Equity, Efficiency and Employment: Setting Social Housing Rents

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Executive Summary

Rent policy is one of the key aspects of the management of social housing. It determines the affordability of the housing for its tenants, as well as providing the main income stream for social housing providers.

Social housing rents are generally set as a proportion of the tenant's income, with the general principle being that they pay 25% of income as rent. This policy area has been the subject of much debate over the past few years. While this debate is complex and often highly technical, most debate centres on four key issues.

Fairness and Equity

Concern about fairness has mainly centred around the difference between the level of subsidy received by social housing tenants and the generally smaller subsidy received by private rental tenants on similar incomes through Commonwealth Rent Assistance (CRA). This difference has frequently led commentators to recommend that all housing subsidy be delivered through a mechanism like CRA with rates of assistance set by household income irrespective of tenure. However, this has two main drawbacks:

- At current rates, CRA leaves many tenants in housing stress, whereas social housing rents provide a guarantee of affordability.
- The private rental market and social housing are not directly comparable, differing in crucial aspects such as purpose, security of tenure and the process of access.

Employment Incentives

A second key issue is that social housing rent policy is seen as creating disincentives to employment, because the simultaneous withdrawal of income support payments and rental rebates leads to increased effective marginal tax rates for social housing tenants who increase their incomes. While this disincentive is undoubtedly real, most of the evidence (including a recent comprehensive study of the question by the Productivity Commission) suggest that rent policy is at best a minor factor in the overall level of unemployment among social housing tenants, and that overall access to social housing improves tenants' ability to access employment.

Market signals

A third issue often highlighted with income-based rents is that it tends to encourage over-consumption of housing by social housing tenants, because they will pay the same rent irrespective of the size or location of their housing. Many providers feel that the incorporation of market signals into rent policy will assist them in managing issues such as under-occupation. The main difficulty with this idea is coming up with a way of building in such market signals while both protecting affordability and avoiding further complicating rent calculations. This issue needs to be viewed alongside the current mismatch between the type of households seeking social housing and the type of housing currently available.

Inter-Governmental Relations

A final issue which has influenced this debate in recent times is the desire to clarify the relative roles of Commonwealth and State/Territory governments, exemplified by the Reform of Federation process. One potential outcome of this process is that recommended by the Commission of Audit which would see the Commonwealth limiting its role to paying rent subsidies via CRA while the State Governments charge market rent for their social housing. However, this is not a necessary outcome of reform, merely one of a number of options.

Adding to this issue is the difficult financial position of most State housing departments. These bodies have found themselves under increasing cost pressures in recent years, due to the combined effects of reduced Commonwealth funding in real terms over the long term[1], increasing costs due to increased land values and ageing housing stock, and reduced rental income as a result of policies allocating housing to the highest need tenants. In this context, rental income is insufficient to meet operating costs, increased government subsidies have not been forthcoming and departments have had to make up the shortfall by means such as selling housing or delaying maintenance.

Within the current policy landscape there are four main options for charging rent on social housing.

- The current social housing system sees rents charged based on the tenant's income, up to a maximum set at the market rent for the property.
- Properties rented under "affordable housing" programs such as the National Rental Affordability Scheme are rented at a discount to market, with the most common figure being just under 75%.
- The Commission of Audit recommends tenants be charged market rent and paid CRA through the income support system.
- The Henry Tax Review and the McClure report into welfare reform present the same overall approach as the Commission of Audit but recognise the inadequacy of the CRA at its current rate.

We tested these four options by applying them to six "typical" social housing tenants and eight locations in Brisbane, Sydney and Melbourne where there are significant stocks of social housing. These included four outer-suburban areas and four inner city areas with intense concentrations of social housing. A summary of our findings is as follows.

- The current income-based approach is highly successful in delivering a consistent level of affordability, while calibrating the level of assistance precisely to the level of need of the tenant. However, it can result in providers receiving a very small proportion of market rent form some tenants in some locations – as low as 20% for single tenants in inner city areas. This financial problem is significantly reduced for community housing providers because their tenants are eligible for CRA and therefore rents can be between $120 and $170 higher per fortnight.
- The discounted market rent, with tenants eligible for CRA, yields a predictable income for providers. It provides a reasonable level of affordability for most tenants in outer suburban areas, although more so for couples than for single

people with or without children. For the most disadvantaged tenants, however, it is a long way from providing affordability in inner city areas where there are currently substantial stocks of social housing. This rental option works well for its current purpose of calculating rents for households on low to moderate incomes, but does not translate well to the high-needs tenants who are the current target of social housing.

- The option of charging market rents and subsidising tenants through eligibility for CRA at its current rate is disastrous for most tenants in most locations, with very few locations affordable for any tenants and none for single tenants. Increasing CRA by 30% improves the analysis to some degree, but not sufficiently to make this a workable policy option. A practical result of a shift to this approach would be that significant parts of the current stock of social housing, including much of the stock suitable for smaller households, would become unusable for social housing as it is currently conceived.
- A combination of a discount to market approach and increased CRA does provide a reasonable level of affordability for most tenants in most locations but the current structure of CRA results in this option subsidising some households to a larger extent than they need.

While a reasonable case can be made for reforming rent policy on a number of grounds, none of the reform options currently on the table appear to be viable replacements for the current approach of basing rents on tenant income. Rent policy reform, if it is to be seriously attempted, requires a much more nuanced and thoughtful examination than it has received in policy processes to date.

1. Introduction

National Shelter is the peak non-government organisation representing the interests of low-income housing consumers, and has been in operation since 1976. It comprises representatives of Shelter bodies in all states and territories, and also includes national bodies Homelessness Australia, the Community Housing Federation of Australia and the National Association of Tenant Organisations. National Shelter cooperates closely with other national organisations such as the Australian Council of Social Service, and was a member of the National Affordable Housing Summit Group, the Community Organisations Housing Alliance and the campaign group Australians for Affordable Housing.

National Shelter advocates the development of a national housing policy based around the following principles:

- Housing is affordable. People on low and moderate incomes should not have to pay more than 30% of their income on housing costs.
- Housing is adequate. Everybody is entitled to housing that meets acceptable community standards of decency and their own needs.
- Housing is secure. People should not live under threat of loss of home and shelter. A secure base enables people to form constructive relationships, grow families and seek employment and community engagement.
- Housing is accessible. People should be informed about available housing options and access to these should be free from discrimination. Most housing should be built to Universal Design principles.
- Housing is in the right place. It should be located close to services and support networks, to job opportunities, to transport networks and to social and leisure activities.
- Housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs.

In the past few years, social housing rent policy has been a hot topic of discussion among governments and non-government organisations. The debates focus on a number of issues – affordability for tenants, the financial viability of the social housing system, fairness and equity between tenants, incentives for employment, ability to manage housing flexibly. Often these objectives are in tension and policy prescriptions which promote one objective can easily do so at the expense of another.

This is a policy area that is central to a number of the principles National Shelter espouses.

- It clearly impacts on affordability – the amount of rent paid by tenants essentially defines how affordable their housing is.
- It impacts on the adequacy and security of their housing – tenants on low incomes frequently trade off adequacy and security against affordability.
- It also impacts crucially on the locations they are able to live in - increasingly private rental housing is unaffordable for low income tenants in many parts of our cities and regions.

Up until now, rent policy has largely acted as a shield for social housing tenants against the need to trade off adequacy and location against affordability. Because rents are calculated based on tenants' incomes, tenants in the same circumstances will pay the same rent no matter where they live or what sort of housing they live in. The dimensions of adequacy and location are then dealt with through the allocation process, based on criteria of need and eligibility and on the availability of housing.

However, there has been increasing concern amongst policy-makers that this approach has a number of negative consequences. It has been posited that income based rents have a number of potential negative consequences, including:

- Providing insufficient income for social housing providers to sustain their operations.
- Creating "poverty traps" which remove the financial incentive for social housing tenants to increase their income by taking up extra employment.
- Encouraging under-occupation of housing because tenants are charged the same rent no matter what size housing they live in.
- Creating inequity between tenants in social housing and tenants of private rental in otherwise identical financial positions, with social housing tenants receiving larger subsidies than their counterparts in private housing.

It should be noted that none of these concerns are purely issues of rent policy – they are also driven by other areas of policy including the operation of Australia's income support system, the means of funding social housing, and policies about the allocation and management of social housing tenancies. However rent policy has a key role to play in each of these issues.

This report represents an attempt to analyse this policy area from the perspective of low income social housing tenants, and to understand the impact of different policy options on social housing tenants in various circumstances.

2. Public Housing Rent Policy in Context

In order to understand current debates in rent policy, it is important to understand the historical and policy context in which they take place, and the evidence that informs the debates. In many cases there are gaps in our knowledge, or the evidence is capable of multiple interpretations. In this section, we attempt to summarise the historical and policy background to this debate.

2.1 The Story So Far

The circumstances of the creation of Australia's social housing system have led to an operational and funding model that is unusual in the developed world.

Since the creation of the first Commonwealth State Housing Agreement in 1945, the primary funding of social housing has been by transfers from the Commonwealth to the State and Territory Governments, matched by funds from those governments' own budgets. These Commonwealth funds were initially made available as concessional loans but were switched to grants in the late 1980s as financial pressures grew on the social housing system. For most of the history of the various agreements these were provided as capital funding and used to build new housing, although the 2008 National Affordable Housing Agreement treats them as operational rather than capital grants.

While the matched Commonwealth and State funds provided for the development of new housing, the operation of the existing housing was funded through the rents paid by tenants. This funding model was appropriate in the post-war period because of a number of differences in purpose and context.

- A cost-rent model allowed State Governments to recoup all or most of their operating costs, meaning the system was sustainable over time.
- Public housing was targeted to families, and in the context of full-employment in the post-war era the majority of these had a member in the workforce, meaning they were able to afford this cost rent and didn't require large subsidies to ensure affordability.

Groenhardt and Burke[2] have outlined a series of changes that have taken place in this system since the early 1980s. Some of the key changes included:

- A shift from housing working families to steadily increased targeting of housing to households experiencing disadvantage and on low incomes, including those outside the workforce.
- Opening of eligibility to different types of households including single people and couples without children.

- A shift from cost rents to a dual system in which the property rent is set to match the market rent for the dwelling, while the rent paid by the tenant is capped at a proportion of their income (roughly 25%, with variations depending on the source of income and variations from provider to provider).
- The growth of the community housing sector, with a significant proportion of Australia's social housing now provided by non-government organisations under various Commonwealth and State/Territory funding programs.

These changes, plus changes in the wider economy, have led to a high level of unmet need for social housing, with long waiting lists despite increasingly restrictive eligibility criteria. Despite this level of need, the level of Commonwealth funding has declined in real terms (aside from a short-term boost in the wake of the Global Financial Crisis), while the level of rental income has also fallen in line with the decline in tenants incomes. Groenhardt and Burke have calculated that in real terms, Commonwealth expenditure on social housing has declined from just below $4b per annum in 1981 to approximately $1.3b in 2008 (in 2011 dollars).[3] Since 2008 payments under the National Affordable Housing Agreement Special Purpose Payment (SPP) have been indexed, increasing in nominal terms from $1.2b in 2009-10 to $1.28b in 2013-14, and the total expenditure on housing and homelessness (including the National Partnership Agreements on homelessness and remote Indigenous housing) has varied between $1.7b and $2.2b over this time with fluctuations due to variations in spending under the National Partnership Agreements[4]. This has meant that the quantity of social housing has grown very slowly over this period and has not kept pace with the rate of growth in the population overall. The 2015 budget papers show projected spending to continue to be indexed in this way, with the estimated 2014-15 expenditure at $1.3b and projected 2018-19 spending at $1.39b in nominal terms[5].

In the meantime, while expenditure on social housing has been declining, the Commonwealth has devoted increasing sums to the provision of Commonwealth Rent Assistance (CRA) through the income security system. CRA is available to low income tenants in the private market or in social housing operated by non-government organisations, with payments beginning once the recipient pays a certain level of rent and then paid at 75 cents for every dollar of rent up to a maximum payment[6].

While funding for social housing has declined in the long term and remained static in recent years, CRA expenditure has increased steadily throughout this period. In 1984-85 overall real expenditure (in 2014 dollars) was approximately $0.6b[7]. By 2009 this was equivalent to $3.2b and has continued to grow since, reaching $3.9b in 2013-14[8].

2.2 Tenant Outcomes

One way of measuring the success of different forms of housing assistance is through the concept of "housing stress". Households are generally considered to be experiencing housing stress if their income is in the lowest 40% of the income distribution, and their housing costs exceed 30% of their gross income. There are also other factors that impact on the wellbeing of tenants, including accessibility of housing, security of tenure, and the physical quality and location of their housing.

These two forms of assistance impact on tenants in different ways. Low income households do not have to wait for CRA – if they are eligible for the payment they will receive it immediately. However, while it provides concrete assistance with affordability, it has only limited effectiveness in ensuring affordability. The Report on Government Services reports that without CRA, 67% of recipients would have been in housing stress. However, with CRA this is only reduced to a little over 40%[9]. At current rates, CRA is not sufficient to deliver affordability for these tenants. This is at least partly because over the long term, rates of CRA have not increased in line with increases in rents. The Harmer Pension Review found that because the rate of Commonwealth Rent Assistance (CRA) is indexed to overall inflation, not to increases in rents, pensioners were on average $9 to $10 per week worse off over the period from 2000 to 2009[10]. This practice has continued to the present day, and is once again noted in the McClure Review, to be discussed later in this report. In addition, many low income households are not eligible for CRA because it is only available to people on some categories of Centrelink payment.

At the same time, while income support is available to tenants, this is not a guarantee that housing will be. The shortage of affordable rental housing in most Australian rental markets, and particularly in capital cities, has been documented over many years. Most recently, the National Housing Supply Council estimated that there was a shortage of 539,000 private rental dwellings that were both affordable and available for renters with gross incomes at or below the bottom 40% of the income distribution[11]. The effect of this shortage is seen partly in the number of low income tenants in housing stress, and more starkly in the more than 100,000 people homeless on any given night[12]. Tenure in the private rental market is also very insecure, with leases typically no more than 12 months and often only 6 months. This can lead to considerable insecurity, additional significant cost and stress of moving and a periodic risk of homelessness for low income tenants.

By contrast, the pressures on the social housing system mean that many low income tenants are not able to access this system quickly. In 2013 there were over 200,000 households waiting for social housing across Australia. By contrast, only slightly over 33,000 new social housing tenancies were allocated across the country in 2012-13, down from over 38,000 in 2003-04[13].

This level of pressure on the system has led to most States and Territories shifting from "wait turn" to "needs-based" allocation systems, with over 75% of new allocations made to high need tenants. This means that while applicants who can demonstrate a high level of need have a reasonable chance of timely allocation, those who are in housing stress in the private rental market, but are not so assessed, may wait indefinitely. Access also varies spatially – in 2014 the NSW Auditor-General estimated that in 20% of the 247 areas of NSW that had social housing, applicants could expect to wait 10 years or more to access this housing.

However, once tenants DO get access to social housing, the policy of income-related rents ensures that this housing will be affordable to them. Thus, while over 40% of low income tenants in the private rental market were in housing stress, this figure is negligible for those in the public sector. Tenants can also expect a level of security of tenure – even though many States and Territories are moving from "tenancy for life" to "duration of need" approaches to tenure, even the latter ensures that as long as they remain on low incomes tenants will be secure in their homes.

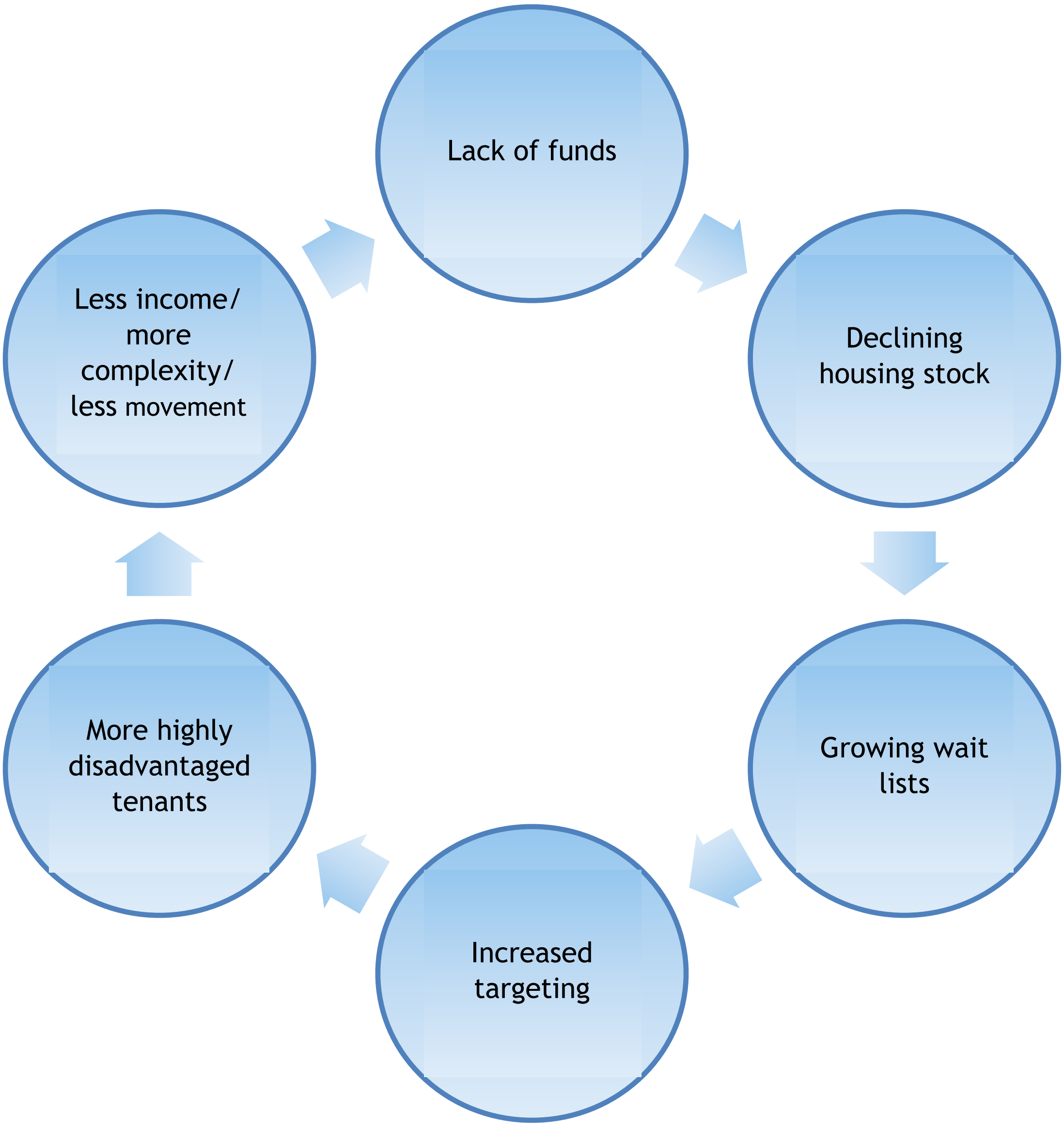
2.3 Provider Outcomes

These policy shifts have led directly to a number of issues in Australia's social housing system.

The first is that while demand for social housing has remained high, there has been little overall growth in supply over the past 20 years. In effect the annual Commonwealth and State subsidy has simply gone towards funding the difference between rental income and operating costs – while the subsidy was couched as a capital subsidy this was masked by the fact that new housing continued to be built while older housing was sold to meet financial shortfalls.

This increased demand has led to an ongoing cycle of decline in social housing, expressed in Figure 1.

Figure 1: Social Housing Policy – A Vicious Circle?[14]



As funding shortfalls have continued to bite, State and Territory governments have responded to increased demand by increased targeting. This has led to the profile of social housing tenants shifting towards those with long-term disadvantage, further reducing the income available to housing organisations and reinforcing the cycle.

The result is that most State and Territory housing authorities are reporting substantial financial shortfalls, and many are projecting these will increase.

- In NSW, the Auditor-General[15] identified that the Land and Housing Corporation (LAHC) faced a financial shortfall of approximately $330m in 2012-13, even after deferring around $80m worth of maintenance work. This poor financial position is exacerbated by a poor asset position, with 25% of dwellings (over 36,000 dwellings) over 40 years old and 30-40% of dwellings falling short of the LAHC's "well-maintained" standard.
- The Victorian Auditor- General[16] identified an operating deficit of $54m in the Victorian public housing system in 2012, projected to grow to $115m by 2015. This modest figure masked deeper issues, with 10,000 properties expected to reach obsolescence within four years and an unfunded maintenance liability of $600m on these properties.
- The Queensland Department of Housing and Public Works[17] reported an operating loss of $54m in 2010-11 was projected to increase to $140m in 2015-16 and a 50% increase in maintenance expenditure from 2005-06 to 2010-11.

These operating deficits are linked by State governments to an increased level of subsidy provided to tenants. The Queensland Department of Housing and Public Works estimated that the average annual subsidy per household increased from $3,708 to $7,253 from 2005-06 to 2010-11. These changes coincided with the introduction of Queensland's "One Social Housing System" reforms which shifted allocations from a wait-turn to a needs-based system and introduced time-limited tenancies.

The Western Australian Social Housing Taskforce[18] identified in 2009 that tenants paid a total of $156m in rent the previous year, while $115m was foregone through rent subsidies. This picture is even more extreme in NSW, with the NSW Government expected to collect approximately 42% of the market rent on its properties in 2012-13.

Hence, while the policy of income-based rents works very well in delivering affordability to tenants, it is not succeeding in financing public housing operations. This means that under current policy and funding arrangements public housing authorities face chronic funding shortfalls which they make up for by deferring maintenance and/or selling housing. The NSW Auditor-General succinctly comments that "this strategy is unsustainable".

Community housing organisations do not fare this badly overall. This is largely because unlike public housing tenants, tenants of community housing organisations are able to claim Commonwealth Rent Assistance if they are eligible for this under income security legislation. Precise details of how this affects rental income are discussed in Part 4 of this report, but depending on the household makeup and other factors, eligibility for CRA enables community housing organisations to access between $120 and $170 more than public housing authorities in rent per fortnight from tenants in identical circumstances. This equates roughly to a 30% increase in rental receipts.

This policy setting is important for the viability of community housing organisations, but doesn't guarantee this viability. In 2009, John Hall and Mike Berry[19] found that on the basis of 2006 data community housing organisations received less rent per tenant than public housing authorities, primarily because they housed more disadvantaged tenants overall. They did find that community housing organisations were in a better financial position overall than public housing authorities, but primarily because their operating costs were lower, not because their incomes were higher. Their financial analysis still led to a finding that community housing organisations also struggled for viability.

Of course a number of things have happened in the decade since Hall and Berry's data was gathered. On the community housing side, stock transfers and funding initiatives have meant substantial growth for the top tier of community housing organisations, leading to a much more sophisticated group of organisations and also to a greater mix of tenants brought in through "affordable housing" programs such as the National Rental Affordability Scheme (NRAS). On the public housing side, most State Governments have moved substantially towards needs-based allocation, so their own tenant mix is likely to have moved towards the high levels of disadvantage Hall and Berry identified in community housing. These two movements may well have widened the gap in viability between community housing and public housing organisations, although there is no data to confirm or contradict this.

2.4 International Comparisons

It is important to recognise that there is nothing natural or inevitable about this set of policy arrangements. They are the product of decisions made by successive governments since the Second World War. Different choices at key points would have resulted in different outcomes.

This point is amply illustrated by the review of international social housing rent policies by Sean McNelis and Terry Burke in 2004[20]. They reviewed rental systems in a selection of advanced economies including New Zealand, the USA, Canada, the United Kingdom, Germany, Sweden and the Netherlands. They identified that there are two broad approaches to rent policy, although there are considerable variations in detail.

The first could be termed the "European model". The European countries examined by McNelis and Burke typically have substantial stocks of social housing (ranging from 15% of all housing in Germany to 40% in Sweden and the Netherlands). Tenants in this housing will pay either the equivalent of the private market rent, or a "cost rent" which reflects the full cost of provision – these two methods of calculating rent end up yielding very similar rental amounts. Tenants pay this rent irrespective of their income, but low income tenants have access to relatively generous housing allowances through the income support system which allow them to afford these rents.

The second model is the one mostly used in the USA, Canada and New Zealand, which have stocks of social housing at a level more similar to those in Australia. In these countries, social housing tenants generally pay a rent based on a proportion of their income, up to a maximum set at either the market or cost rent. The difference between the market rent and the rent paid by the tenant is then made up by a direct operational subsidy to the provider.

In both these models, the system is designed to both ensure that social housing tenants pay affordable rents (either through generous rent allowances or through income-related rents) and that providers can meet their operating expenses (either through collecting market or cost-based rents, or through direct operating subsidies). Naturally these systems are not perfect, and there are issues of housing affordability and viability of providers in all systems. However, what they show is a clear policy mechanism aimed at achieving affordability and viability.

By contrast, Australian social housing sets up a trade-off between affordability and viability. Australian social housing providers are expected to meet both their operating costs and the cost of rent subsidies out of their operating income. This means that when their tenants have low incomes they have to choose. Will they charge an affordable rent, and risk their viability? Or will they charge a rent that ensures their viability, and risk placing their tenants in housing stress? In practice, the policy of governments at both Commonwealth and State level has been to prioritise affordability for tenants, but as tenant incomes have declined this has placed increasing pressure on viability. Viability is then propped up by the back door, as it were, through either the sale of property or through allowing this property to deteriorate by cutting maintenance expenditure. In the long term, Australian social housing requires a more sustainable approach.

3. Current debates in rental policy

One of the complexities of the debate around rental policy is that it is asked to meet a diverse and often conflicting set of policy objectives. Depending on the standpoint of the author various combinations of the following objectives are discussed[21].

- Affordability for tenants – usually measured by benchmarks such as not paying more than 25% or 30% of income in rent.
- Revenue generation/viability for social housing providers.
- Horizontal equity, informed by a desire to see that households in similar circumstances receive similar levels of assistance.
- Vertical equity, informed by a desire to see that assistance is appropriate for the differing levels of need faced by different households.
- Choice and market signals, with many policy-makers wanting to see rent policy set to provide incentives to not under-occupy housing and to allow a choice of housing types, locations and tenures.
- Workforce incentives, with rent levels providing incentives for tenants to increase their income through employment, or at least reducing disincentives to do so.
- Efficiency and transparency, stressing the importance of both tenants and staff understanding how rent is calculated and being able to reliably anticipate the impact of choices they make on their rent.
- Simplification of intergovernmental relations, with current debates on the future of federation being driven by a desire to reduce overlap between levels of government.

To a large extent, this debate can be seen as embedded in the larger issue of the purpose of social housing and its place in the overall Australian housing system.

In Australia, as in most advanced economies, households essentially have the choice of three tenures – home ownership, private rental and social rental (either government or not-for-profit). Tenants who are unable to secure housing in any of these sectors end up either homeless or in the "informal" sector, generally in substandard and insecure housing.

Each of these tenures receives a level of subsidy from government. Home owners are subsidised through the tax system, through such measures as the exemption of the principal place of residence from capital gains tax and income security assets tests. Private rental is subsidized through the ability to offset losses on rental investments against other income (negative gearing), preferential treatment of rental housing for capital gains tax, and for low income tenants the payment of CRA. Social housing is subsidized by direct government grants and subsidies form both Commonwealth and State governments. The levels of these various subsidies have been extensively documented over the years.

Within this system, owner-occupation has generally been seen as the primary means to house Australian households. There is a strong cultural preference for home ownership and it is seen as providing tangible benefits to households both in meeting their immediate housing needs, and as a form of asset accumulation over their lifetime. This primary policy orientation has not changed a great deal since the 1950s, but affordability issues have seen increasing numbers of households unable to realise this aspiration.

Private and social rental have then been understood to be complementary tenures to owner-occupation. For most of the period since the Second World War, social housing has been seen as the preferred long-term alternative to owner occupation for those households which are unable to purchase a home for whatever reason. It has provided some of the benefits of home ownership – long term affordability, security of tenure, decent housing – without the up-front cost and financial burden.

Within this frame of reference, private rental housing has been understood as transitional. Households would access private rental housing while saving to buy a home, in between bouts of home ownership, or where they are unable to enter home ownership, while waiting for social housing.

However, the last decade has seen a substantial shift in the way private rental and social housing are talked about in government policy documents. Increasingly, social housing is coming to be understood as a transitional option between periods in private rental. This orientation is not always expressed explicitly. Instead it is couched in such phrases as social housing being a "pathway not a destination"[22], or a "pathway to independence"[23], or as providing "housing for the duration of need". It should be noted that recent research for NSW Shelter clearly indicated that many social housing tenants do not share this view, seeing social housing very much as a destination and having no wish to return to the private market[24].

This approach is consistent with a number of broader policy debates, including the current level of concern about budget deficits, and the concern about building the welfare state to promote dependency rather than long-term independence. It is also driven by the practicalities of increased demand and static supply of social housing.

This means that current discussion of social housing rent policy is most strongly focused on four things.

- Equity between public tenants on income-based rents and private tenants receiving CRA.
- Perceived workforce disincentives arising from income-based rent.
- "Market signals" as an aid to managing public housing stock.
- Intergovernmental relations, with debate about the appropriate roles of Commonwealth and State governments.

These are discussed briefly in the following sections.

3.1 Equity between low income tenants

One of the areas often cited as an issue is the inequity of subsidy between public housing tenants and private tenants who receive CRA. For instance, the McClure Report notes as follows:

> "Tenants in private rental housing in receipt of Commonwealth Rent Assistance receive a lower effective subsidy from government than tenants in public housing. The *Australia's Future Tax System Review* estimated the average difference in subsidy between the two tenure types per household was $3,380 per annum."[25]

The report goes on to note that this, along with the greater security of tenure offered in social housing, provides an incentive for people to remain in social housing rather than return to the private rental market.

Other sources confirm this. For instance, in 2012 the Queensland Government estimated that the average annual subsidy to public housing tenants was just over $8,000, while average CRA payments were just over $3,000[26]. Similarly the South Australian Government's Triennial Review of the South Australian Housing Trust estimates that the average weekly subsidy to rebated tenants was $107 per week ($5,500 per year) while the national average was $146 per week ($7,600)[27].

This could be viewed either as an indication that public housing subsidies are too generous, or that CRA is inadequate. The fact that 40% of CRA recipients are in housing stress (as discussed in 2.1.2 above) indicates that the latter is a more tenable view. This is certainly the view taken by both the Henry Review into the tax system and by the McClure review into the welfare system, both discussed below.

In a broader sense, this comparison needs to be seen in the light of the fact that CRA and income-related rents are not directly comparable. CRA is a direct payment and can be quantified precisely, whereas the subsidy involved in charging income-related rents is notional, based on an estimate of the market value of the property. This doesn't necessarily reflect the actual cost of providing the service, which may be higher or lower depending on a range of other factors.

It is also important to note that social housing and private rental housing are not directly comparable products. While the physical housing is broadly similar, a number of other aspects of the service are different, including differences in security of tenure (indefinite or "duration of need" for social housing, short-term for private rental), means of access (market-based allocation for private rental, need and entitlement based for social housing) and increasingly conditions of occupancy (a standard lease for private tenants, an increasing move to behavioural expectations and support agreements with social housing tenants).

Rather than seeing these forms of housing assistance as directly comparable, as most of the recent policy analysis tends to do, our contention is that they are better viewed as complementary. Unless there is substantial change in the structure of the Australian private rental market, it will never provide an adequate long-term solution for the needs of low income households. Hence, private rental subsidies are more appropriately viewed as the temporary form of assistance, keeping low income households out of poverty until a more permanent solution to their housing needs becomes available. For some households this will be access to home ownership, but for many it will be a form of social housing. The challenge for Australian governments is to build a housing system that fosters this type of transition.

3.2 Employment Incentives

One of the strongest concerns expressed about the current income-based rent model in social housing is the perception that it provides a disincentive for tenants to increase their income by entering the workforce or increasing their amount of work, and hence that it perpetuates dependence. For instance, the McClure Report says the following:

> "Public housing charges rents as a proportion of income (about 25 per cent of income). This means that as a person in receipt of income support earns additional income, they not only pay tax on that income, but also pay about 25 per cent more rent while losing their income support. This creates a disincentive to work. It is estimated that around 110,000 recipients are in 'employment traps' where high effective marginal tax rates discourage work.
>
> "In families where there are multiple income earners including young people, all household income is counted when determining income based rents. This becomes a disincentive to work. This effect is not experienced by income support recipients in the private rental market, where rents are not income based.
>
> "As such, income based rents in public housing reduce the reward from work and create a disincentive for tenants to become self reliant through employment."[28]

This view is backed up by research conducted by the Tenants Union of NSW in 2008[29]. Examining the rent policies used by Housing NSW at that time, they found that tenants could experience effective marginal tax rates of between 43% and 109% on extra income earned. In 2005 an AHURI project[30] conducted more sophisticated modelling on the Effective Marginal Tax Rates and Replacement Ratios of households in receipt of housing assistance, both CRA and social housing. Their finding was similar to that of the Tenants Union – households in public housing who are not in work face high effective marginal tax rates on any increased earnings (many exceeding 60% of extra income lost in withdrawal of various forms of assistance) and those in employment have high replacement rates with as much as 75% of income lost if they reduce employment replaced by increases in non-wage income. However, they also found comparable replacement rates for recipients of CRA, particularly those receiving family payments.

These views are largely based on financial modelling of the impact of extra income on households' financial situations. How does this relate to the lived experience of tenants, and do these disincentives operate in practice, or only in theory? In a follow-up to the 2005 AHURI study, Dockery and colleagues[31] examined the actual impact of social housing tenure on employment amongst a cohort of low income households. They found that while the evidence was inconclusive in many respects, there was a 14% increase in tenant's access to employment immediately after being allocated a social housing tenancy, and a 43% increase over the life of their tenancy. This suggests that while there is clearly a financial disincentive for tenants to take up work, other factors are pushing in the opposite direction. They suggest that the stability and affordability of social housing increase tenants' capacity to find work, and also that the fact of being on the waiting list for social housing tends to artificially depress people's access to work.

National Shelter's review of employment issues for young people in social housing found a similar pattern.

> "Our analysis says the low level of workforce participation in social housing is at least partly a function of the characteristics of who lives in social housing, its history of allocation, the poor location of some social housing and its concentration of households often contending with situations, conditions, disabilities, and histories which make employment a secondary consideration.
>
> "We have been told many young people have grown up in social housing, which has provided them with safe, secure and affordable accommodation but which may not have furnished them with the surrounding supports, social and economic conditions, ambitions and goals which has the effect of further lowering their probability of entering the workforce or continuing education to the same level as their peers in the general population.
>
> "Our interviews and workshops inform us that many have come from homelessness backgrounds or experienced substance misuse, have

> mental health conditions, histories of disrupted families, abuse, trauma or just fallen on hard times through job loss and a lack of a supportive environment.” [32]

The most comprehensive study of this question to date is a piece of research released in April 2015 by the Productivity Commission[33]. This report examined the issue through analysis of three large datasets – the total Centrelink dataset of CRA recipients, and the public housing tenant databases of the South Australian and Western Australian governments. Overall they conclude as follows:

- “Only about 10 per cent of working age public housing tenants who receive income support payments (ISP) are employed. In contrast, the employment rate among other working age ISP recipients, including those who receive CRA, is about 20 per cent.”
- “Receipt of housing assistance plays a very small role in public housing tenants’ relatively low employment rates. It is the characteristics of individuals, and not the characteristics of the housing assistance that they receive, that matter to participation in employment.”
- “Welfare locks among applicants for public housing — where people avoid employment while waiting for public housing in order to remain eligible — do not appear to be particularly important in South Australia or Western Australia. Employment rates do increase after entry into public housing, and this might be related to the added stability a household gains from the move. More generally, housing stability is associated with higher employment rates.”[34]

Hence, while there is clearly a financial disincentive to take up extra employment, this is not the reason fewer social housing tenants are employed compared to tenants on other forms of housing assistance – the reason is simply that social housing tenants, as a group, are more highly disadvantaged. This should not come as a surprise, since the allocation process for social housing is specifically designed to achieve this outcome. Even then, once tenants are accepted into public housing they are more likely to access employment – not, in the Productivity Commission’s analysis, because they were holding off on employment to improve their chances of accessing social housing, but because the increased security and stability provided by social housing increases their capacity to find work.

Their conclusion is that the most effective way to assist social housing tenants to access employment is not by changing rent policy, but by providing intensive, targeted supports to tenants to assist them to improve their skills and find work. The shift from income based to market-based rents plus CRA proposed by the McClure report is unlikely to have much impact on employment. However, they do suggest a secondary, supportive role for rent policy in ensuring that tenants do not face prohibitive Effective Marginal Tax Rates on entering employment.

A final point on this subject is that employment incentives are not relevant to all social housing tenants. Many have little or no capacity for paid work as a result of disability, chronic health problems or old age. The Productivity Commission reports that of the working age tenants in its sample, 80% have "some capacity" for employment including 20% who have "high capacity"[35].

Other estimates of the capacity of tenants to enter the workforce yield lower numbers. For instance, the NSW Government's 2014 social housing discussion paper identifies approximately 22,000 of their 130,000 public housing tenants who are on either Newstart Allowance or Parenting Payment, and hence could benefit from extra assistance to enter the workforce. In addition they identify approximately 20,000 young adults living in public housing who could benefit from similar support – most of these are young people living with their families rather than as primary tenants.

3.3 "Market Signals"

A third driver in discussions about rental policy is the concern about under-occupation and, to some extent, about low income tenants paying minimal rent for high value properties. Some commentators have suggested that rent setting policy should be modified to send a "market signal" to tenants by charging them more to live in a premium location or to occupy housing that is larger than they need.

One way of addressing this problem is to shift to full market rent and then pay tenants a subsidy based on their income. This is discussed in more detail later in the report, but an obvious drawback is that tenants living in communities where market rent is high may be left in after housing poverty unless the subsidy is much more generous that current CRA. This issue has led to the proposal of a number of hybrid models.

One of the most comprehensive attempts to design such a model was carried out by the Industry Commission (forerunner of the Productivity Commission) as part of its 1993 inquiry into public housing[36]. Essential features of this model are as follows.

- A "standard rent" would be set for each household, based on the average rent of an appropriate dwelling for them (based on size) across the State or across a particular geographic area.
- Tenants would then receive a subsidy equal to the difference between the standard market rent and 25% of their income, irrespective of the house they are actually in.
- Tenants would have a choice of potential public housing dwellings, and each would be valued at its individual market rent. Their subsidy would be the same irrespective of the dwelling they chose, so if they chose a lower value dwelling they would pay less, if a higher value one they would pay more.

- They suggest that the subsidy should decrease as income increases but that this should be "non-linear" to reduce workforce disincentives – how precisely this would work is unclear.
- They also suggest a small premium on the market rent (perhaps 2-3% extra) to reflect the security of tenure.
- They comment that to be effective, this system requires that tenants be given a wide choice of properties initially (at least four of different standards) and be able to transfer fairly easily. In the absence of such choice they suggest tenants should not be penalised and their level of subsidy be matched to the dwelling or dwellings on offer.

There are two main reasons this system never gained much traction in policy debates. The first is its obvious complexity. Income based rent systems are already fairly complex to administer, and this adds an extra layer of complexity to that task with the need to calculate a relationship between subsidy levels and the value of each individual dwelling. The second reason is that in practice Australian social housing providers are not able to offer the kind of choice such a system requires.

The second of these issues is, in fact, relevant to any proposal to introduce market signals into social housing rent policies. For market signals to be effective, tenants must have the opportunity to choose an alternative. This is very difficult to achieve in the current environment, and tenants regularly report long waits and frustrating processes for transferring between social housing dwellings even where they have a pressing need (e.g. health or accessibility) to transfer.

This issue is especially relevant for the issue of under-occupation. A number of State governments have identified a mismatch between the housing in their portfolio and the households who are applying to live in it. This has come about because a large proportion of the housing was built in a different era when the main focus of the social housing system was on housing families. For instance, the NSW Government[37] has pointed out that while in 1970, 70% of tenants were couples with children and 12% were sole parents, these two groups made up only 4 and 14% of tenants in 2013, with 58% of current tenants single persons and 9% couples without children. The current housing mix is identified as 7% one-bedroom dwellings, 23% two-bedroom, 41% three-bedroom and 30% four-bedroom. By contrast, the current household sizes of tenants and applicants suggest a need for 61% of the housing to be single bedroom units, 20% two-bedroom, 8% three bedroom and 10% four-bedroom. Other States report similar mismatches between their housing portfolio and the makeup of their tenants and applicants.

This mismatch is likely to undermine the effectiveness of an approach based on "market signals". Until social housing providers are able to offer suitable alternative housing to under-occupying tenants, charging them extra rent for their extra bedroom is likely to just be a form of punishment.

A related issue is the interaction between this imperative and the imperative to increase levels of employment. Market rents essentially reflect the amenity and level of demand for housing in a particular location. A key element of this amenity is access to employment and other facilities. Hence a "market signal" based on market rent levels could in effect be an incentive for tenants to move to locations with poor access to employment opportunities.

3.4 Intergovernmental Relations

A final question which has entered the debate about rent policy in the past two years is the question of the appropriate roles of Commonwealth and State/Territory governments. This question was initially placed on the agenda by the Commonwealth Government's Commission of Audit[38], and has since been progressed through the Reform of Federation process[39].

The Commission of Audit's general approach to Commonwealth/State relations is based around the idea that the division of responsibilities should reflect as closely as possible the assignment of powers in the Australian Constitution. In housing policy, this results in them viewing the supply and management of social housing as a state responsibility, and the provision of income security as a Commonwealth responsibility. The conclusion this leads them to is that the Commonwealth should withdraw completely from the funding of social housing, but should extend eligibility for CRA to all social housing tenants (including those in public housing) on condition that social housing providers charge market rents.

This proposal represents a major departure from the way social housing has been funded and managed over the past 70 years. Such a major change would be expected to have significant impacts on both housing providers and tenants. However, the Commission of Audit doesn't explore these impacts and doesn't provide any detail on how its proposal would be implemented. Given this, it appears most appropriate to regard this proposal as a stimulus for further, more considered policy work.

This work is being furthered through the Reform of Federation process and in particular through the consultation around Issues Paper 2 on Housing and Homelessness. The overall purpose is to review the distribution of roles between State and Commonwealth governments based on the principles of accountability, subsidiarity, national interest, efficiency and effectiveness, durability and fiscal sustainability.

This paper aims to provide background information for discussion rather than to propose alternatives – hence it sketches the current state of play in housing and homelessness policy and funding and the relative roles and financial contributions of the Commonwealth and States. It identifies that the Commonwealth currently spends $5.4b on housing and homelessness and the States/Territories $4b, with the largest portions of this going to social housing

(5.2b, with about $3.9b from the States/Territories) and CRA ($3.6b, all from the Commonwealth). On the basis of this funding division and the relative policy roles associated with it, it identifies that there is currently a high level of overlap on policy and funding and a low level on delivery and regulation.

It is not clear at this point where this analysis will lead to in terms of concrete policy proposals. One the one hand, the principles of efficiency and subsidiarity suggest that the Commonwealth may withdraw from involvement in social housing and homelessness funding and focus purely on income support, as recommended by the Commission of Audit. However, it is not clear what the impact of this would be on national interest, durability and fiscal sustainability and these considerations could also conceivably lead to a greater Commonwealth role. In either case, the specific mix of policies suggested by the Commission of Audit is by no means the logical conclusion of the principles.

4. Recent National Policy Processes

The subject of social housing rent policy has been explicitly addressed in three recent major policy review processes, the review of taxation led by then Treasury Secretary Ken Henry, which was completed in 2009, the Commission of Audit which reported in early 2014, and the review of Commonwealth income security payments led by Patrick McClure which reported in June 2014.

In each case, consideration of social housing rents was part of a much larger policy review, looking respectively at the architecture of Australia's tax and transfer systems, at the challenges facing the Commonwealth government, and at the effectiveness and sustainability of the income security system. In the sections that follow, we look briefly at what each has to say about social housing rent.

4.1 Australia's Future Tax System

The report of the Henry review, *Australia's Future Tax System*[40], made a series of recommendations about housing and taxation. Among these was set of proposals to restructure the funding and charging model for social housing. These were based on the following principles.

> "Housing assistance should be provided in a way that is equitable, does minimum harm to participation incentives and gives recipients choice in the housing they occupy."[41]

Key elements of the proposed policy change were as follows.

- Social housing tenants should be charged market rents.
- All social housing tenants should be eligible for CRA, including tenants of Government-managed housing.
- The level of CRA payments should be substantially increased, fixed in relation to the lowest quartile of market rents in capital cities, and indexed to rent movements.
- In addition to their rental income, social housing organisations should receive an extra "high needs housing payment" in exchange for housing high need households such as tenants with disabilities, in recognition of the extra costs involved in such tenancies.

These recommendations were seen as improving equity between low income households by providing the same assistance to all irrespective of tenure, reducing participation disincentives by reducing effective marginal tax rates on extra income earned, and giving people choice of tenure.

The recommendations need to be seen in the context of wider reforms to the way housing is taxed with the aim of creating a more efficient and responsive private rental market, reducing the demand for social housing. The report also didn't see this as an alternative to Commonwealth and State capital funding of public housing but saw it as reducing the reliance of social housing providers on this funding.

4.2 Commission of Audit

The Commission of Audit is discussed in Section 2.2.4 above[42]. Its recommendations are less comprehensive than the Henry Report, and include the following on rent policy.

- Social housing tenants, including government tenants, should be eligible for CRA.
- This eligibility would be conditional on social housing providers charging market rents.

In the Commission's view, the payment of CRA would become the Commonwealth Government's sole involvement in social housing and the extra cost to the Commonwealth of extending eligibility to public housing tenants would be offset by withdrawing funding from housing and homelessness programs.

This set of recommendations needs to be seen in the overall context of the Commission's brief to address the sustainability of Commonwealth outlays, and against its desire for clear lines of demarcation between Commonwealth and State governments.

4.3 Reference Group on Welfare Reform

The Reference Group on Welfare Reform led by Patrick McClure is a comprehensive review of the Commonwealth income support system[43]. It proposes a set of reforms based on four pillars:

- Simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity

In this context, it identifies the current social housing rent system as a disincentive to employment (as discussed in Section 2.2.2 above), and as inequitable in that households in social housing and in private rental receive different levels of assistance. However, it also clearly identifies that CRA is inadequate at its current levels. This leads to the following set of recommendations.

- That social housing tenants should pay market rents.
- That all social housing tenants should be eligible for CRA.

- That these reforms should be phased in over time to reduce the impact on current tenants.
- That CRA should be substantially increased to address affordability issues, although the precise level of this increase is not identified.

The report also identifies that for these changes to be effective there would need to be substantial reform to improve the functioning of the private rental market. However, these reforms are not spelled out in any detail as they are beyond the brief of the review.

5. Assessing the Policy Options

National Shelter's primary questions about proposed changes in social housing policy revolve around the impact of these changes on low income tenants. Will they be better or worse off as a result of the reforms? Will reforms improve the affordability of their housing or the benefits of security and amenity they get from this housing? Secondarily, we are then concerned about the impact of changes on the housing system – will they improve the financial sustainability of housing providers and enable them to continue to provide adequate affordable housing into the future?

In this section we ask these questions of the four main options that are currently either used by housing providers, or are under discussion at government level. These options are:

- The income-based approach currently used by public housing authorities and community providers of social housing. This has two variants, based on the differing eligibility for CRA of public and community housing tenants.
- The "discount to market" approach used by providers under various "affordable housing" programs, in which tenants are charged a proportion of market rent, most commonly 74.9%.
- The option of charging public housing tenants market rents and paying them CRA at the current rates, as appears to be envisaged by the Commission of Audit.
- A variation on this option in which CRA payments are substantially increased, as envisaged by the Henry and McClure reports.

We have assessed these options by applying them to a number of hypothetical household types, and a number of locations in Australia's three largest cities, Brisbane, Sydney and Melbourne.

Table 1 below sets out the six household scenarios we tested, with the expected income levels for each household, maximum CRA entitlement and potential social housing entitlement. These four household types represent a broad sample of the people who currently live in social housing and to whom it is targeted.

In modelling the outcomes for a single person on disability support payment, and for a couple on aged pension, we have assumed no capacity to work and so have tested only the circumstance where their sole income is from income support payments. For the sole parent and couple families, however, it is reasonable to assume that there is some work capacity, so we have also tested the option in which a sole parent works part-time on a minimum wage (combining work with caring responsibilities) and the option in which one partner of the couple with children works full time at the same wage level.

This, of course, does not represent the full sweep of circumstances in which social housing tenants find themselves – it is merely intended to road-test the policy options for a sample of "typical" household circumstances.

Table 1: Households and Expected Incomes

Household Description	Total expected fortnightly income not including CRA [a]	Maximum fortnightly CRA entitlement [b]	Eligibility for social housing [c]
Single person on disability support	$860.20	$128.40	1 bedroom unit
Aged Pensioner couple	$1,296.80	$120.80	1 bedroom unit
Sole parent with two children with only Centrelink payments	$1,205.00	$150.50	3 bedroom house
Sole parent with two children working half time at a minimum wage	$1,586.65	$150.50	3 bedroom house
Couple with three children with only Centrelink payments	$1,613.64	$170.10	3 bedroom house
Couple with three children with one partner working full time on a minimum wage	$2,102.29	$170.10	3 bedroom house

a. Incomes have been calculated using Centrelink's On Line Rate Estimator, with figures accurate for May 2015.
b. CRA rates sourced from Centrelink website May 2015.
c. This entitlement was checked against published policies for a number of State housing providers – there are variations to this depending on individual household circumstances but these are the most typical.

To test the different rent policy options, we have applied them to the rental markets in eight locations – two in the Brisbane metropolitan area, three in Sydney and three in Melbourne. Each location has a comparatively high concentration of social housing by Australian standards. These locations are shown in Table 2.

Our capacity to estimate market rents for social housing in these locations is restricted by the available data. Both the Queensland and Victoria governments publish median rents for each local government area by type of housing, but do not disaggregate this into quartiles. For these areas, we have assumed that the median rent is a fair indication of the market rate – however for some locations, particularly in the inner city, this may overestimate the value of social housing as it will also incorporate some "high end" luxury housing. The NSW Government reports median rental and the bottom and top quartile amounts. For the two inner city Sydney locations we have used the bottom quartile, assuming that this would be a closer reflection of the value of social housing. However, we have used the median rent for Blacktown, assuming that social housing in this community is of roughly comparable standard to the private housing in this more affordable location.

Table 2: Locations

Local Government Area	Reason for Inclusion	Fortnightly market rent 1-bedroom unit	Fortnightly market rent 3-bedroom house	Data Source
Logan City, Queensland	Includes over 4,000 social housing dwellings including the major estates of Woodridge and Kingston.	$526	$680	Source: RTA median rent data for December quarter 2014
Brisbane City Inner, Queensland [a]	Includes approximately 2,000 social housing dwellings spread throughout this area.	$730	$1,100	Source: RTA median rent data for December quarter 2014
Blacktown, NSW	Includes over 8,500 social housing dwellings including major public housing estates such as Mt Druitt and Bidwill.	$510	$820	Source: NSW Government Rent and Sales Report No 110

Local Government Area	Reason for Inclusion	Fortnightly market rent 1-bedroom unit	Fortnightly market rent 3-bedroom house	Data Source
City of Sydney, NSW [b]	Includes over 7,000 social housing dwellings with some of Sydney's densest concentrations of social housing in the Redfern-Waterloo area.	$960	$1,600	Source: NSW Government Rent and Sales Report No 110
City of Botany Bay, NSW [b]	Includes 1,500 social housing dwellings making up approximately 10% of all housing in the local government area.	$800	$1,100	Source: NSW Government Rent and Sales Report No 110
City of Hume, Victoria	Includes over 1,600 social housing dwellings including the suburb of Broadmeadows.	$456	$660	Source: December Quarterly Median Rents published by Victorian Department of Human Services
City of Yarra, Victoria	Inner city area which includes a zone of dense high-rise public housing in Richmond – there are over 3,500 social housing dwellings in this area.	$700	$1,360	Source: December Quarterly Median Rents published by Victorian Department of Human Services
City of Maribyrnong, Victoria	This middle suburban area contains over 1,700 social housing dwellings including a major public housing estate in Fitzroy.	$500	$840	Source: December Quarterly Median Rents published by Victorian Department of Human Services

a. Brisbane City Inner is a statistical zone within the larger Brisbane City Council LGA
b. The rents shown for City of Sydney and Botany Bay are the first quartile rents, all other LGAs are median rents

In assessing affordability, it is useful to keep in mind the "30/40" rule used widely among policy makers. This suggests that a household is in housing stress if it is in the lowest 40% of household incomes, and is paying more than 30% of its gross income in housing costs. For households on very low incomes this measure is slightly questionable and social housing providers recognise this by basing their current rent policies on a figure of no more than 25% of income.

5.1 Existing social housing policy

The first set of policies tested is the current dominant approach to rent setting in social housing. This approach is based on the principle of charging tenants 25% of their household income in rent. In practice, the way this principle applies varies from State to State and between community providers, with different sources of income treated in slightly different ways.

To illustrate this policy option we have used two versions of this policy – the policy used by the Victorian Department of Human Services[44] for public housing tenants, and the community housing rent policy mandated by the Queensland Department of Housing and Public Works[45] for tenants of community housing properties. The main difference between these two policies is that because community housing tenants are eligible for CRA their maximum entitlement is included in the rent – there are other minor differences in the way various types of income are treated under each policy.

Table 3 shows the amounts of rent paid by each of our hypothetical tenants under these two policies, and the percentage of their income paid in rent once CRA is discounted. While the general principle of this set of policies is that tenants pay 25% of their income in rent, in practice our hypothetical tenants pay between 19 and 24%. This is because different sources of income are treated differently – for instance, both systems assess family payments at less than 25%, and also treat the Clean Energy Supplement and other allowances in different ways.

Table 3: Fortnightly rents under current policy

Household	Victoria DHS	% of income	Queensland Community Housing	% of income post CRA
Single person on disability support	$199	23.1%	$312	21.4%
Aged Pensioner couple	$300	23.1%	$421	23.1%

Household	Victoria DHS	% of income	Queensland Community Housing	% of income post CRA
Sole parent with two children with only Centrelink payments	$255	21.2%	$385	19.4%
Sole parent with two children working half time at a minimum wage	$372	23.5%	$503	22.2%
Couple with three children with only Centrelink payments	$337	20.9%	$484	19.4%
Couple with three children with one partner working full time on a minimum wage	$491	23.4%	$614	21.1%

The obvious strength of this policy is in the fact that it ensures a high level of affordability for low income tenants, wherever they are. Because the rent they pay is linked to their income and not to the nature or location of their housing, wherever they are they pay the same proportion of their income in rent.

One of the negatives often cited for this system, as discussed in Section 2.2.2 of this report, is that it contributes to high Effective Marginal Tax Rates (EMTRs) for tenants who increase their income by taking on employment. This question is only relevant for those tenants who actually have the capacity for work – for our single person with a disability and our aged pensioner couple, the issue doesn't arise. However, we have included comparisons between working and non-working households for both the families with children. A number of points can be made from this comparison.

- Table 3 shows that both working households pay a slightly higher proportion of their income in rent than they would if they were not working – this is because their extra income from wages is assessed at the full 25%.

- Before the increase in their rent is factored in, these households already have relatively high EMTRs resulting from the combined operation of the income security and tax system – of the $640 per fortnight in wage income attributed to the working sole parent, only $382 is retained by them, with just over 40% "clawed back" through a combination of tax and withdrawal of benefits. For the couple family who are assumed to have wage income of $1,280 per fortnight, the EMTR is much higher – they retain $489 of this income, an EMTR of 62%.
- The operation of rent policy does add significantly to these EMTRs. For the sole parent, the operation of both these rent policies effectively withdraws a further $117-118 from retained earnings, meaning this household retains only between $263 and $265 per fortnight, an EMTR of 59%. In other words, the operation of rent policy adds 19% to the EMTR. The increase is less stark for the couple in this scenario – the operation of rent policy increases this household's EMTR to between 72% and 74%, a housing policy contribution of 10-12%.

This analysis serves to illustrate the conclusion reached by the Industry Commission on this matter: that social housing rent policy does contribute to EMTRs and therefore to a substantial financial disincentive to work, but that the main contributor to this problem is the combined operation of the tax and income security systems.

The impact of this policy option on providers is illustrated in Tables 4 and 5 over the page. Because tenants on the same incomes pay the same rent wherever they are, this ends up representing a different portion of market rent in each location. While market rent doesn't correlate accurately with the cost of provision, there is a degree to which the two are related – market rents tend to be higher in high land value areas, and land value is a key element of the cost of provision. However, this depends on a range of measurement assumptions. For instance, much of the social housing in locations like Redfern-Waterloo (NSW) and Richmond (Vic) was acquired before these locations became high value, so while the opportunity cost to government of holding these properties now is considerable, the historic cost of their acquisition is much lower.

Leaving this aside, it can be seen that under Victorian DHS policy the rents paid are substantially below market rates in all cases. At best, the couple with one partner working full-time pay just below 75% of market rent in the most affordable markets of Logan and Hume. In many of the high value markets, tenants end up paying less than 30% of the market rent. This is unlikely to be able to meet the costs of provision.

The other issue for providers is the lack of predictability in rental income. For instance, the rental income from a three-bedroom house in Logan under Victorian DHS policy could be anywhere between $255 per fortnight (38% of market rent) and $491 per fortnight (72% of market). Where providers rely heavily on rental income to meet operating expenses this can make financial planning somewhat difficult.

A final point to highlight there is the difference made by eligibility for CRA for community housing tenants. Because community housing organisations (including the State departments who administer the funding programs) view CRA as a specific housing payment, they set their policies to capture 100% of this payment as rent. This means that it effectively becomes an extra subsidy for the provider – the tenant pays the same proportion of their pre-CRA income in rent as they would under the public housing arrangements, but the provider secures an extra income of anywhere up to $170 per fortnight. This can add up to 50% to their fortnightly rental income for some tenants, and it means that in more affordable locations, some tenants can potentially be paying close to market rent.

This extra subsidy provides a major boost to the financial viability of community housing providers. It also provides a strong financial incentive for cash-strapped State housing departments to transfer at least the management of their housing to non-government organisations in order to attract much-needed extra funds for their programs.

Table 4: Proportion of Market Rent under Victorian DHS policy

Location	Single Disability Payment	Pensioner Couple	Sole Parent Centrelink Only	Sole Parent Working	Couple Centrelink Only	Couple Working
Logan City	37.8%	57.1%	37.6%	54.7%	49.5%	72.3%
Brisbane City Inner	27.3%	41.1%	23.2%	33.8%	30.6%	44.7%
Blacktown	39.0%	58.8%	31.1%	45.4%	41.1%	59.9%
City of Sydney	20.7%	31.3%	16.0%	23.3%	21.0%	30.7%
City of Botany Bay	24.9%	37.5%	23.2%	33.8%	30.6%	44.7%
City of Hume	43.7%	65.8%	38.7%	56.4%	51.0%	74.4%
City of Yarra	28.4%	42.9%	18.8%	27.4%	24.8%	36.1%
City of Maribyrnong	39.8%	60.0%	30.4%	44.3%	40.1%	58.5%

Table 5: Proportion of Market Rent under Queensland Community Housing Policy

Location	Single Disability Payment	Pensioner Couple	Sole Parent Centrelink Only	Sole Parent Working	Couple Centrelink Only	Couple Working
Logan City	59.4%	80.0%	56.6%	74.0%	71.1%	90.2%
Brisbane City Inner	42.8%	57.7%	35.0%	45.7%	44.0%	55.8%
Blacktown	61.3%	82.5%	46.9%	61.3%	59.0%	74.8%
City of Sydney	32.6%	43.8%	24.0%	31.4%	30.2%	38.4%
City of Botany Bay	39.1%	52.6%	35.0%	45.7%	44.0%	55.8%
City of Hume	68.5%	92.3%	58.3%	76.2%	73.3%	93.0%
City of Yarra	44.6%	60.1%	28.3%	37.0%	35.6%	45.1%
City of Maribyrnong	62.5%	84.2%	45.8%	59.9%	57.6%	73.1%

5.2 The "Affordable Housing" option

The second option tested here is the discounted rent model used by providers of what is generally termed "affordable housing", which includes housing funded under the National Rental Affordability Scheme (NRAS) and under various State affordable housing schemes. The most common version of this model charges tenants 75% of the market rent for their home[46]. Affordable housing schemes are generally managed by non-government organisations so tenants are eligible for CRA, and we have factored this into the calculations.

Table 6: "Affordable Housing" Rent, Single Person on Disability and Pensioner Couple

Location	75% Market Rent 1 Bedroom	Single Disability Payment Rent as % of income after CRA	Aged Pensioner Couple Rent as % of income after CRA
Logan City	$394.50	30.9%	21.1%
Brisbane City Inner	$547.50	48.7%	32.9%
Blacktown	$382.50	29.5%	20.2%
City of Sydney	$720.00	68.8%	46.2%
City of Botany Bay	$600.00	54.8%	37.0%
City of Hume	$342.00	24.8%	17.3%
City of Yarra	$525.00	46.1%	31.2%
City of Maribyrnong	$375.00	28.7%	19.6%

Table 6 shows how this rent model would work for our hypothetical single person on disability payments, and our aged pensioner couple. What this shows is that the model is capable of generating a reasonable level of affordability for a single person on a pension in lower-value markets. For the single person, it generates rents of less than 30% in Hume, Maribyrnong and Blacktown and just over 30% in Logan. It generates a higher level of affordability for a pensioner couple in these markets – in some cases, a more affordable outcome than the income-based approach. In higher value areas, the model definitely doesn't work for the single person – in all four inner city markets it generates rents of over 45% of income and over 50% in both Sydney locations. However, aside from the City of Sydney it comes reasonably close in the inner city areas for the pensioner couple.

The outcome in these inner city locations is of crucial importance for this group, because much of the social housing they are eligible for – single bedroom units and studio apartments – is located in these areas. By contrast, the areas where they are able to afford the rent are dominated by detached housing which is not suited for small households and for which they would not be considered eligible under current rules.

Table 7: "Affordable Housing" Rent, Sole Parent with 2 Children

Location	75% Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Half Time Work Rent as % of income after CRA
Logan City	$510.00	29.8%	22.7%
Brisbane City Inner	$825.00	56.0%	42.5%
Blacktown	$615.00	38.5%	29.3%
City of Sydney	$1,200.00	87.1%	66.1%
City of Botany Bay	$825.00	56.0%	42.5%
City of Hume	$495.00	28.6%	21.7%
City of Yarra	$1,020.00	72.2%	54.8%
City of Maribyrnong	$630.00	39.8%	30.2%

The outcome of this policy is less positive for a sole parent with two children, especially if he or she is totally reliant on Centrelink payments. Of the outer suburban areas, the model generates rents of just under 30% of income in Hume and Logan. In the other two outer suburban markets rent approaches 40% of income, and it is over 50% in all four inner city areas including over 70% in Yarra and City of Sydney.

Working half-time improves the outcome for this household in the outer suburban areas – it makes all four areas affordable. However, it does not address affordability issues in the inner suburbs.

Table 8: "Affordable Housing" Rent, Couple with 3 Children

Location	75% Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Full Time Work Rent as % of income after CRA
Logan City	$510.00	21.1%	16.2%
Brisbane City Inner	$825.00	40.6%	31.2%
Blacktown	$615.00	27.6%	21.2%
City of Sydney	$1,200.00	63.8%	49.0%
City of Botany Bay	$825.00	40.6%	31.2%
City of Hume	$495.00	20.1%	15.5%
City of Yarra	$1,020.00	52.7%	40.4%
City of Maribyrnong	$630.00	28.5%	21.9%

The outcome of this approach to rent setting is slightly more positive for a couple with children, even if their only income is from Centrelink payments. It produces rents under 30% of their income in all the outer suburban areas, including rents of a little above 20% of income in Hume and Logan. However the rent they would pay under this model is still a long way from affordable in inner city areas. Having access to full-time employment, even at a minimum wage, improves this further – all outer suburban areas provide rents below 22% of income, while Brisbane City Inner and Botany Bay are just a little over 30%.

The outcomes under this model raise a number of issues which will be reflected further as we consider the two other models below that link rent levels to rents in the private rental market.

1. It literally pays to have a spouse. In this model, and in the others below, couples consistently pay a lower proportion of their income in rent than single people, with or without children. This is not so much a result of the housing system as of the income support system – the total income for a couple is higher than for a single person as both adults receive a payment. However, the housing requirements of a couple are substantially the same as for a single person. Although couples have higher other costs than singles (e.g. clothes, food) this is unlikely to balance out the differences in housing costs. This may lead to an argument for adjusting housing assistance to reflect the housing needs of different households. This automatically happens in income-based rent

models but CRA as it is currently structured does not perform the same function in market-based rental systems.

2. In any system which uses a fixed property rent instead of varying it for income, there is a tradeoff between providing affordability for the lowest income households and providing appropriate levels of subsidy for those on more moderate incomes. In this option, where rent is set at 75% of market, there is a reasonable affordability outcome in some markets for those on the lowest incomes, but it could be considered that a household paying 15% of income in rent, as the working couple would pay in the City of Hume, may be receiving more subsidy than they need. However, to increase the rent for the working household is to replicate the problem of work disincentives seen in the income-based model.

The level of un-affordability generated by the inflexible application of this model has led to some experimentation with hybrids between this and the income-based model. BHC Ltd, an affordable housing provider in Brisbane, applies a model which caps the rent at either 75% of market or 30% of the tenants' income, whichever is the lower. This retains the link to market rent but allows them to house single people in particular who may struggle to afford rents in their inner city affordable rental housing[47].

However, the broad message from this analysis is that the primary use for this model is the one it is used for currently – setting rents for households on low to moderate incomes. "Affordable housing" in the current landscape is directed towards tenants who struggle to access private rental housing, but who have more capacity to pay than the high-need tenants who are the main target for social housing. They are tenants who have some access to extra income, either via work or via other income sources. The analysis here suggests that this model will deliver affordability for many such tenants, or at least come close. However, it will struggle to do the same for many of the most disadvantaged tenants who are currently the highest priority for social housing.

On the provider side, a number of things can be said about this model. The first is that it delivers a reliable income stream. Providers can be fairly certain of what rent they will receive for their properties irrespective of who they house. To be certain of achieving this they would need to select with an eye to the tenant's ability to pay, providing an incentive to pass over the most disadvantaged tenants. However, in practice most providers ignore this incentive because they see it as their mission to house low income tenants and set their risk appetite accordingly.

However, rents set at 75% of market only allow providers to meet their operating costs if there is a level of subsidy involved, either capital subsidy in the case of State affordable housing providers, or an annual income stream as provided by NRAS. Hence this model can only operate in concert with another source of subsidy.

5.3 The "Commission of Audit Option"

The third model we have examined is what we loosely term the "Commission of Audit" option, as described in 3.2 above. The Commission of Audit essentially proposes a tradeoff between direct funding and CRA – social housing tenants would become eligible for CRA (providing an extra indirect subsidy to social housing providers as described in 4.1 above) but would forgo any other form of subsidy and would be required to charge market rents. The Commission does not mention any adjustments to the rate of CRA as part of this package, leaving us to assume that they are proposing CRA rates remain as they are now.

The Tables 9, 10 and 11 show how this model would impact in our hypothetical tenants.

Table 9: Market Rent + CRA, Single Person on Disability and Pensioner Couple

Location	Market Rent 1 Bedroom	Single Disability Payment Rent as % of income after CRA	Aged Pensioner Couple Rent as % of income after CRA
Logan City	$526	46.2%	31.2%
Brisbane City Inner	$730	69.9%	47.0%
Blacktown	$510	44.4%	30.0%
City of Sydney	$960	96.7%	64.7%
City of Botany Bay	$800	78.1%	52.4%
City of Hume	$456	38.1%	25.8%
City of Yarra	$700	66.4%	44.7%
City of Maribyrnong	$500	43.2%	29.2%

The first thing to note is that this model would essentially render social housing anywhere in our three urban areas unaffordable to any single person relying on Centrelink benefits. Our aged pensioner couple fares better – rents on outer suburban housing in all four locations are either under or just over the 30% benchmark, but this couple is also priced out of all four inner city locations by a decisive margin. As mentioned in 4.3, this excludes them from a substantial proportion of the smaller dwelling types in the system, which are clustered in these inner city areas.

Table 10: Market Rent + CRA, Sole Parent with 2 Children

Location	Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Half Time Work Rent as % of income after CRA
Logan City	$680	43.9%	33.4%
Brisbane City Inner	$1,100	78.8%	59.8%
Blacktown	$820	55.6%	42.2%
City of Sydney	$1,600	120.3%	91.4%
City of Botany Bay	$1,100	78.8%	59.8%
City of Hume	$660	42.3%	32.1%
City of Yarra	$1,360	100.4%	76.2%
City of Maribyrnong	$840	57.2%	43.5%

The results of this model are even poorer for our hypothetical sole parent household. Without extra income above Centrelink payments, none of the locations modelled comes close to providing an affordable rent, and even where the person works part-time rents remain unaffordable. This includes the outer suburban areas where most of the three-bedroom social housing stock is located.

Table 11: Market Rent + CRA, Couple with 3 Children

Location	Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Full Time Work Rent as % of income after CRA
Logan City	$680	31.6%	24.3%
Brisbane City Inner	$1,100	57.6%	44.2%
Blacktown	$820	40.3%	30.9%
City of Sydney	$1,600	88.6%	68.0%
City of Botany Bay	$1,100	57.6%	44.2%
City of Hume	$660	30.4%	23.3%
City of Yarra	$1,360	73.7%	56.6%
City of Maribyrnong	$840	41.5%	31.9%

The outcome is a little better for our hypothetical couple with children. If they only have a Centrelink income, social housing would be just affordable in Hume and Logan, although not in Blacktown or Maribyrnong. The inner city areas, on the other hand, are a long way from being affordable for this family even if one of them is working full time. Having a full time minimum wage renders all the outer suburban areas affordable, but does not provide any level of affordability in the inner suburbs.

We need not dwell too long on this option. It simply reinforces the finding of both the Henry and McClure reviews, and the clear evidence of the government's published data (see Section 2.1.2) that at its current rates CRA is insufficient to secure housing affordability. For single person households in particular it falls a long way short. Where housing is affordable, it is exclusively in the outer suburbs.

The implications of this model for providers warrant some comment, and some of these comments will be relevant for the following section as well.

Firstly, this model implies that providers will collect the full market rent on their properties. Assuming they are able to collect this in practice, it should reduce their need for subsidy. However, it should not be assumed that it will do away with their need for subsidy altogether. Market rents are set by a market dominated by small private investors. Private rental investors are able to deduct losses on their rental investments from their other income, reducing their overall tax burden in any one year. At the same time, since 1999 rental investments have received a 50% discount on Capital Gains Tax. The result of these two measures is that rental investment has been almost totally driven by speculative investment seeking capital gains in the long term. Patrick Soos has demonstrated that aggregate annual losses on rental investment plunged sharply between 2002-03 and 2007-08, from less than $2b to over $9b, and although the level of loss has improved since then the market as a whole operates at an aggregate loss[48].

As social housing providers are either governments or not-for-profit organisations, they are unable to take advantage of these tax settings, since they have no profits against which to offset their losses. In fact, not-for-profit providers would risk finding themselves under increased financial pressure under these policy settings because they would risk losing their charitable status if they charged their tenants market rents. This means that this system would still not be viable without other sources of subsidy.

The other point to make in relation to providers is that it is not safe to assume they could actually collect these rents in practice. In fact, this option would render large parts of the current supply of social housing unusable for the low income and high need tenants who are the current priority of the system (and the anticipated future priority under all the policy options currently on the table).

For instance, this exercise has modelled market rents for the local government areas of Sydney City, Botany Bay, Yarra and the inner ring of Brisbane City. These areas between them have approximately 14,000 social housing dwellings located within them, none of which would come close to being affordable for current tenants or applicants. This would necessitate an expensive and lengthy process of re-aligning the housing stock. It is also questionable whether a process that drives all social housing tenants to the lowest value housing markets is desirable in social terms, or in terms of maximising economic participation.

5.4 The "McClure/Henry option"

The understanding that CRA at its current rates is insufficient to provide affordability led both the Henry tax review and the Reference Group on Welfare Reform to recommend that along with shifting social housing rents to a market basis, CRA should be substantially increased. However, neither provides a high level of clarity about the scale of these increases – the Reference Group is silent on this matter, while the Henry review recommends an indexing model that requires data which we don't have the capacity to process.

In the absence of clear recommendations from either of these reviews, we have tested this option by adopting the policy position advocated for a number of years by National Shelter, ACOSS and other community sector organisations: an increase of 30% in the maximum rate. We have assumed that the lower threshold rent (the rent at which the allowance starts to be paid) remains the same and that it continues to be paid at 75c for each dollar of rent up to the maximum allowance. Maximum CRA amounts for each of our hypothetical households are shown in Table 12.

Table 12: CRA increased by 30%

Household	Maximum CRA	Rent maximum is payable at.
Single person	$166.92	$322.65
Couple	$157.04	$381.70
Single 2 children	$195.65	$394.64
Couple 3 children	$221.13	$498.59

Tables 13, 14 and 15 show how this increase would affect affordability for our hypothetical households.

Table 13: Market Rent + Increased CRA, Single Person on Disability and Pensioner Couple

Location	Market Rent 1 Bedroom	Single Disability Payment Rent as % of income after CRA	Aged Pensioner Couple Rent as % of income after CRA
Logan City	$526	41.7%	28.5%
Brisbane City Inner	$730	65.5%	44.2%
Blacktown	$510	39.9%	27.2%
City of Sydney	$960	92.2%	61.9%
City of Botany Bay	$800	73.6%	49.6%
City of Hume	$456	33.6%	23.1%
City of Yarra	$700	62.0%	41.9%
City of Maribyrnong	$500	38.7%	26.4%

Naturally an increase of this scale does improve affordability somewhat for all our hypothetical tenants. However, it still leaves our single disability pensioner above the 30% affordability benchmark in all areas, with only the City of Hume offering a market rent at less than 35% of income. The picture is somewhat better for our aged pensioner couple. All the outer suburban areas are under the 30% benchmark, with Hume under 25%. However, the inner city areas are still out of reach for this couple.

Table 14: Market Rent + Increased CRA, Sole Parent with 2 Children

Location	Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Half Time Work Rent as % of income after CRA
Logan City	$680	40.2%	30.5%
Brisbane City Inner	$1,100	75.0%	57.0%
Blacktown	$820	51.8%	39.4%
City of Sydney	$1,600	116.5%	88.5%
City of Botany Bay	$1,100	75.0%	57.0%
City of Hume	$660	38.5%	29.3%
City of Yarra	$1,360	96.6%	73.4%
City of Maribyrnong	$840	53.5%	40.6%

Similarly, none of the locations is affordable for our sole parent if he or she is totally dependent on Centrelink payments. Even if she or he is able to work part-time, housing is unaffordable in all the areas except Hume and Logan, where rent hovers around 30% of income.

Table 15: Market Rent + Increased CRA, Couple with 3 Children

Location	Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Full Time Work Rent as % of income after CRA
Logan City	$680	28.4%	21.8%
Brisbane City Inner	$1,100	54.5%	41.8%
Blacktown	$820	37.1%	28.5%
City of Sydney	$1,600	85.5%	65.6%
City of Botany Bay	$1,100	54.5%	41.8%
City of Hume	$660	27.2%	20.9%
City of Yarra	$1,360	70.6%	54.2%
City of Maribyrnong	$840	38.4%	29.4%

As with the pensioner couple, our couple with three children is able to afford social housing in only two of the locations – Logan and Hume – with all others well above the 30% threshold. If one of the couple works full time at a minimum wage all the outer suburban areas become affordable but the inner city areas are still out of reach.

This analysis suggests that a 30% increase in the maximum rate of CRA, while making some difference to affordability, does not solve the fundamental problem facing the "Commission of Audit model" – that under this proposed charging regime a significant proportion of social housing becomes unaffordable for its target population, and the substantial stock of social housing currently located in inner city areas becomes virtually unusable for its intended purpose.

5.5 Increasing CRA and Discounting Rent

A final option we tested was that of combining the discounted rent model discussed in 5.2 with the increased level of CRA discussed in 5.4.

In Section 5.2 we noted that the discounted rent model is primarily used in "affordable housing" programs targeted at households slightly higher up the income scale than those currently being targeted by social housing. However, it does not adapt well to social housing, failing to provide affordability for this target group in most of the areas we tested.

This model is essentially a hybrid, combining a level of overall subsidy to the provider, a modified form of linkage to the market, and tenant eligibility for CRA. It also has the advantage of ensuring that community housing organisations can access charitable status with its attendant tax advantages. We therefore tested whether the advantages of this system could be combined with good affordability outcomes if CRA was also increased by 30%.

Tables 16, 17 and 18 present the results of this policy for each of our hypothetical households.

Table 16: "Affordable Housing" Rent and increased CRA, Single Person on Disability and Pensioner Couple

Location	75% Market Rent 1 Bedroom	Single Disability Payment Rent as % of income after CRA	Aged Pensioner Couple Rent as % of income after CRA
Logan City	$394.50	26.5%	18.3%
Brisbane City Inner	$547.50	44.2%	30.1%
Blacktown	$382.50	25.1%	18.1%
City of Sydney	$720.00	64.3%	43.4%
City of Botany Bay	$600.00	50.3%	34.2%
City of Hume	$342.00	20.4%	17.3%
City of Yarra	$525.00	41.6%	28.4%
City of Maribyrnong	$375.00	24.2%	18.0%

For our single person on disability payment, this option provides a good level of affordability in all of the outer suburban locations. However, it still falls well short of providing affordability in the inner city areas. The aged pensioner couple fare better with all the inner city areas bar the City of Sydney being below or just above the 30% ratio. For this couple, all the outer suburban areas offer rents at less than 20% of their income, suggesting that perhaps the subsidy is more generous than it needs to be for this household in these locations.

Table 17: "Affordable Housing" Rent and increased CRA, Sole Parent with 2 Children

Location	75% Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Half Time Work Rent as % of income after CRA
Logan City	$510.00	26.1%	19.8%
Brisbane City Inner	$825.00	52.2%	39.7%
Blacktown	$615.00	34.8%	26.4%
City of Sydney	$1,200.00	83.3%	63.3%
City of Botany Bay	$825.00	52.2%	39.7%
City of Hume	$495.00	24.8%	18.9%
City of Yarra	$1,020.00	68.4%	52.0%
City of Maribyrnong	$630.00	36.0%	27.4%

The result is less positive for our sole parent family. Where they are reliant on Centrelink payments alone, this policy setting provides affordability in Logan and in Hume, but rents are substantially over the 30% threshold in the other two outer suburban areas. None of the inner suburban areas provide rents under 50% of income. A half-time minimum wage brings all the outer suburban areas into the affordable range, but fails to bring any of the inner city areas close to affordability.

Table 18: "Affordable Housing" Rent, Couple with 3 Children

Location	75% Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Full Time Work Rent as % of income after CRA
Logan City	$510.00	18.2%	14.0%
Brisbane City Inner	$825.00	37.4%	28.7%
Blacktown, NSW	$615.00	24.4%	18.7%
City of Sydney	$1,200.00	60.7%	46.6%
City of Botany Bay	$825.00	37.4%	28.7%
City of Hume	$495.00	18.0%	13.8%

Location	75% Market Rent 3 Bedroom	Centrelink Payments Only Rent as % of income after CRA	Full Time Work Rent as % of income after CRA
City of Yarra	$1,020.00	49.5%	38.0%
City of Maribyrnong	$630.00	25.3%	19.4%

Our hypothetical couple with three children fares best under this policy option. Where they have only Centrelink payments, all the outer suburban locations are comfortably affordable, but none of the inner suburban locations are. Where one of the couple is working full-time in a minimum-wage job, both inner Brisbane and Botany Bay are also under the 30% threshold, although Yarra and the City of Sydney remain out of reach. Where one of the couple is working, however, it is arguable that this policy option provides more subsidy than they need, with rents in all the outer suburban areas under 20% of income and both Logan and Hume under 15%.

This option, with its quite substantial levels of subsidy, demonstrates most clearly the limitations of the blanket application of a market-linked rent in social housing. Despite both the discount to market and the increased level of CRA, it is still unable to deliver affordability to a significant slice of the intended beneficiaries of social housing, especially single persons with or without children. Where there is affordability, this is mostly confined to the outer suburbs and where the policy setting allows for affordability in some of the inner suburban areas, its blanket application across all locations leads to an arguably over-generous subsidy in the outer suburbs.

6. Conclusion and Key Findings

It is important to examine rent policy within the context of the overall purpose of social housing. This is, to some extent, a contested subject, but it is reasonable to assert that at a minimum it exists to provide affordable, adequate housing for those who are unable to secure such housing in the private market. These include some of the most vulnerable people in our community.

Some of these tenants will have very limited capacity to improve their income and move out of social housing – they may have severe disabilities, chronic health conditions or be aged or ageing. These households will require social housing on an ongoing basis. Others will have the capacity to improve their incomes over time through employment and improved skills. For these households, social housing provides a secure base for as long as they need it, allowing them to establish themselves in a community and focus on other areas of their life in the knowledge that their housing needs are taken care of.

In order to continue to provide this service, social housing needs to be financially sustainable. Part of this sustainability will come from rental income, but if it is to be able to house people on the lowest incomes it will also need a level of ongoing government subsidy. This is currently provided through a mix of an annual grant from the Commonwealth Government and funding from State/Territory budgets. However, this subsidy has declined in real terms over the past three decades while rental income has also declined as social housing has been targeted to more highly disadvantaged tenants. This has left State and Territory housing departments, which provide the majority of social housing, in a difficult financial position.

In recent years three different high level reform initiatives, the Henry tax review, the Commission of Audit and the Reference Group on Welfare Reform, have all recommended that the provision of housing be shifted from an income-based rent system to a system of market rents, with tenants' rent subsidised by payment of Commonwealth Rent Assistance. This paper examined five different options for social housing rent policy by applying them to six different "typical" social housing tenant households in eight different locations which have significant stocks of social housing. Our analysis leads to the following conclusions.

1. The current dominant means of charging rent in social housing, via income-related rents, is the only one of the four options to consistently deliver affordability for tenants, particularly those on the lowest incomes. None of the other options either in use or under discussion have the capacity to come close to the success of income-based rents in delivering affordability.

2. As has been identified by a number of reports, income based rents do contribute to high effective marginal tax rates for households who increase their income through employment. However, this contribution is small compared to the combined effect of withdrawing income support payments and paying income tax.

3. The option of charging market rents for social housing and subsidising tenants via CRA, either at the current rate or with a 30% increase, would be disastrous both for most social housing tenants and for the system as a whole. A large proportion of tenants would be unable to afford their social housing rent, and substantial stocks of inner city social housing would become unusable for this purpose.

4. The option of using a discounted market rent, either with current or increased rates of CRA, is an improvement on the use of full market rent. However, it still fails to deliver affordable rents for the most disadvantaged tenants irrespective of location, and to consistently deliver affordability for all tenants except in lower-value housing markets. Where this system does allow for affordability in higher value markets, its blanket application across all locations leads to unnecessarily high levels of subsidy for tenants in lower value locations.

5. Under any market-linked system, affordability outcomes are consistently worse for single people, whether with or without children, than for couples. This is an artefact of the interplay between the income support system and the housing system. Whereas most costs are lower for one person than for a couple, and therefore income support can be comparably lower, their housing needs are roughly equivalent. This means that under our current income support system single people will inevitably have to pay a higher proportion of their income than couples to secure market-priced housing. The system of income-related rents automatically adjusts for this and provides comparable affordability outcomes for both household types, but CRA is not structured to achieve this outcome.

6. While full market rents provide a higher level of income to providers than discounted rents and hence improve their financial viability, none of the options currently on the table would fully remove the need for further capital and/or operational subsidies for social housing. This is because the private rental market, through which market rents are set, is in itself a loss making exercise, taking advantage of tax minimisation options which are not available to social housing providers.

7. None of the options examined here represents a "magic bullet" for the social housing system. Income based rents work well in providing guaranteed affordability for the most disadvantaged tenants and in gearing the level of subsidy to tenants' needs, but they have drawbacks in relation to employment disincentives and the generation of unpredictable rental incomes. Market rents combined with CRA provide security and certainty for providers and remove part of the financial disincentive to work, but are unable to provide affordability for most tenants in most places. Discounted market rents work well for "affordable housing" but not for social housing targeted at the most disadvantaged, even with increases to CRA.

8. This suggests a need for flexibility in the way rents are calculated, with the use of different models depending on the needs of each community and of different categories of tenant. Under such a mixed system, some housing could be provided at income-based rents while some is provided at discounted market rents, and tenants could have the option to move between these systems, or approaches whilst maintaining their existing tenancy, as their circumstances changed. Such a mixed system would also have the advantage of allowing tenants to stay in the system as their incomes improve, providing a more sustainable income for social housing providers.

Endnotes

[1] Groenhart, L. and Burke, T. (2014) *Thirty years of public housing supply and consumption: 1981–2011,* AHURI Final Report No.231. Melbourne: Australian Housing and Urban Research Institute, p12

[2] Groenhart, L. and Burke, T. (2014) *Thirty years of public housing supply and consumption: 1981–2011,* AHURI Final Report No.231. Melbourne: Australian Housing and Urban Research Institute

[3] Ibid, p 12

[4] Report on Government Services, 2015, Table GA1

[5] Budget 2015, Budget Paper No. 3, Part 2, Table 2.8, viewed at http://www.budget.gov.au/2015-16/content/bp3/html/bp3_03_part_2f.htm

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[26] Queensland Department of Housing and Public Works, *Social Housing, Factors Affecting Sustainable Delivery in Queensland,* Undated but released in 2012, p5

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[38] *Towards Responsible Government*, The Report of the National Commission of Audit

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[39] *Reform of the Federation White Paper: Roles and Responsibilities in Housing and Homelessness,* Issues Paper 2, December 2014

[40] *Australia's Future Tax System*: Report to the Treasurer, December 2009; Part One – Overview and Part 2 – Consolidated Report. Housing assistance is referred to on P66 of the Overview Report and P 409-423 and 595-616 of Volume 2 of the detailed report.

[41] Ibid, p.66

[42] *Towards Responsible Government*, The Report of the National Commission of Audit

Phase One, February 2014. Housing Affordability is dealt with on pp181-182 of the phase 1 report, and in slightly more detail on pp71-74 of Volume 2 of the Appendix.

[43] *A New System for Better Employment and Social Outcomes: Final Report:* Report of the Reference Group on Welfare Reform to the Minister for Social Services, 2015. Housing assistance is addressed on pages 58-60 (the case for reform) and 101-102 (proposed reforms).

[44] Victorian Department of Human Services Rental Rebates Manual Chapter 2, "Assessable Income", September 2013

[45] Calculated using the Queensland Department of Housing and Public Works' "Electronic Rent Calculation Tool" Version 9.2.8, downloaded in May 2015.

[46] NRAS allows funded providers to charge up to 80% of market rent, but for not-for-profit organisations a charge of less than 75% of market rent can be classed as "charitable supply", giving organisations access to tax benefits. This means that not-for-profit NRAS providers generally set rents at 74.9% of market.

[47] This model is described in Meyer, Kathy and Samantha Evans, *Setting Rent Policy*, presentation at the National Housing Conference, Brisbane, 2012

[48] P Soos, *The history of Australian property values,* 2013, http://www.macrobusiness.com.au/2013/02/the-history-of-australian-property-values/