Rent Assistance: Time for a Policy Review?

Introduction

Commonwealth rent assistance (RA) is the major form of government housing assistance for low-income households in Australia. In June 2001, 976,333 ‘income units’ were in receipt of RA payments, and Commonwealth expenditure on RA in 2000-01 exceeded $1.7 billion (DFaCS 2001, pp.111-2). Expenditure on RA exceeded the combined (gross) expenditures by all governments under the Commonwealth-State Housing Agreement (CSHA) which was just over $1.4 billion in the same period (SCRCSSP 2002, p.865). The CSHA funds other types of housing assistance, particularly public and community housing, which accommodated approximately 380,000 households as at June 2000 (AIHW 2001, p.62).

Despite the importance of RA indicated by these figures, policy debate about housing assistance has centred on periodic renegotiations of the CSHA, reflecting the various interests of the Commonwealth, states, territories and community organisations. This has meant a focus on public and community housing rather than on households who rent privately. The current CSHA expires in June 2003 and the Commonwealth, states and territories have already begun to position themselves for the next round of negotiations. The effectiveness of the CSHA, however, depends explicitly on most low-income households being able to rent in the private market, with RA making rents more affordable for income security recipients. This paper argues that it is essential that a wide and public debate about the role and effectiveness of RA as a form of housing assistance should take place before detailed consideration of any 2003 CSHA.

The paper provides a starting point for such a debate. It has three objectives:

- To examine briefly whether increased reliance on RA is specific to Australia or whether it reflects international trends;
- To consider why RA in Australia has developed in its current form; and
- To highlight some key issues arising from the current RA strategy.

The International Context

RA is a cash transfer to income security recipients who then find their own housing in the private rental market or in other private arrangements such as boarding and lodging. In contrast, households who live in housing financed via the CSHA receive a subsidy attached to particular dwellings. RA is an example of what are usually termed demand subsidies, whilst CSHA assistance is a form of supply subsidy. Increased reliance on demand subsidies such as RA is not unique to Australia. In many (although not all) European countries, Canada, the United States and New Zealand, housing demand subsidies have also become the main means of assisting low-income households with their housing (Papa 1992; Kemp 1997; Orlebeke 2000).

In a recent study of housing demand subsidies in seven countries, Kemp (1997, p.18) suggests three main reasons for this general trend:

- The end of absolute shortages of housing by the 1970s led to redefinition of the housing problems of low-income households as due to lack of income rather than lack of housing. Housing demand subsidies di-
rectly address lack of income.

- The perceived ‘fiscal crisis of the state’, also from the 1970s, led to demands for reduction in public expenditure and for a reduced role for governments, particularly in infrastructure and service provision. Housing demand subsidies are attractive to governments because they offer the prospect of assisting more households for less money and allow timely removal of subsidy when it is no longer required.

- There has been a renewed emphasis on markets as efficient, flexible and attuned to consumer preferences, and disenchanted with public sector provision as inefficient, inflexible and bureaucratic. Governments are attracted to housing demand subsidies that appear to offer recipients more choice and control and the ability to participate in private markets.

In particular, there has been an increased reliance on housing demand subsidies in the English-speaking countries (United Kingdom, United States, Canada and New Zealand) which, like Australia, have been typified as having liberal welfare regimes (Esping-Andersen 1999). The dominance of neo-liberal (economic rationalist) ideas in these countries over the last twenty years has provided strong support for market-based policies in areas such as housing.

In the United States, the major type of housing assistance is now housing vouchers (Section 8 housing choice vouchers) rather than supply subsidies (Orlebeke 2000). In the United Kingdom, over the twenty years to 1998-99, the percentage of gross government expenditure on subsidies to households in private, public or community rental (called housing benefit), as opposed to ‘bricks and mortar’, increased from 16 per cent to 73 per cent (DETR 2000, p.104). In Canada, federal funding for additional social housing ceased in 1993 and many low-income households rely on shelter supplements within the social assistance system (Pomeroy 1995; Hulse 2000). In New Zealand, the accommodation supplement remains the primary means of assisting low-income households (Waldegrave 2000) despite recent changes affecting public housing tenants (Lennon & Badcock 2001).

Whilst the growth of RA in Australia should be seen in this wider context, the specific type of housing demand subsidy varies greatly between countries. Some of the key factors that shape subsidy type include the respective roles of different levels of government and the historical development of, and links between, housing assistance and income security programs.

For example, the United States Federal Government funds, and determines policy on, the 1.5 million housing vouchers available to low income households (HUD 2000). The voucher program is budget limited and there is no entitlement to assistance. Local housing agencies administer the program with considerable local discretion. Vouchers can be used to buy as well as to rent housing. Where they are used for rental, payment is made directly to private landlords (Maney & Crowley 1999). Vouchers are often used in pursuit of other policy objectives such as encouraging recipients to move from ‘welfare’ to work and enabling low-income households to relocate to lower poverty neighbourhoods (Lubell & Sard 1999; Galster & Zobel 1998). Up to 20 per cent of vouchers can be tied to specific housing units (CBPP 20001).

The national government in the United Kingdom funds and sets policy on housing benefit but local authority housing departments administer the scheme. Housing benefit is an entitlement and is not budget limited and there are more than 3.8 million recipients (DWP 2001, p.3). People on low incomes are eligible, including those in full-time work (NHA 1999, p.133). Housing benefit is for rental only but incorporates subsidies to public tenants (instead of rent rebates) and to community and private tenants. It is credited directly to the tenant’s rental account for most social housing tenants and directly to the tenants in other circumstances (Kemp 1995).

The Canadian Federal Government has no direct role other than funding a multi-purpose block grant to the provinces, which includes social assistance. The provinces determine policy for their own social assistance schemes, which include a shelter supplement component. Policy and administration of shelter supplements vary between provinces and sometimes localities (Steele 1998). Some provinces, notably Quebec (SHQ 2000) also have specific shelter allowance programs.

In New Zealand, the national government introduced a means-tested accommodation supplement for low-income households in any tenure in 1993, extending the coverage of a payment previously available within the nation’s income security system (Murphy 1997). In December 2000, public housing tenants were removed from this scheme and returned to paying rents based on household income (Lennon & Badcock 2001). The accommodation supplement is administered by the national gov-
ernment and is available to low-wage earners as well as income security recipients (Waldegrave 2000).

The Australian Housing and Urban Research Institute (AHURI) is currently carrying out research which compares and evaluates housing demand subsidies in these countries (except for the United Kingdom) (Hulse 2002). This and other comparative research indicates that housing demand subsidies can be an explicit part of government housing assistance, as in the United States voucher program and in New Zealand between 1993 and 2000, or primarily a component of income security as in Canada and the United Kingdom. A recent comparative study found that housing demand subsidy schemes invariably have both functions although one or other is usually dominant (Kemp 1997, p.56). RA in Australia is effectively a hybrid between housing assistance and income security. It developed, however, as part of the income security system for reasons considered below, and separately from housing assistance. For this reason, the payment reflects the distinguishing features of the Australian income security system in that it is national (rather than state or local), tax-financed (rather than contribution-based), extensively means-tested, and entitlement is determined on a categorical basis, e.g. age, parenting responsibilities or disability, with little scope for discretion (Saunders 1994; Jackson & Bozic 1997). These features differ significantly from European and North American income security systems and have shaped the development of RA.

A brief historical perspective
RA was introduced in 1958 as a minor part of the national income security system, but has become, through many incremental changes, the major housing assistance program in Australia. RA was originally a supplement to the basic pension of age, widows and invalid pensioners who were single, for the additional costs incurred in renting public or private housing, compared to married pensioners who could share their rental costs. There was some speculation when the payment was introduced that it was a less expensive alternative to a general pension increase (Kewley 1973). In the 1980s public tenants were made ineligible and RA was to assist only in private rental arrangements3 (for details of changes to the early 1990s, see Prosser & Leeper 1994). From the mid-1980s, eligibility was extended substantially so that by the mid-1990s most income security recipients who rented privately or were in some types of community housing were eligible for RA, as were working low-income families with children in receipt of more than the minimum level of family payments. Similarly, the original flat rate payment of 1958 had undergone many changes in order to target RA more effectively, resulting in a much more complex formula (McNelis 1997).

Throughout these changes, the federal government has remained wholly responsible for the funding and administration of RA, most recently through Centrelink, and the states/territories have no role, unlike CSHA assistance. The states/territories do receive some funding under the CSHA for Private Rental Assistance and have generally used these funds in ways that do not duplicate Commonwealth RA, such as for assistance with bonds and relocation costs (AIHW 1999, p.142). In practical terms, households have to deal with two levels of government to obtain financial assistance with private rental.

This history is important because the particular features of our income security system have shaped RA. Australian income security policy aims to treat households in similar circumstances in the same way wherever they live in Australia. This assumption has been maintained for RA, even though private rental housing markets differ substantially across the country. The tradition of unrestricted cash transfers for income security recipients, although changing in recent years, has not encouraged consideration of targeting of RA in conjunction with housing supply strategies or other policy objectives. Entitlement to RA, in association with an income security payment – albeit subject to rigorous means testing – results in changes to RA being made across the board and on a national basis. This has left little scope for experimentation and diversity in assisting low-income households with their housing costs. Separation of responsibility within the Commonwealth government for policy on housing assistance and income security until recently has inhibited the integration of RA with housing supply strategies.

Alongside these incremental administrative changes to RA, there has been policy debate on and off since the 1970s on the move from supply subsidies, particularly public housing, to RA (Foard 1995). This includes debate generated by the Commission of Inquiry into Poverty (1975), the abandoned Housing Allowance Voucher Experiment of 1976-98 and the Social Security Review of the 1980s. Subsequently the National Housing Policy Review (1988), the National Housing Strategy of 1990-92 and the Industry Commission Inquiry...
into Public Housing (1993) stimulated considerable debate about the relative advantages of supply and demand subsidies and, importantly, about the links between them. Whilst these debates were taking place, successive extensions of eligibility for RA from the mid-1980s meant that, de facto, by the early 1990s, housing demand subsidies rather than supply subsidies had already become the most important component of government housing assistance.

In the 1990s, and for the first time, both the federal Labor government (1993-96) and the Coalition government (1996-97) proposed to integrate RA and CSHA assistance. In essence, the Commonwealth would assume responsibility for affordability payments (a version of RA) to public tenants in addition to private and community tenants, whilst the states/territories would develop and manage public housing and be responsible for other housing supply initiatives. The detail of the two sets of proposals differed in a number of respects, including the financial arrangements and the inclusion of an affordability benchmark in the Labor proposals. Ultimately, the proposals were unsuccessful due to Commonwealth concerns about the cost implications, state and territory concerns about the financial arrangements, and community and interest group opposition (Caulfield 2000). The last public airing of wider issues about RA and public housing was a Senate Inquiry in 1997 following withdrawal of the plans to integrate RA and CSHA assistance (Senate Community Affairs References Committee 1997).

When the Coalition government abandoned its plans in 1997, it negotiated instead a series of micro-level reforms to public housing assistance. These included an agreement to move towards targeting public housing to those meeting the eligibility criteria for RA (DSS 1998, p.175). The subsequent (and current) 1999 CSHA is less specific and states that housing assistance is to be targeted specifically at ‘those whose needs for appropriate housing cannot be met by the private rental market’ (CSHA 1999, Guiding Principles, 1(1)(a)).

Reforms to RA for private tenants, and plans to improve and coordinate RA with supply subsidies under the CSHA, have dropped off the political agenda. Incremental changes to RA have, however, continued from 1997. These have included eligibility changes affecting specific and highly targeted groups, for example, unemployed young people moving into study. Maximum payments have been reduced for single RA recipients without dependents who share accommodation. In 2000, maximum payment rates generally were increased to compensate for the Goods and Services Tax (DFaCS 2000, p.92). There has been a focus on compliance and the reduction of fraud, including the introduction of rent certificates to verify the amount of rent paid, for an estimated 40 per cent of RA recipients who do not have formal written tenancy agreements (Minister for Family and Community Services 1999).

Despite the withdrawal of integration plans, the two major housing assistance strategies, RA and CSHA assistance, continue to impact on each other. There are some quite specific examples of this. For example, many community housing projects funded under the CSHA depend for their financial viability on the continued eligibility of their tenants for RA (Hulse 2002). The remainder of this paper, however, focuses on the more general issue of the effectiveness of RA as the major strategy for providing housing assistance to low income households without special (additional) needs beyond affordability (Purdon Research Associates Pty Ltd and Twyford Consulting Pty Ltd 2000). In the context of renegotiation of a 2003 CSHA, we need to evaluate how RA is working to assess whether a strategy based on targeting CSHA assistance to households with special and immediate housing needs is likely to be sustainable. The following sections identify, and discuss what is known about, some of the key issues raised by the current RA strategy.

**Problems in evaluating the RA-based strategy**

Before considering specific issues, however, it is important to note that despite the importance of RA to housing assistance, publicly available analysis has been limited. The Steering Committee for the Review of Commonwealth/State Service Provision reports annually on housing assistance in its report on government services (SCRCSSP 2002). The Australian Institute of Health and Welfare reports biennially on welfare services including housing (AIHW 2001). Both are heavily dependent on RA data provided by the Department of Family and Community Services (DFaCS).

Some useful analysis has been provided by federal officials with access to Commonwealth administrative data (e.g. Field 1983; Lever 1984; Prosser & Leeper 1994). There has been little analysis other than that generated by the reform debate of the mid-1990s (e.g. Foard 1995; McNelis 1997). More recently, Wulff and Evans (1999) and Wulff and Rees (1999) have undertaken re-
search on aspects of RA. Research on the private rental sector, which is an integral part of the RA-based strategy, has been a neglected area but recent work by Yates and Wulff (2000) and Wulff, Yates and Burke (2001) provides welcome analysis of trends.

Data on housing assistance in Australia is variable and largely incompatible across program areas (AIHW 1999, p.158-60). The data problems with CSHA programs have been recognised and are being addressed through the National Housing Data Agreement and the National Indigenous Housing Data Management Strategy. There are many data problems that make it difficult to evaluate RA and to make comparisons with other forms of housing assistance. DFaCS is the primary source of data on RA recipients, unlike public housing for which alternative Census and other data are available from the Australia Bureau of Statistics. Regular reporting of data on RA is very limited and, although DFaCS has undertaken some research on RA, much of this is not publicly available. 5

RA data is provided in categories that make sense in administrative terms but are not particularly useful in terms of policy analysis, e.g. the distinction between benefits and allowances and between 'primary payment' types. Particularly problematic is the use of 'income unit' in reporting on RA. This is an administrative construct to facilitate the calculation of payments, and does not assist in policy analysis since a household may include more than one such unit. Most housing policy analysis uses data based on household, e.g. ABS data and data on CSHA assistance. Attempts to translate RA income units into households – and, in particular, households renting in the private sector – have proved difficult (AIHW 1997, p.407).

RA is payable for a variety of rental arrangements including renting privately from a private landlord, either directly or through a real estate agent, board and lodging arrangements and other arrangements such as certain fees paid by those living in retirement villages or caravan parks (DSS 1997a, p.18). Whilst this diversity of living arrangements may well be one of the strengths of RA, publicly available RA data are rarely disaggregated between the various types of rental arrangements which makes testing of some of the assumptions about RA and private rental markets difficult. 6

For a program that costs in excess of $1.7 billion a year and affects so many people, the lack of usable data on RA, and provision of data so incompatible with that provided for the other major forms of housing assistance, is cause for concern. Considerable improvements are needed to RA data to enable effective targeting, evaluation of RA outcomes and comparison across housing assistance programs (AIHW 1999, p.159). Work being carried out as a result of the National Housing Data Agreement 2000, a subsidiary agreement to the 1999 CSHA, should address many of the data issues raised above in the longer term although not in time for the 2003 CSHA negotiations (AIHW 2001, p.88).

Key issues for debate
Preoccupation of governments with micro-level reforms to both public housing and RA since 1997 means that some important, broader issues remain 'on the table'. These include concerns about the effectiveness of RA, the impact of RA on private rental markets, and the links between RA and other housing and support programs, including CSHA assistance.

The current housing assistance strategy, based mainly on RA, raises many questions. This paper highlights five issues that are important to the consideration of a 2003 CSHA, in order to stimulate debate and further analysis:

- the housing needs of those not eligible for RA, particularly low-income working households without dependent children;
- the targeting of RA in relation to CSHA assistance;
- the affordability and other outcomes of RA;
- trends in the private rental market on which the RA strategy depends;
- private sector rents and the impact of RA.

The housing needs of those not eligible for RA, particularly low-income working households without dependent children

Despite the many extensions to RA over the years, some income security recipients remain ineligible for the payment, mainly young single people under 25 living at the parental home and Austudy recipients without dependents (Centrelink 2000). The exclusion of Austudy recipients is curious, as younger students (under 25) living away from the parental home are eligible for RA in association with Youth Allowance. Where states/territories follow RA eligibility criteria in setting their own eligibility criteria for public housing, as in Victoria and South Australia, the same groups are ineligible for both main types of housing assistance, whatever their actual housing circumstances.

The major group not covered by the current RA-based strategy is, however, low-income working
households unless they have at least one dependent child and receive more than the minimum level of family payment. In June 1999, 93 per cent of RA income units were dependent, at least in part, on major income security payments such as Newstart and the Age Pension (SCRCSSP 2000, Table 15A.35, p.1443). Only 7 per cent of RA income units were low-income wage earners with at least one dependent child who received RA attached to their family payment (SCRCSSP 2000, Table 15.1, p.1365). Households dependent on low wages with older children, and singles and couples, are not eligible for RA, even if their wage income is very low.

This strategy requires review in the light of the well-documented polarisation of market incomes in Australia associated with globalisation and economic restructuring (Gregory 1993; Saunders 1994; Borland & Wilkins 1996). Whilst detailed analysis of such changes is beyond the scope of this paper, recent work on the interrelationship between labour markets and housing in Australia suggests a clustering of low-skilled and low-paid households in less preferred tenure forms, particularly private rental (Winter & Stone 1998, p.16). The current housing assistance strategy assumes that only income security recipients are in need of assistance. This ignores trends in the labour market and the problems of the ‘working poor’. Evidence of the problems faced by low-income workers after paying housing costs can be found in recent ABS survey data (ABS 2000), as highlighted in the recent ACTU submission to the 2001 Living Wage Case (ACTU 2001).

The association between low incomes, including those in low-paid work, and private rental is not new. This was highlighted by the Commission of Inquiry into Poverty more than twenty-five years ago and many times since, such as through the National Housing Strategy of the early 1990s. What is new over the last fifteen to twenty years is deregulation of the labour market and the increase in jobs that are casual, part-time, irregular and low-paid. The impact of employment participation strategies associated with ‘welfare reform’ means that more households are likely to be dependent on market incomes, including the type of jobs referred to above. Currently, households moving from income security into such jobs become ineligible for RA if they do not have a dependent child. Current policy settings on housing assistance appear to contribute to a poverty trap for the majority of RA recipients who do not have dependent children.

The targeting of RA in relation to CSHA assistance

In June 1999, an estimated 1.8 million people were directly dependent on RA, including an estimated 650,000 dependent children who are rarely mentioned in discussions of RA. This represents about 9.5 per cent of the Australian population and is indicative of the importance and breadth of coverage of RA. A key question is whether RA is effectively targeted at people who need only additional income in order to access private rental housing, compared to CSHA assistance which has been refocused on those who have special or immediate needs which are unlikely to be met by the private market.

Tables 1 and 2 show some similarities between the profiles of those assisted by RA and those in public housing. The majority of those in receipt of either type of assistance are singles rather than couples, with or without dependent children. In June 2001, more than half of RA income units (54.3 per cent) were singles with no dependent children, and a further 22.5 per cent were singles with dependent children. About four in ten households entering public housing in 1998-99 were single with no children, and almost one third (32.8 per cent) were single with children. These figures point to the problems in paying rental costs out of one income. Direct comparison of the numbers assisted under the two types of assistance is not possible because of the difference between income unit and household and a time lag in collecting data on public housing.

RA recipients differ from public housing tenants in some key respects, although the latter’s profile reflects, to a large degree, previous policies and targeting rather than current ones. One study found that a third of RA recipients are under 30, compared to only 16 per cent of households in public housing. Conversely, a higher percentage of public housing tenants are older (30.4 per cent were 60 and over), compared to only 15 per cent of RA recipients in this age group (Wulff & Evans 1999). Partly in reflection of the different age profile, RA recipients were more likely to be unemployed and seeking work, rather than out of the labour force altogether (Wulff & Evans 1999, p.5). This is not surprising, as more recent DFaCS data indicates that the largest single group of RA recipients (23 per cent) receives RA in association with Newstart (DFaCS 2001, p.112).

It is difficult to know whether RA is assisting people whose ability to access housing differs from that of public housing tenants. Using the example of sole parents, 181,205 income units were in re-
Table 1: RA recipients by income unit type, June 2001

<table>
<thead>
<tr>
<th>Recipient type</th>
<th>Percentage of RA income units, 2001</th>
<th>Percentage of all Australian income units, 1997-98</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no dependent children</td>
<td>54.3%</td>
<td>47.4%</td>
</tr>
<tr>
<td>Single, with dependent children</td>
<td>22.5%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Couple, no dependent children</td>
<td>7.6%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Couple, with dependent children</td>
<td>15.0%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Other</td>
<td>0.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>


Notes: 'Children' refers to dependent children, i.e. those aged under 16 or and full-time students aged 16-18; 'Other' refers to couples who are separated due to illness and unknown. May not add up to 100% due to rounding.

Table 2: New households occupying public housing by household type, 1998-99

<table>
<thead>
<tr>
<th>Recipient type</th>
<th>Percentage new public housing tenant households, 1998-99</th>
<th>Percentage of all Australian households, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children</td>
<td>39.5%</td>
<td>24.5%</td>
</tr>
<tr>
<td>Single, with children</td>
<td>32.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Couple, no children</td>
<td>6.5%</td>
<td>34.7%</td>
</tr>
<tr>
<td>Couple, with children</td>
<td>12.4%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Group and other households</td>
<td>8.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>


Note: Figures may not add up to 100% due to rounding. The Annual Report data on new households entering public housing is missing some data from Western Australia.

What is not clear is whether sole parents get RA or public housing on the basis of consumer choice, targeting by the two levels of government, different capacities to afford rental housing, or some other factor. A new AHURI study, which reports on surveys of sole parents in receipt of both types of assistance, finds that there are both key similarities and some important differences between the two groups (Burke & Hulse 2002 forthcoming).

In general, whilst applicants for public housing are often screened to determine which households appear to be able to rent privately, it is not clear whether this process is either accurate or consistent in practice. Conversely, there does not appear to be any clear mechanism in the Centrelink payment process to identify those households whose needs are not likely to be met in the private market through RA. The recent McClure Report recognises this problem in respect of employment participation and considers that housing assistance should be considered as part of more individualised service delivery. It suggests that 'high level brokers'...
may be necessary to help address a person’s housing needs to improve participation in work, education or training (Reference Group on Welfare Reform 2000, p.15). Disappointingly, there are no specific recommendations on how this could be done.

The affordability and other outcomes of RA

RA is premised on an assumption that the problem faced by income security recipients is insufficient income, manifested in problems of housing affordability. It is officially portrayed as a supplementary payment made to eligible income security recipients in the private rental market in recognition of the extra costs they face (SCRCSSP 2000, p.1374; DSS 1997a, p.9). However, the housing assistance element of RA is recognised in grouping policy, research and reporting responsibilities for RA within DFaCS under the umbrella of ‘Housing Support’ along with CSHA programs, the Supported Accommodation Assistance Program and other housing initiatives (DFaCS 2000).

DFaCS reports on affordability outcomes of RA as if it were a specific housing scheme rather than income support. Affordability is measured by comparing the proportion of income units who would pay more than 30 per cent (and 50 per cent) of income in rent if there were no RA with the proportion paying more than 30 per cent (and 50 per cent) of income in rent after RA. In practice, the amount of RA is deducted from rent payable, and the resulting net rent is calculated as a percentage of income (of the income unit) (SCRCSSP 2000, Table 15A.37, p.1445). It would be more consistent with the income supplement objective of RA to add RA payment to income to calculate gross income and then work out what percentage of this gross income was paid in rent. Using the first method gives a more favourable affordability outcome.

Using its preferred method, DFaCS (2000, p.93) reports that RA reduced the percentage of income units paying more than 30 per cent of income in rent from 75 per cent to 41 per cent. It also reduced the number of income units paying over 50 per cent of income in rent from 32 per cent to 11 per cent. In this sense, any addition to income will improve affordability, but this is a long way from demonstrating that RA makes housing affordable for income security recipients.

The use of 30 per cent of income for reporting purposes is at the top end of affordability benchmarks used in other countries (Kemp 1997). In the policy debate of the 1990s, there was considerable debate about an affordability benchmark, and argument that 30 per cent was too high for very low-income earners (NHS 1991). By contrast, only 0.1 per cent of public housing tenant households pay more than 30 per cent of income in rent after rent rebates (SCRCSSP 2000, Table 15A.10), and only 1.5 per cent of community housing tenant households pay more than 30 per cent of income after RA (SCRCSSP 2000, Table 15A.30). Whilst there are difficulties in making a direct comparison because of the differences between income unit and household, it is clear that RA has significantly worse affordability outcomes than these other two forms of assistance.

The overall figures for RA mask considerable differences in affordability by household type and by geographic area. The way in which it developed has resulted in a focus on equal payments to similar types of households. The system does not emphasise equal outcomes for different types of households or for residents in different housing markets. The Commonwealth has recognised that some households, particularly singles without dependent children, experience worse affordability outcomes than others (DSS 1997a, p.17). This is ironic in view of RA’s original aim of assisting singles who were unable to share their housing costs with another income earner. Affordability outcomes for RA recipients also vary considerably across the country, with those in Sydney having the worst outcomes due to higher rental costs (DSS 1997a, p.20).

The RA strategy, as currently defined, addresses only issues of affordability. There is no information on other outcomes for RA recipients. These include the link between private renting and poverty. After paying rental costs, do households have sufficient funds for basic necessities? Other housing assistance issues include quality and appropriateness, location, security of tenure, tenancy management and access to support services. The current approach is to leave these to consumer choice, market forces and state/territory government regulation and services. If RA is the major housing assistance program in Australia, consideration of these housing outcomes in comparison with other programs is important.

Trends in the private rental market

The success of the current RA strategy depends on most income security recipients being able to access, and remain in, affordable housing in the private market with the assistance of RA. In other words, it assumes that such housing is available. In the context of the reform debate of the 1990s the Department of Social Security (DSS),
which was then responsible for policy on RA, asserted that the private rental market in Australia was robust and had more than kept pace with increases in both population and households. This appeared to be the case when looking at the market overall (DSS 1997b).

More recent research, however, suggests more complex trends. Yates and Wulff (2000) and Wulff, Yates and Burke (2001) have disaggregated the private rental market into segments, using Census data for 1986 and 1996. This indicates for Australia as a whole, whilst the number of households in the private rental sector did grow in excess of growth in households, this was uneven across segments of the market in the period 1986-1996 (Yates & Wulff 2000, p.49). In particular, the research found that the low-cost segment of the market (defined as dwellings with rents of less than $100 per week in 1996 dollars) had declined in both absolute and relative terms, with only 177,415 rental units in this category by 1996. The low-moderate segment of the market (defined as rents of $100-$149 per week in 1996 dollars), whilst increasing slightly in absolute terms, had also declined in relative terms. By 1996 stock renting at under $150 per week comprised 657,160 units or just over half of the market (51.8 per cent), compared to almost two-thirds (65.6 per cent) in 1986 (Yates & Wulff 2000, p.50). Compounding the problem, many households renting accommodation under $150 per week were not on low incomes.

Some of these data are now quite out of date and further research is needed as soon as data from the 2001 Census become available. There is, however, concern among many commentators about lack of investment in lower rental housing (e.g. Berry 2000) which has led to a number of initiatives, including the work of the Affordable Housing National Research Consortium (Berry & Hall 2001).

In the context of the reform debate of the 1990s, DSS had maintained that 'there is not a chronic failure in the supply of private rental housing' (DSS 1997a, p.63). This assessment, whilst correct in terms of the total market, now appears to be inaccurate in view of this recent research which looks at segments of the market which would be affordable for RA recipients. This situation is made more complex by the differentiation between private rental markets in Australia. For example, median weekly rents for the September quarter 2000 for three bedroom houses in capital cities ranged from $158 in Perth to $235 in Sydney and $250 in Darwin, while two bedroom flats ranged from $125 in Hobart to $260 in Sydney (REIA 2000, p.15). A uniform, national RA scheme ignores the realities of different private rental markets around Australia. There is a strong case for a more differentiated housing assistance scheme that takes account of such variations.

Questions have also been raised about the dispersal/concentration of lower-cost rental housing stock. It had always been assumed that one of the advantages of housing demand subsidies, such as RA, over supply subsidies was improved consumer choice. Recent research for Melbourne found that, whilst RA recipients are more dispersed than public housing renters, low-cost private rental housing is increasingly concentrated in a number of inner suburbs and older industrial areas (Wulff & Evans 1999, p. 13; Burke & Hayward 2001). There is an urgent need for more research on the locational outcomes for RA recipients.

Private sector rents and RA
DSS/DFaCS has maintained that the impact of RA on rents is likely to be minimal (e.g. DSS 1997a,
In the decade to 1996 there was a threefold increase in RA expenditure (Senate 1997, CA 305). As seen above, despite this injection of funds affecting just under half of all private renters, recent research suggests that this increase did not stimulate the expected increase in the supply of low and low-moderate cost rental housing. The question is, did it increase rents? Given the targeting of RA to a large number of low-income households, there could be some impact on rents at the lower end of the private rental market. In this context, evidence that the lowest quartile weekly rents increased by 14.3 per cent in real terms between 1986 and 1996, but only by 1.6 per cent for the highest quartile, is a cause for concern. 15 There is an urgent need to review the assumption that RA does not increase rents at the lower-cost end of the private rental market, rather than for the market overall. Irrespective of causation, it is apparent that some of the increase in RA during the decade 1986-96 was offset by real rent increases in the lowest quartile.

**Conclusion**

In common with most other western countries, Australia has moved to housing demand subsidies to assist low-income households with their housing. Unlike some of these countries, current policy settings in Australia appear to ignore the housing needs of working households without children. This is of concern in the light of labour market changes and welfare reforms.

Housing assistance policy in Australia depends on most income security recipients being able to rent privately with additional income provided by RA, with those whose needs cannot be met in the private market being assisted by CSHA programs. There is a clear rationale for assisting most eligible households with RA rather than CSHA programs, but it is not apparent how realistic or accurate this targeting is in practice. Whilst RA provides welcome additional income for many households on low incomes, and helps make the community housing sector financially viable, it results in different affordability outcomes for different types of households and in different parts of Australia. Although RA improves affordability, it does not make housing affordable for significant numbers of households, using common affordability benchmarks. The affordability outcomes for RA recipients are worse than for other types of housing assistance programs. More information is needed on the other housing outcomes of RA such as security or tenure/mobility and location.

Recent research suggests that the private rental market has not responded to large increases in RA expenditures by increasing the supply of low-cost housing. There is also evidence that rents at the bottom of the private rental market increased in real terms between 1986 and 1996, effectively weakening the affordability improvements which were intended to be achieved by a large increase in RA funding during that period. The link between RA and private sector rents needs to be reviewed.

Many of the issues raised in this paper have been the subject of previous debate and some research but need to go back on the policy agenda in the light of recent research and the current round of negotiations for a 2003 CSHA. They point to the need for innovative thinking and perhaps new models of housing assistance which seek to integrate RA with housing supply subsidy strategies.
Notes

1 'Income unit' refers to a single or couple with or without dependent children under 16, or under 18 if in full-time schooling (DSS 1997a, p.7).

2 The payment is called Rent Assistance throughout this paper. In fact it was called Supplementary Assistance and then Supplementary Rental Assistance before being renamed Rent Assistance in the 1980s.

3 RA can be paid to those in arrangements outside the usual definition of 'private rental' such as boarders and sub-letters in the private rental market, in owner occupied dwellings and in non-private dwellings such as boarding houses (DSS 1997a).

4 The Department of Social Security (DSS) had responsibility for RA from its inception in 1958 until the late 1990s when this was transferred to the Department of Family and Community Services (DFaCS).

5 For example, the Department commissioned a detailed survey of RA recipients in 1998 but, at the time of writing, neither the data nor the results of the survey had been released. The most detailed information released on RA can be obtained from submissions made by DSS to the policy reviews of the 1990s, particularly to the Industry Commission Inquiry 1993 and the Senate Community Affairs References Committee Inquiry into Housing Assistance in 1997 (Senate 1997, CA 305).

6 This poses particular problems in comparing RA data with ABS data on the private rental market that excludes some RA living arrangements, e.g. those in non-private dwellings such as boarding houses.

7 Estimates made by the author based on data on 'individuals' in receipt of RA (SCRCSSP 2000, Table 15A.36) and assumptions about the number of dependent children in single and couple RA income units. DFaCS subsequently confirmed this figure at 1,792 million for June 1999.

8 Some of these may live with older children or other relatives who are deemed to be separate 'income units' according to DFaCS. There is no information on how many singles fall into this category.

9 It is not clear from the reporting of public housing whether solo parents refer only to those with dependent children, as do the figures for RA recipients.

10 Wulff and Evans’ analysis is based on income unit record file of the ABS Australian Housing Survey 1994. RA recipients include only those renting from a private real estate agent or landlord (Wulff & Evans 1999, p.4).

11 DSS defined the private rental market more narrowly than ABS and in its analysis excluded those renting from a relative or from someone within the same dwelling (DSS 1997b, p.1).

12 Based on ABS Census data and data from the ABS Australian Housing Survey 1994 (Wulff & Evans 1999, p.4).

13 A DSS senior official also strongly expressed this view in verbal testimony to the Senate Community Affairs References Committee Inquiry into Housing Assistance in 1997 (Senate 1997, CA 305).

14 Just what share of the private rental market comprises households dependent on RA is difficult to estimate as this involves translating the number of RA income units into households renting in the private market. This is a very complex calculation, due to data and other problems (AIHW 1997, p.407; AIHW 1999, p.138). Based on AIHW estimates and the author’s own calculations, a reasonable estimate is that 650,000 households in receipt of RA were renting private dwellings in 1996.


References


Senate Community Affairs References Committee (1997) Inquiry into Housing Assistance, AusInfo, Canberra.


