providing earnings of £1,040 per week. Applying an overall 32% disregard to earnings and social security contributions, Income Support ignore £332.80 from this household income, reducing Philip and Karen's benefit by the remaining £707.20. The sum of the components that the household is entitled to, at £1,059.90, is considered against this amount and Philip and Karen can get £352.70 each week from Income Support as a top-up to their income.

With their Income Support benefits, this household's gross income is £1,392.70. With a weekly rent at £460, this represents 33% of their gross income. Under a housing expenditure-to-income ratio calculation with a 30% benchmark, this would indicate that Philip, Karen, and their three children are suffering from rental stress.

As the £352.70 that the family receive in benefits from Income Support is less than the £460 weekly rent of their home, all this benefit is paid directly to Andium Homes, leaving an outstanding £107.30 in rent requiring payment. In practical terms Philip and Karen do not see or *feel* that their gross income is £1,392.70, rather they may see their income as their earnings at £1040 with Income Support providing a subsidy for their rent directly to Andium Homes, and an outstanding balance of £107.30 of rent due for them to pay from their wages.

As a statistical measure, housing expenditure-to-income ratio calculations are generally applied to a household's gross income and total rent due and in this case is 33%. However, the perception of housing costs and the amount of rent paid can be an important factor in how a household sees itself financially. Philip and Karen pay £107.30 in rent from their earnings of £1040, which is just over 10% of their earnings. As such, the Income Support benefits assist with their rent, bringing their rent cost relative to their *felt* income substantially below the 30% rental stress mark.

Once Philip and Karen have paid the outstanding rental balance, they are left with £932.70 residual income per week for their non-housing costs.

Income increase:

Philip secures a better paid job, and Karen receives a promotion and a pay rise, bringing their earnings up to £1,370 per week. With this change in financial circumstance, they arrange a discussion with Income Support to discuss how this will impact their Income Support benefits.

- Whilst the household finances have changed, their household circumstances have not, meaning that the family is still be entitled to the same £1,059.90 in components.

- When Income Support ignores (disregards) £438.40 of Philip and Karen's higher earnings, there is £931.60 of their new wage for consideration against their component entitlement of £1,059.90.

- As such they receive £128.30 in benefit to top their considered wage up to their entitlement.

- When this is added to their earnings, this adds up to a gross income of £1498.30.

Philip and Karen's rent is still at £460, and this as a percentage of their higher income has reduced to just under 31%. Under a housing expenditure-to-income ratio, their total rent as a proportion of their gross income, indicates that this household still appears to be in rental stress.

As before, Philip and Karen's benefits are paid directly to Andium Homes as rent, so they do not tangibly *feel* this total income in their household finances. They *feel* that their household finances are their earnings and the outstanding balance of rent due to Andium Homes. Once Income Support has paid the £128.30 benefit to Andium Homes, there is now an outstanding rental balance of £331.70 for Philip and Karen to pay from their earnings.

Once again, if looking at Philip and Karen's outstanding rental balance of £331.70 relative to their wage level of £1,370.00 per week, this represents 24% of their earnings, which is a higher proportion than the 10% they were previously covering from earnings. Philip and Karen may well *feel* as if more of their income is going on rent, even though in terms of gross income it is in fact less.

Once Philip and Karen they have paid the £331.70 balance due in rent from their wages of £1,370, they are left with a residual income of £1,038.30. In comparison to their financial circumstances prior to Philip's new job and Karen's promotion, this is over £100 extra per week for the family. Under a residual income measure they have a higher amount of income each week to spend on non-housing costs and so in *real terms* are moving further away from any form of rental stress. They are better off after increasing their earnings.

Coming out of Income Support:

Shortly afterwards Karen receives a further promotion bringing the household weekly earnings up to £1,558.67. Philip and Karen discuss this second change in financial circumstance with Income Support.

- Income Support ignores (disregards) £498.77, leaving £1,059.90 of earnings assessed against Philip and Karen's entitlement to benefit.

- That is the same amount as the entitlement from their eligible components.

- As such there is no room to top-up earnings to entitlement, and this household is at the point where it has tapered out of being in receipt of Income Support benefits.

This means that Philip and Karen are now required to cover the rent of £460 to Andium Homes from their earnings of £1,558.67 without subsidy. As a percentage their rent is now just under 30% of their income, which under a housing expenditure-to-income ratio measure would indicate that this household is very close to a point of rental stress.

Once Philip and Karen have paid their rent, they are left with a residual income of £1098.67 to spend on non-housing costs. This is just over £60 more residual income than previously. Again, under a residual income measure, they are better off in *real terms*.

Throughout the process of tapering out of Income Support, Philip and Karen have *felt* an increase in the proportion of their earnings spent on housing. Applying a housing expenditure-to-income ratio measure calculation to their earnings and rent (rather than

gross income and rent as is the usual process) would give a *sense* that they are coming up towards the point of rental stress.

Due to the nature of the Income Support process, particularly the *disregard* they have also seen their 'real-world' residual income increase even now that they are no longer in receipt of benefits. This household has had a higher level of residual income with each change, allowing for more money to be spent on non-housing costs, which as before means that in *real terms* they are still moving away from any form of rental stress.

Applying rental stress measures to Philip and Karen's situation produces two distinct interpretations.

The conventional benchmark for rental stress, where housing costs exceed 30% of a household's gross income, suggests that as Philip and Karen's earnings increase, their expenditure-to-income ratio decreases. Initially, they are considered to be in rental stress, but with each rise in income, this stress gradually eases.

However, this measure may not fully capture Philip and Karen's experience of their housing costs and the income they *feel* is available, reflecting their disposable income. Although the expenditure-to-income ratio remains below the 30% benchmark, the proportion of their earnings spent on rent increases with each rise in these earnings, which may contribute to a perception of financial pressure.

This shift highlights a broader rebalancing of household finances. As Philip and Karen transition from relying on Income Support to becoming more financially independent, the portion of rent paid directly from earnings has increased, from £107.30 to £460. Whilst the rent amount itself remains unchanged, any perception of paying more may stem from the fact that a larger share now comes from their earnings.

This perception is due to the operational system agreed between Employment Social Security and Housing[5] and Andium Homes, whereby Income Support benefit is allocated first to Andium to cover some, or all, of the household's rent. If the total Income Support amount is **more** than the total rent, the full rent will be paid from the Income Support payment, with the balance being paid to the tenant. If the Income Support amount is **less** than the rent, then the full Income Support payment will be paid to Andium on behalf of the tenant.

The amount paid to Andium reflects a balance of three separate items:

- the cost of the rent,
- the total household income and
- the amount of Income Support benefit to be paid.

This payment method was chosen to assist Andium with rent collection and avoid tenants facing the concern of rent arrears. An alternative method would be to pay the full Income Support amount to the tenant, with the tenant then making the full rental payment to Andium directly.

A key factor in understanding Philip and Karen's financial situation is the disregard policy, which applies a taper to increased earnings. This taper slows the reduction of Income

[5]Information about Employment, Social Security and Housing and frontline customer services is available at: https://www.gov.je/government/departments/employmentsocialsecurityhousing/pages/index.aspx

Support, allowing them to retain more of their income while still covering housing costs. As a result, their residual income improves at each stage of increased earnings.

If Philip and Karen's earnings continue to grow, they will move further away from rental stress under the 30% benchmark, and their residual income will continue to rise. Conversely, if their income remains static and rent increases annually, they can reapply for Income Support. In that case, their housing component payment would adjust to match the new rent, maintaining their entitlement.

Overall, as Philip and Karen's household income increases, even to the point where they are no longer eligible for Income Support, their financial situation improves and the proportion of their gross income that is spent on rent reduces.

Paying the balance of rent, and other components relative to cost of living

In Philip and Karen's example, at each stage they were paying a balance of rent due to Andium from their earnings, and over the course of this case study their rent remained at the same level.

As we saw in Lucy and David's case study, the housing component will increase relative to any increase in rent, and in their case rent uplift was around a new tenancy and increased rent when moving into a new home,

The housing component for social housing tenants eligible for Income Support will also increase in line with each rent review undertaken by the Housing Trusts and Andium's annual rent review. This means that any rent increase is reflected in the housing component and a household's benefit will increase by the same amount in cash terms.

If Philip and Karen's case study had coincided with Andium's annual rent review, their housing component and benefit eligibility would have increased. This would have been assessed against their income and, overall, they would not have been paying any more rent to Andium – in terms of their housing costs, this would have remained in a neutral position.

Whereas Andium rents are automatically and fully reflected in the Income Support housing component, other Income Support components are set by Regulations approved by the Assembly each year. The old age pension is uplifted automatically to ensure that the pension always increases by at least the RPI figure for pensioners. In years when earnings grow faster than prices (as in 2025) the pension increases by an above-inflation amount. Working age social security benefits such as long term incapacity allowance automatically increase in line with average earnings.

Apart from pensions and Andium rent components, there is no guarantee that other benefits will match the increase in prices from year to year. Likewise, earnings are set by employers and, as long as the minimum wage rate is met, there is no requirement for employers to raise wages each year.

If Philip and Karen experience a general cost-of-living rise that was not reflected in an uplift in their other components or their wages, then in real terms they would be financially worse off. They would be receiving the same benefits, but with higher prices for goods and services they would need to budget more carefully to make sure that they could afford to pay for all their essentials.

Philip and Karen have managed to improve their financial circumstances through career advancement and as such are in a better place to deal with cost-of-living challenges. There are, however, households where income is not derived through earnings and only comprises of Social Security funded benefits, and as such are entirely dependent on Income Support and other benefits. A household in this situation cannot increase the level of income provided from these benefits, and may not be able to take up employment, so is reliant on the benefit uprating process to maintain the spending power of its net income after paying rent.

Case study 3 – increased private sector rent

The absence of a cap on the housing component of Income Support for social housing tenants can be observed in Lucy and David's case study. In this context, the full rent is covered, which helps offset rental stress for households in social housing.

In contrast, the private rented sector operates under a capped housing component, set at a fair rent level that is broadly aligned with rents in comparable social housing properties. Despite the financial assistance provided through Income Support, the capped housing component in the private sector may limit the extent to which it fully covers housing costs.

Case study 3 examines rental stress in the private rented sector, the role of Income Support in alleviating financial pressure for low-income households, and the conditions that may lead a household to fall into or move out of rental stress.

Case study 3 – ***Maxine's experience of managing a rising private sector rent***

Maxine is a single parent living in a three-bedroom qualified private rental flat with her two children, Tim aged ten and Rosie aged four. Maxine moved to Jersey 12 years ago and for the first five years worked in registered employment, with jobs in hospitality and retail before achieving entitled to work status when she secured a supervisor role. Once Maxine achieved entitled status after ten years' residency, she moved her family to a property with enough bedrooms.

Maxine works full time earning £16.50 per hour generating a wage of £660 per week, and pays £426.92 per week in rent. Rosie requires ten hours per week childcare.

Maxine is entitled to the following components:

- Adult component at £125.79;
- Lone parent component at £49.14;
- First child component at £103.60;
- Second child component at £87.29;
- Household component at £70.14;
- 10 hours of childcare at £83.70; and
- Private sector rental component, capped at £389.13, the rate for a 3-bedroom flat.

When these are added up, Maxine's maximum Income Support entitlement is £908.79 per week.

Income Support will disregard 32% of her income, which is £211.20, and include £448.80 of her wages against her entitlement. As such Maxine receives £459.99 in benefit which, when added to her earnings, brings Maxine's gross income to £1119.99 per week.

Maxine receives her benefit payment from Income Support, which means she budgets for household expenses herself, and in practical terms she may see and *feel* her gross income as £1119.99 per week and looks at how to use this to cover all her costs.

Maxine pays her rent as a priority. Maxine's rent is £426.92 per week and as a percentage of her gross income is just over 38%. This would indicate that Maxine is in rental stress under a housing expenditure-to-income ratio measure.

Annual rent rise:

Maxine's landlord informs her that the annual rent review is due. For the previous two years he applied a rent freeze to help Maxine when inflation was high, but looking at comparative rental properties now feels that the rent does not reflect the market value. Additionally, the increased cost associated with some timely upgrades, means he is applying a 6% increase.This brings Maxine's rent up to £452.54 per week.

As Maxine's housing component is capped at £389.13, unlike those in social housing, it will not be adjusted to reflect this increase in rent. Maxine has had no material change to any other aspects of her entitlements, so her Income Support benefit remains as is, as does her current wage. This means Maxine still has a gross income of £1119.99 per week. The percentage of new rent relative to her income is now just over 40%, indicating that Maxine is moving into a higher state of rental stress under a housing expenditure-to-income ratio measure.

In real terms, due to this rent increase, Maxine's residual income available for non-housing costs has reduced by £25.62 per week. As such, Maxine has seen an increase in her rental stress under both the housing expenditure-to-income ratio measure and a residual income measure.

Maxine's options:

Maxine could apply for social housing. It seems that Maxine is caught up in a rental stress situation, and whilst Maxine is proactively looking for career advancement, she is also able to apply for social housing through the Affordable Housing Gateway. A tenancy in social housing will secure Maxine discounted rent in a home suitable for her growing family coupled with an enhanced Income Support housing component that adjusts for any social housing rent increase, protecting her residual income.

Maxine could look for somewhere cheaper to live. This would reduce the proportion of income she spends on her rent and so then reduce her rental stress. If she found a tenancy that had a rent at, or lower than, the cap on her housing component, then this would be adjusted to reflect the actual rent charged and in effect Income Support would be covering her entire rent. Maxine is continually keeping her eye open for alternative housing, however is cautious about moving as this would present quite an upheaval from a convenient location for Tim and Rosie's school, and potentially to lower-quality accommodation with higher heating costs. Maxine would prefer not to do this, and accepts that there is a trade off with her current home and the proportion of income she spends on rent.

Maxine could earn more money. She would like to step up the career ladder and is talking to careers advisors and applying for better paid jobs. Whilst Maxine's Income Support benefit will decrease as her earnings increase, due to the disregard, Maxine will always have more income in real terms if she earns more, and as such her rental stress will reduce. However, even if Maxine more than doubled her current wages to £1336.45, the

point at which she would be earning enough to no longer be eligible for Income Support benefits, the cost of her rent means she would still be paying almost 34% of her income on housing. Maxine would need to earn £1,508.50 per week (which would be £37.71 per hour for a 40 hour week) to bring the amount that she pays as rent to 30% of her income.

In Maxine's case, the application of rental stress measures is particularly relevant and indicates a genuine experience of financial pressure. The impact of a rent increase in the private rented sector, compared to the social housing sector, alters the financial balance of the household. As a result, Maxine's expenditure-to-income ratio rises, and this increase is felt in real terms through a reduction in her residual income.

This stands in contrast to Lucy's situation in case study 1. Whilst both Lucy and Maxine experienced rent increases, Lucy's being significantly higher, the resulting impact on housing affordability differ in practice. Rental stress measures do not clearly reflect these differences. Instead, the underlying policy context surrounding the housing component offers a clearer insight into affordability across different housing tenures.

Conclusion

Income Support plays an important role in assisting low-income households with housing costs. As a means-tested benefit, it adjusts to reflect changes in household income and circumstances, which ensures that financial assistance remains aligned with actual financial need.

This approach avoids the need for social housing providers to conduct separate income assessments or adjust rent levels to reflect household incomes. This was a key rationale behind the introduction of Income Support in 2008, which consolidated housing assistance into a single, unified benefit system.

The design of the housing component of Income Support affects how households experience housing costs. In social housing, rents are covered up to the full amount. In the private rented sector, the housing component is capped up to a set amount, which is approximately aligned with the rents for equivalent social housing properties. Many tenants living in private rental accommodation have their rent covered within the cap, those whose rent is above the cap, for example where a preference has been made to rent a more expensive property to benefit from additional features, will need to make up the shortfall from their remaining income.

The case studies illustrate how these policy interventions work in practice. In particular, where the direct relationship between a household's rent level, the housing component and their resulting gross income, means that a '*rental stress'* statistic based on income-to-rent ratio measurements does not provide a comprehensive insight into overall financial stress.

Applying housing affordability measurements to social and private sector tenants needs to be understood relative to the context of the benefit policies used to support households with housing costs.

A realistic assessment of housing affordability requires consideration not only of rent levels, household income, individual circumstances and other essential living costs but also an understanding of the Income Support rules that adjust income levels as rent levels change.

These Income Support rules and processes work to support low-income families with their housing costs by providing benefits that are directly related to rent charged. For those in

social housing and tenants in private rent where the rent is below or up to the cap, this ensures that the support is relative and proportional to these costs. This not only provides the appropriate assistance in meeting rental requirements but also ensures that remaining levels of household income are unaffected.