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The Rent Assistance Programme: A Synthesis and Analysis of Stakeholder Views

FINAL REPORT

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The Department of Family and Community Services

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Note: This is the full report with an amendment that removes Appendix C titled “List of Stakeholders” and any references to Appendix C in the body of the report.

List of acronyms

CSHA	Commonwealth-State Housing Agreement
EMTR	Effective Marginal Tax Rate
FaCS	Australian Government Department of Family and Community Services
FTB	Family Tax Benefit
HMC	Housing Ministers' Conference
NGOs	Non government organisations
RA	Rent Assistance
SAAP	Supported Accommodation Assistance Programme
SACES	South Australian Centre for Economic Studies

Executive Summary

This report documents an investigation of stakeholder views about the operation of the Australian Government's Rent Assistance (RA) programme, in the context of broader housing affordability issues. It has been prepared in support of work being carried out by the Department of Family and Community Services (FaCS).

At the December 2003 Housing Ministers' meeting Ministers endorsed work to be undertaken to:

- increase the supply of affordable housing;
- increase access to affordable housing, with states and territories asked to focus on the reduction of workforce disincentives and to attract private sector involvement into affordable housing as priorities in the 2003 Commonwealth-State Housing Agreement (CSHA);
- enhance delivery arrangements; and
- consider market efficiency and effectiveness.

RA is the single largest targeted support programme for households in the private rental market. At the Housing Ministers' Conference (HMC) on 3 December 2004 the Minister for Family and Community Services, Senator the Hon Kay Patterson, announced agreement to a "no commitment" consideration of RA in the context of affordable housing. To further that goal, Minister Patterson agreed that FaCS would carry out focus group sessions on the operation of the programme, also on a "no commitment" basis. FaCS engaged the South Australian Centre for Economic Studies (SACES), in collaboration with Kate Barnett and Associates, as a consultant to assist in the running of the sessions. This report presents a synthesis and analysis of the information received from stakeholders.

Key themes from the Focus Groups

Shortage of affordable housing

There was felt to be a significant shortage of affordable housing for low income households. Many low income households are unable to service the mortgages which go with home ownership, which means that they rely on public and community housing or the private rental market. Public and community housing deliver reasonably good affordability results for those who can access it, but waiting lists are quite long.

This shortage is manifest in long waiting lists for public housing and a substantial number of private renter households spending large proportions of their incomes on rent. A third of Australian private renter households spend more than 30 per cent of their income on rent and 11 per cent spend more than 50 per cent (even if FaCS data, a source needs to be quoted and specified if this is "all private renters" or only RA).¹

The dimensions of the shortage of affordable rental housing vary considerably from one region to another, arising mainly from differences across regions in average rents. Shortages are generally most pronounced in Sydney, but also exist in Melbourne, in both inner city areas and some regional areas.

¹ These figures are similar to estimates for all Australian private renter households as reported in Australian Bureau of Statistics (2005).

Private Rental Housing

Participants felt that the reduction in funds to public housing has led to increased pressures in the private rental market to provide low cost housing. Related to this, there was a widely held view that more resources should be put into the public and community housing systems to expand the supply of affordable rental housing for people on low incomes. However, this view is not universally accepted – see e.g. Gans and King (2003).

It was argued that for many people private rental housing is inferior to homeownership and public and community housing in that it has insecure tenure. Most obviously tenures are physically insecure, with leases rarely exceeding a couple of years. But they are also financially insecure in the sense that tenants can be exposed to long term adverse rental trends.

There is also said to be significant discrimination in the private rental market. At the most basic level there is outright “profiling” of prospective tenants, with Indigenous Australians being extremely disadvantaged, and a tendency for landlords to look unfavourably on people with insecure employment, people on social security incomes, young people and recently arrived migrants.

There has also been a growth in the use of tenant databases to make judgments about prospective tenants. These tenant databases purport to record details about people’s past performance as tenants and are in that sense different from “profiling” as a selection mechanism. However, it was argued that the information recorded on tenant databases can be subjective and inaccurate and can be highly prejudicial to people’s chances in the rental market. Moreover it is costly or quite difficult for people listed to challenge adverse listing whereas the onus should be on database owners to ensure the validity of listings.

Homelessness

When homeownership, public and community housing and private rental fail to deliver housing to a person or family, they may become homeless. A range of physical accommodations are involved: stays in unsafe or unhealthy house structures; temporary stays with family or friends; stays in hostels, caravan parks, tents; and stays in cars, squats, or living on the streets. The Supported Accommodation Assistance Programme (SAAP) is the main governmental direct policy response to homelessness, and is delivered primarily via non government organisations (NGOs). These providers assist people who are homeless to make the transition to a secure housing arrangement in a range of ways and also provide emergency accommodation. SAAP providers indicated that they are significantly under-resourced in the sense that there is a substantial unmet demand for the support services that they offer. It was also felt that the customer load has increased and that the increases have included some very high need customers, for example people with mental health issues.

Access to appropriate housing has consequences that go beyond the immediate comfort of the people being housed. Inappropriate housing makes it difficult for people to participate in employment and education. It can increase risks of domestic violence and disease and it makes access to health care more difficult. Moreover, without an appropriate housing environment it is difficult for people to connect and belong within the community.

Housing outcomes for Indigenous Australians

It was said that housing outcomes for many Indigenous Australians are much inferior to housing outcomes achieved by most non-Indigenous Australians. Indigenous Australians

have a much greater prevalence of homelessness, overcrowding and occupation of substandard dwellings. It can be very difficult for Indigenous Australians to get private rental properties.

The take-up of the RA programme by indigenous people is not particularly high. Although RA is payable in community housing, rents paid in indigenous community housing are often below the threshold for RA eligibility.

Governments' housing policies

It was felt that government housing programmes in Australia could be more integrated to provide a holistic response to housing affordability issues. There is a range of policy instruments that affect conditions in housing markets including taxation, direct expenditure and regulations such as building codes and zoning. These policy instruments are allocated across all the levels of government (and in various departments). It was said that governments have not been effective in identifying a common purpose and that therefore their programmes do not fit together particularly well.

It was felt that more needs to be done to expand the supply of affordable rental housing for people on low incomes. Participants often contrasted two types of interventions: supply-side interventions which directly target the number of houses being built and supplied in the rental market, and demand-side approaches which expand the purchasing power of selected renter groups and allow their increased capacity to pay to induce a supply response. The range of suggested policy responses includes:

- increase the flow of funds from the capital market to social housing providers with a Commonwealth bond (AHNRC 2001, ACOSS 2003a);
- establish a stock exchange listed company as a vehicle for private sector investment in affordable housing (AHNRC 2001);
- set a prescribed ratio for investment in affordable housing for certain investment entities (AHNRC 2001);
- cease universal access to negative gearing concessions for property investors and target the savings to investors in low cost rental property (e.g. as in ACOSS 2003a);
- redirect development profits to investment in low cost rental housing (ACOSS 2003a); and
- land tax reform (Yates 2002).

It was also argued that increases in the supply of accessible, as well as affordable housing for people with a disability should be encouraged, eg through legislation for standards that guarantee access in all dwellings.

The Rent Assistance programme

Comparisons were drawn between the affordability impacts of RA and public housing. Public housing rents are generally set at 25 per cent of income, and consequently they are more effective in diminishing housing stress. RA payments, on the other hand, are not tightly linked with income. As a consequence, participants generally felt that RA is poorly targeted. One participant commented that “of the existing recipients, a third don't need it because they're not under housing stress, and of the two thirds who do need it, only half are getting enough.” For example, 36 per cent of recipients spend 30 per cent or more of their income on housing. There were also concerns about the ineligibility of people who are subject to

housing stress – for instance low income individuals or families without children (and therefore not in receipt of family tax benefit), certain Austudy recipients, migrants subject to benefit waiting periods.

There was also a widely held view that the failure to adjust RA payment levels in line with regional variations in rents is a shortcoming of the current system. As it is, the maximum rate of RA available for a particular household is the same everywhere. Yet there are quite wide variations from one region to another in the rents that must be paid to get adequate rental housing. It was felt that the maximum rate of RA should be varied in line with market rents in different cities and regions. It was argued that the current RA structure encourages relocation to areas with low costs and poor employment prospects, contrary to the thrust of labour market policy.

Although some participants were concerned that RA is not as closely linked to income as some other forms of housing assistance, some discussants noted that there is a downside to income-contingent RA payment levels in that the RA withdrawal rates are, over the relevant income range, an increment to effective marginal rates of taxation. Although actual marginal tax rates are relatively low for people on low incomes, the withdrawal of social security entitlements in proportion to income means that effective marginal tax rates (EMTRs) may be high (even exceeding 100 per cent) for some people with social security entitlements. Linking RA more directly to income could create excessive EMTRs for some renters.

The majority of participants put greater weight on the inequities (as they perceive them) of the current system than on these incentive effects. Accordingly they believed that RA should be extended to all low income households and that the payment amounts should be changed to reflect regional rents. Respondents did not offer any clearly specified savings measures within the RA programme, although put the view that high income families in receipt of RA are treated very generously by the social security system. It was generally felt that the costs that would arise from extending the RA programme would need to be met with more resources and that the current resourcing was simply inadequate. But if savings were to be found within the programme, some argued that the payment structure should also take into account income levels, so that resources could be redirected away from households that receive RA but are not in housing stress to households whose high levels of housing stress are not resolved by the existing RA payment structure.

Observations in response to stakeholder views

A number of observations can be made in response to the wealth of information provided during the focus groups.

Research supports the view that inadequate housing, overcrowding, and especially homelessness are very disruptive to the fundamental aspects of a happy life – health, avoidance of violence and crime, economic participation, educational achievement and social participation. A lack of appropriate housing would seem to be a more detrimental outcome than affordability stress.

There is a high prevalence of inappropriate housing in Indigenous communities and this is closely associated with poor social outcomes. There is a degree of circularity involved: poor housing in an Indigenous community could also be a consequence of other problems such as people's inability to participate successfully in the labour market or difficulties in managing financial resources effectively. But the evidence is that a stable housing situation is a

precursor to good health, education and employment outcomes, and therefore housing is a prime candidate to be one of the policy instruments that can help to break the cycle of Indigenous disadvantage.

Participants were generally of the view that public housing has been scaled back over the last two decades, leaving more low income households to satisfy their housing needs in the private rental market. Many focus group participants felt that it is desirable to boost resources in the public housing sector. However, it has also been argued (e.g. Gans and King 2003) that private rental markets have advantages over public housing. There are several issues that are relevant in an evaluation of the relative merits of public housing and private rental.

Gans and King argue that delivering affordability support via the private rental market is preferable to the public housing system because it allows a greater degree of choice for renters. In the private rental market there are more properties to choose from. The wider range of choices available can deliver significant benefits, for instance in terms of people being able to strike the best trade-offs they can in terms of location, dwelling size and condition.

Public housing provides greater security of tenure than the private rental market, and at the same time maintains tenant flexibility. Public tenants are less likely to be required to give up their housing in the short to medium term than private tenants. A private tenant can be given relatively short notice because of an unforeseen and uncontrollable event such as the owner selling the rental property. In addition, private tenants often have to commit to landlords for a lease period and assume financial responsibility for maintaining the rental stream to the landlord over the life of the lease, whereas public tenants do not.

It might be argued that the tenures that are observed in the private rental market are an outcome of mutual agreement in the market. While this is strictly true some reservations should be kept in mind. Private landlords are in the main individuals and short tenures are a way for landlords to maintain the liquidity of housing assets. If rental housing were held in a portfolio it would be possible for investors to maintain liquidity by selling their units in the portfolio, while the portfolio itself could offer longer tenures to tenants. But in fact portfolio investment is more the exception than the norm. The reasons for this are not entirely clear but might include: a widespread preference among less sophisticated investors for tangible investments (of which “bricks and mortar” are one of the best options), the operation of the capital gains tax (capital gains tax liabilities are quite dependent on the timing of transactions, and the investor controls this better with direct ownership), and the ability of landlords to provide their own labour in support of their rental property. If there were more portfolio investment in the private rental market it is possible, although not conclusively demonstrated, that longer leases would be offered.

There are two types of discretion in a tenancy agreement that should be distinguished. On the one hand there is the landlord’s discretion to end a tenancy. On the other hand is the tenants discretion to end the tenancy. Other things equal, the first is disadvantageous to the tenant and the second is advantageous. Yet the two often go together in the private rental market. It is unusual to see private rental landlords offering the combination of secure tenure for the tenant but easy departure terms which are common in the public housing system. There is no reason to think that portfolios would offer arrangement of these type without charging a premium to do so.

Public housing in Australia typically involves larger subsidies to tenants than the subsidies available in the private rental market. For instance, Australian Institute of Health and Welfare (2005) reports that rents collected in Australian public rental housing were 71.6 per cent of the rentals that would have been paid at market rates after deducting RA.² It seems likely that support for public housing is at least partly due to the larger subsidies that it offers. But of course this is a matter of policy and is not actually intrinsic to public housing.

Public housing has an important role redressing some of the discrimination that may occur in private rental markets. Discrimination is a commercially rational behaviour in private rental markets whereas public housing can, and usually does, adopt allocation policies which assist groups who are likely to be discriminated against in the private market. In effect the public housing authority is a guarantor for bad risks (albeit the guarantee is internal, from its social policy arm to its asset management arm). This function is in addition to the provision of affordability support. For private rental markets to perform the same role, either the implicit guarantee or a corresponding insurance premium for some tenant types needs to be offered in an explicit way in the private rental markets (a uniform guarantee is probably more practical than the differentiated insurance premia that would be required).

With RA structured in this way it is possible that the private rental market could more effectively replicate the “safety net” offered by the public system while offering the additional benefit of allowing households more say in their housing outcomes. And it is possible that such a system would induce the private market to produce more housing stock suited to the needs and preferences of low income households.

A range of suggestions have been put forward about how to boost the supply of private rental properties for low income households. In most cases they involve a government subsidy, whether delivered through the tax system, expenditure, or regulation. A key point of difference often is their targeting and it is important to recognise this in evaluating the proposals. It is safe to say that targeted policies will be more cost-effective in reaching a group for whom assistance is intended. The question is whether targeting creates undesirable behavioural incentives, causing people to lock in the disadvantages that qualify them for assistance under the targeted arrangement.

If RA eligibility were extended to low income working people or couples it could be withdrawn as income increases, just as social security payments are withdrawn as private income increases. Such an arrangement would boost EMTRs for this group. However, the existing EMTRs for this group may not be particularly high. High EMTRs are most likely to be found among people who are already in the social security system. Such a change would also make the incentives more favourable to moving off other forms of benefit and into employment.

Many participants felt that RA should recognise regional differences in market rents. There are strong arguments in equity for such a change. But it would also undermine incentives for people to locate where housing costs are lower.

Because RA entitlement is withdrawn at the rate of 75c in the dollar over a range, it operates as a subsidy to housing costs over that range. Its effect is that an extra dollar of housing costs just 25 cents (in that range). Other things equal, it will induce people to make more costly housing choices than they otherwise would. This can be contrasted with a voucher system,

² The figure would be lower still if one imputed a value to the more favourable terms of public rental tenancies.

under which eligible families receive a fixed housing subsidy but meet the marginal costs of housing choices at 100 cents in the dollar. Unless the externalities associated with “extra” housing are very large – in the ratio three to one – the subsidy may constrain the recipients to use the resources provided on their behalf in a less than optimal way. For instance, a low rent but with a long commute time would be more attractive under the voucher system. It is not clear whether the effect is of material significance.

The existing subsidy arrangement may go some way to dealing with interregional variations in housing costs. It has the consequence that RA payments will generally be higher in regions where rents are higher, whereas a voucher at a uniform rate would not achieve this. However, a voucher which was set at different rates in different housing markets could allow for interregional differences and give the tenant greater choice in the disposition of the financial support.

An extension of the RA programme, or indeed other measures to assist renters, are likely to have costs. It is notable in this respect that support provided by the RA programme to people and families is generally less than they would receive in public housing and also less than the value of tax concessions received by many homeowners. While externality arguments might support some differentiation of the assistance amounts to different tenure types, and in particular some preference to homeowners, they do not explain the current suite of concessions.³

³ Under the current system the owner-occupier tax concession for a property with a given value is higher the higher is the owner's (a) income (because this determines the marginal tax rate) and (b) equity in the property (i.e. the smaller the outstanding mortgage).

1 Introduction

In April 2003 Housing Ministers confirmed a commitment to Principle 11 of the 2003 CSHA to promote a “national, strategic and long term vision for affordable housing in Australia through a comprehensive approach by all levels of government”. This was further progressed at the December 2003 Housing Ministers’ meeting when Ministers endorsed work to be undertaken to:

- increase the supply of affordable housing;
- increase access to affordable housing, with states and territories asked to focus on the reduction of workforce disincentives and to attract private sector involvement into affordable housing as priorities in the 2003 CSHA;
- enhance delivery arrangements; and
- consider market efficiency and effectiveness.

RA is the single largest targeted support programme for households in the private rental market. Additional support is available, on a much smaller scale, through state and territory administered programmes such as bond loans, but under current arrangements the Australian Government is by far the major provider of support in the private rental market. State and territory governments, on the other hand, are predominant in the provision of (subsidised) public housing. Governments also have programmes to assist people in the transition to homeownership. RA needs to be understood as an element in a suite of programmes intended to improve housing outcomes.

At the Housing Ministers’ Conference (HMC) on 3 December 2004 there was agreement to a “no commitment” consideration of RA in the context of affordable housing. It was noted that the affordable housing work to date identified variations to RA as an option to be explored, and that any changes would have to consider cost implications and the consequences for other groups better serviced by RA. To further that goal the Minister for Family and Community Services, Senator the Hon Kay Patterson, agreed that FaCS would carry out focus group sessions on the operation of RA, also on a “no commitment” basis. The sessions were required to gather input on how RA is contributing to housing affordability, where there could be improvements, and relationships with other state, territory, and local government housing programmes/initiatives.

FaCS engaged the South Australian Centre for Economic Studies (SACES), in collaboration with Kate Barnett and Associates, as a consultant to assist in the running of the sessions. The consultants’ brief was to:

- conduct a series of sessions with stakeholders, including state and territory government departments, national non government organisations (NGOs) and a range of academics. The discussions were to be conducted so as to provide a broad perspective on housing priorities and directions within the community at large, and to complement the range of policy information provided by FaCS and other government and community organisations directly to the Minister; and
- analyse and synthesise the range of statements and documentary information provided by the NGOs and other stakeholders.

FaCS and the consultant prepared discussion papers on key themes to guide the discussions, plus a list of research questions on RA and general housing affordability issues. Sessions were carried out with stakeholders in July and August 2005.

This report presents the analysis and synthesis of the information received from stakeholders. Section 2 outlines the research questions. Section 3 summarises issues raised by state and territory housing officials, NGOs and researchers, with more detail reported in Appendixes A and B. The approach taken in meetings with officials, NGOs and researchers was to collect a range of views. As would be expected, different people have different points of view, and therefore it should not be assumed that any particular individual at the sessions subscribed to a particular point of view. Section 4 provides a commentary on some of the key issues emerging.

We greatly appreciate the constructive way in which stakeholders approached the discussions. Their perspectives are diverse and their input made it much easier to access the vast range of information which bears on the research questions.

2 The research questions

This study is primarily intended to identify the strengths and weaknesses of the RA programme, in light of work underway on broader housing affordability issues and Indigenous customers' access to mainstream housing programmes.

It is recognised that RA does not operate in isolation from other government programmes. RA is just one of several initiatives to deliver social policy objectives for housing: other important programmes include tax exemptions to homeowners (tax exemption of implicit income streams and capital gains), public housing and community housing. It follows that, to develop a good understanding of how effectively RA is operating and how it might be improved, it is desirable to understand the range of issues that exist in the housing sector, their potential remedies and the possible contribution of RA.

Moreover, RA may interact with programmes which are not directly concerned with housing outcomes. For instance, it is likely to interact in some way with labour market assistance policies and with assistance for people with a disability.

With this in mind, the focus group discussions aimed at broad perspectives on housing policies before exploring in some detail the operation of RA. The questions that were considered, grouped under themes, were as follows:

Theme 1: Difficulties in securing affordable and appropriate housing

What are the main types of problems with housing affordability? (e.g. access, financial, suitability to family needs, overcrowding, interaction with relevant economic and social networks, security of tenure).

Are there any particular subgroups of people unable to secure affordable and appropriate housing?

To what extent do the barriers to housing occupancy relate simply to inadequate financial resources and to what extent are other factors significant? (e.g. can people with different characteristics such as employed/unemployed access rental housing on similar terms? is rental housing simply unavailable in some areas, and if so why?).

Do access and affordability problems come together, or are there groups which are particularly prone to one or the other?

Having in mind that housing choices have impacts on a wide variety of other aspects of social and economic life, to what extent are people and families occupying housing that has adverse consequences and what is the nature of those adverse consequences? (e.g. family viability, domestic violence, developmental and educational outcomes, employment outcomes, health outcomes, social participation, crime).

Theme 2: Government housing programmes

To what extent do existing government programmes (Australian/state/territory/local government) deal with access and affordability problems?

What is the role of RA? What problems can it address well and what problems can it not address well?

Which types of problems need to be addressed by measures other than RA?

Are there any policy/programme interfaces that need to be addressed to improve the contribution made by RA?

Are there groups in the community that are “missed out” by existing government programmes?

Theme 3: Targeting of RA

How effective are the RA criteria in targeting assistance to where it is most needed?

Issues to consider include, but are not limited to:

- Range of eligible accommodation outlays (homeowners/purchasers, occupants of Commonwealth-funded aged care are excluded);
- Eligibility (must be in receipt of income support payment or FTB Part A at more than the base rate);
- “Situation” definitions (e.g. definitions of “dependent children”; older people in need of care at home);
- Thresholds;
- Subsidy rate; and
- Ceiling.

(see “Eligibility and payment scales for RA, June 2005” in *Overview of housing assistance in Australia – or see A guide to Australian Government payments, 1 July – 19 September 2005*).

What are the ways in which RA improves housing affordability for individuals and families through different “life events”?

- Family formation, including having children;
- Relationship breakdown;
- Transitions to independence (eg, young people);
- Participation in study; and
- Participation in the labour market.

How effective is RA in terms of addressing diversity of needs and supporting special needs (eg people with a disability)? What else is needed to improve this effectiveness?

Are there any aspects of need that are neglected with the current approach?

Theme 4: Operational issues

Are there any issues of concern with the RA service delivery procedures?

What other local and state government initiatives does the RA programme need to interface with because they directly affect other life needs (eg health, employment) that interact with housing need?

Are there partnerships or working relationships that need to be established, or which need strengthening?

What is the level of knowledge of government assistance including RA among potential customer groups (e.g. Indigenous Australians)?

3 Summary of opinions and perspectives raised in discussions

This section summarises the issues that were raised at focus groups comprising state and territory housing officials and representatives from a range of NGOs, and discussions with a number of academic researchers. These took the form of four focus group sessions (in Adelaide, Canberra, Sydney and Melbourne) with several NGO participants in attendance, one-on-one meetings with three NGOs in Darwin, and several one-on-one meetings with researchers active in the study of housing and related areas.

The sections below summarise the key issues raised by these groups on an unattributed basis. An attempt has been made to record all the relevant issues that were raised. There was a broad range of issues discussed and opinions expressed. There were differing opinions on some issues and the reporting of a point of view here should not be taken to imply that it had universal support. Appendix A summarises issues raised at the meeting with state and territory housing officials; Appendix B summarises issues raised at meetings with NGOs and academic researchers.

3.1 Difficulties in securing affordable and appropriate housing

Inadequate supply of affordable rental housing

Participants said that a key barrier to securing affordable and appropriate housing is insufficient supply. They said that there simply is not enough affordable rental housing to meet demand. This lack of supply is particularly pronounced for houses with three or more bedrooms, which are necessary for larger families.

Gentrification and urban renewal have tended to reduce the supply of suitable affordable rental properties, particularly in inner urban areas. Income growth is probably a major contributor as it causes bidding up of prices and rents.

This situation is exacerbated by:

- a long-term reduction in the public housing stock that has pushed people into the private rental market (and meant that more people will rely on private rental on a permanent, ongoing basis – see Yates 2002); and
- an increased tendency for middle to higher income households to occupy low cost housing stock (e.g. in inner city areas), reducing affordable housing stock for people on low incomes.

To some extent the consequences are ameliorated by rising (real) household incomes, but a low income household with a CPI-linked income source would be facing a serious deterioration in affordability.

Over time there is substantial investment in the private rental market but it tends to be at the top end of the market, e.g. targeting professionals as “desirable” tenants. The inadequate supply of low rent stock reflects inadequate investment at the lower end of the market.

It was noted that local governments also influence the establishment of affordable housing via planning decisions and that their support is critical in providing affordable housing development.

One participant observed that the private rental market is “expected to do an awful lot in Australia” in so much as it accounts for about 30 per cent of Australian tenures compared to just eight per cent in the UK. It was felt that in Australia the government is taking an increasingly “hands off” approach to housing while not adequately addressing the social desirability of the ensuing market outcomes.

Yates (2002) argues that it is common, but misleading, to represent private rental as a positive “choice” by households, reflecting the fluid nature of employment, relationships and decisions about where to live. In this view private rental is a convenient option during a housing career which is likely, later, to involve homeownership. Yates says that “there is sufficient evidence to suggest that, while these arguments may hold for a limited number of high income or high wealth households, for most, private rental has become a tenure of constraint, not choice”. Private rental is increasingly a tenure for the disadvantaged, and this means that housing support needs to target disadvantage in the private renter population.

Rental tenures are insecure

For many people in the housing market private rentals are less secure than public housing and homeownership. Private rentals have both physically and financially insecure tenures. Typically tenancies can be terminated at relatively short notice for reasons unrelated to the tenant (e.g. the owner sells the property), whereas this is rare for homeowners. Rental costs can also change significantly if market conditions so dictate, especially over the medium and longer term, whereas homeowners tend to be protected from increases in rents and/or house prices.

Tenure security is very important for some households, although not all. At a basic level, most people and families place a value on having some security that the networks that they establish around their choice about where to live will not be arbitrarily disrupted (e.g. friendships that are formed, community groups that are joined, even decisions about where to work). This can be particularly important for families with children.

It was argued that stable housing has demonstrated beneficial impacts in other areas of life – e.g. better education outcomes for children in families which move from the private rental market into public housing.

It was said that tenure security is also very important for people with a disability. One reason for this is the need to make capital outlays to improve the amenity of their dwellings. For instance, a person with a disability might need to install low benches or expand door frames for wheelchair access. But the amenity gains are recouped in the future, over what may be quite a long period. Where tenures are uncertain, there is uncertainty about whether the benefits of dwelling improvements will be recouped, and therefore a disincentive to make such improvements. A further reason is that it can take much time and effort for people with a disability to establish linkages with necessary support services and moving away means that it becomes necessary to start this process over again.

It was suggested that people who do not own their own homes who are reliant on income support and are approaching retirement are particularly at risk if rises in house prices over recent years translate into higher rents.

Discrimination

It was felt that discrimination is widespread in the private rental market. It was a commonly held view that landlords prefer to take professionals, and especially professional couples, as tenants. There were mixed views about landlords' attitudes to children – some participants thought that landlords avoid families with children whereas others thought they prefer them. There was a common view that landlords avoid people with insecure employment and people relying on social security incomes. It was thought that some landlords view some recently arrived immigrants negatively. It was unanimously held that Indigenous people are very disadvantaged by discrimination.

Public housing can compensate for this discrimination. However with a shrinking public housing system, the extent of any such remedies is reduced.

There was discussion about discrimination in public housing, e.g. refusal to allocate dwellings to some people.

Participants were also concerned about the discrimination that can occur on the basis of information held in "residential tenant databases". These are databases relating to tenancy histories which are compiled and made available by, for example, real estate industry associations and real estate agents. In concept they are akin to credit rating databases. One participant suggested that the most serious problem with tenant databases is people receiving adverse ratings who should not, as such a situation is quite unjust. While the situation of people who are accurately listed as having a poor tenancy history is also a problem, that problem is of a different character.

In particular, participants were concerned about: unwillingness on the part of database owners to give listed persons access to their own details (or imposing prohibitive charges for access); lack of review processes; non-transparent criteria for inclusion; inappropriate criteria for inclusion (e.g. factors such as "moral disapproval"); and the absence of statutes of limitation on listings. A case was mentioned where one real estate agent in a two agent town blacklisted good tenants to make it harder for them to leave his properties.

One participant suggested that there is a benefit from tenant databases in the form of better risk management for landlords and therefore enhanced incentive to invest in private rental housing.

Homelessness

It was said that there is an increased extent of homelessness, particularly in areas where affordability has been most adversely affected. Participants see this as a direct consequence of a lack of affordable housing, with failures in the private rental market being a key contributing factor.

There is an increased prevalence of people living long-term in rooming houses and caravan parks. In northern NSW there are "tent residences" because of a lack of conventional, affordable housing.

More people on low (or no) incomes are showing up in the homeless system, e.g. at SAAP services. When new SAAP services are introduced they fill straight away.

Discussion focused on the increase in levels of homelessness with the following groups being identified as particularly affected:

- Indigenous Australians;
- Families;
- older women, especially those who have previously lived with a partner, and can no longer afford to pay their mortgages or to rent housing that is safe and meets their ageing related needs; and
- young single people, affected by both under supply of housing for singles, and by not being able to afford to purchase or rent suitable housing.

SAAP funded services were described as facing the ongoing challenge of a customer group with increasingly complex levels of need, and a continuing high level of demand for their services. SAAP data were cited as showing that one in seven children will belong to a family that is a customer of a homelessness service, yet SAAP does not recognise children as separate customers (i.e. they are “accompanying children”). It was claimed that approximately 50,000 children each year receive support through SAAP and 88 per cent are aged 12 and under. The long term, intergenerational effects of this trend have not yet emerged, but it was said that they are likely to be adverse, including for example poor educational attainment and intergenerational welfare dependency.

Connection with other life outcomes

Participants said that access to affordable, appropriate housing has important benefits in other aspects of life. It translates to better community connections (associated with lower crime rates) and better health and educational outcomes. Poor housing outcomes, such as homelessness and overcrowding, were said to have a range of adverse outcomes – for example it was said that housing stability has been shown to have distinct benefits for children. They have better education outcomes and better family structures. Unstable housing situations have been demonstrated to be adverse for young people, for instance, in terms of undesirable behaviour patterns. And overcrowding has been associated with undermined child school performance, increased domestic disputation, inappropriate sharing of rooms by younger and older children, and poor hygiene and associated physical health problems.

Other costs associated with housing choices

Access to affordable housing was discussed in terms of location and access to a range of support and other services, and access to employment opportunities. Participants noted that some people – e.g. people at older ages and people with a disability – tend to be attracted to areas where the best assistance is available to meet their needs. If people leave high cost areas to find more affordable housing they may lose access to a range of support services and access to employment opportunities.

Participants also noted that there are variations in non-housing living costs from one area to another within cities, although there were mixed messages about the form of these variations. Generally participants suggested that lower housing costs on the urban fringe tend to be accompanied by higher non-housing costs, for instance in the form of transport costs. But it was also said that some costs can be higher in inner city locations (e.g. food and entertainment).

In addition, much low cost housing is old and energy-inefficient, and therefore subject to high utility costs, a problem that is often exacerbated by lack of connections to efficient energy sources such as gas.

Regional variations

Shortages of low cost rental housing are pronounced in Sydney, Canberra and Melbourne. They can also be very pronounced in small regional markets, particularly when economic developments occur that cause an influx of new workers. Problems are also commonly seen around regional university campuses.

There is generally a more severe lack of affordable housing in areas of high employment and, conversely, a relatively good supply of low cost housing in areas with poor employment prospects.

People with a disability

For people with a disability, the lack of suitable private rental stock is even more pronounced. This is in spite of the fact that some disability-friendly modifications could quite easily be incorporated, and at low cost, in the design phase (e.g. ramped thresholds rather than steps). While there are programmes to support people with a disability to make housing modifications, the delays can be very long (e.g. up to two years waiting for a kitchen bench top to be modified for wheelchair access).

The shortage of suitable stock also means that it is very hard for the people with a disability to move, for instance in pursuit of employment opportunities, or otherwise to improve their life circumstances (e.g. moving out of home or leaving an unhappy relationship). Moreover, location of housing is extremely important to assist with easy access to public transport or specialised therapeutic services.

It was pointed out that a person with a severe disability might have lifelong income prospects of around \$238 per week for a single person (i.e. the Disability Support Pension). Such a person could anticipate never having sufficient savings to purchase a home, and is therefore likely to be dependent on rental housing for life.

Indigenous housing issues

Many of the issues outlined so far apply to Indigenous Australians. However, the circumstances of Indigenous Australians are sufficiently different – and the extent and prevalence of their housing deprivation are so severe – that they are best discussed in their own right.

Indigenous families are on average larger than non-Indigenous families. This means that they need dwellings which house larger families. Moreover, non-Indigenous conceptions of the “family” fail to understand the kinship structures that exist in the Indigenous community. It is not unusual to have multiple families in a single household. This means that there is a demand for dwellings with shared living areas and two or three private family areas attached. Yet large dwellings are in short supply in many locations, both urban and remote, and multi-family dwellings are very rare across Australia. This is true not just in the private market but also in the public housing sector.

The consequences of this lack of supply for Indigenous Australians are exacerbated by widespread discrimination. It was said that discrimination is most prevalent in the private sector but is also reported to have occurred with public housing authorities on occasion.

Community housing allocations are also far from transparent. It was drawn to our attention that there is often a presumption that remote Indigenous communities are unified by a strong sense of common identity, whereas the reality is that they may be comprised of different clans with long running inter-clan tensions. In cases where one clan controls the allocation of community housing the allocation process can favour that controlling clan and neglect needy people from other clans.

It was said that Indigenous Australians are frequently found living in appallingly run down dwellings, living in overcrowded dwellings or homeless. For example, it was said that there have been as many as 19 people living in a house, with five or six people in a bedroom. Indigenous people's ability to access private rental is in many instances so low that the participants did not really think of it as an immediate solution. One participant said of the situation in remote communities:

The main problem here is shortage of houses and resulting overcrowding. RA will not alleviate the situation where there are no houses to rent.

Instead, participants' focus was on forms of assistance provided by programmes such as SAAP, public housing and community housing.

One participant, speaking of housing conditions for some Indigenous communities, especially outside Darwin, said that they are:

“horrific, there are people living in sheds ... The Minister has called for upgrades, but some are just so inadequate they cannot be upgraded. They have beds bolted to walls, no wet areas, common unsegregated ablution areas, no lights at night, decrepit structures, no taps inside, no flywire. Lack of ablution facilities can mean people using a bucket in the house to defecate during the wet. There are rats. There are children who are the 3rd and 4th generation living like this. They arrive in Darwin and are asked to provide a landlord with a reference!”

and went on to say that:

“Housing needs to be seen as a foundational element in life. It needs to be clean and not overcrowded. It needs to be a place kids want to come home to. Yet for many Indigenous people this could not be said of their housing.”

Overcrowding greatly increases risks of social problems. Another participant said:

“The more people are gathered in a house the more partying and consumption of alcohol. Overcrowding means you get inappropriate sharing of sleeping areas. Hygiene problems arise e.g., think of one toilet with 15 people. The risks of domestic violence and sexual abuse are heightened. On a financial level, the head tenant ends up with increased bills and cannot get contributions toward them. Mental health disorders are widespread and these living circumstances are not conducive to stabilising or successfully treating them.”

and went on to say:

“In this environment children fail to develop even basic literacy or numeracy skills. There is a generation of illiterate kids who are unemployable. Their education is so compromised that it is very hard for them to rejoin schooling”.

and, furthermore:

“Domestic violence is widespread and it’s not dealt with. A lot of it’s alcohol related. Around 70 per cent of police call outs in the Northern Territory are to do with domestic violence. When the police come they just defuse the situation but they never take it further because it’s just too hard – they can’t win. The perpetrator of the violence needs treatment for substance abuse and/or mental health problems but won’t seek it. The dwelling gets trashed and the woman is now on a tenancy blacklist for failing to care of the property. So the problem goes on.”

Cyclical homelessness is an observed phenomenon among Indigenous women (Cooper and Morris 2003). Its consequences have been observed to include decreased general and psychological wellbeing, socio-economic status and education opportunities, and increased domestic and family violence, anti-social behaviour, incarceration, and substance use/abuse.

3.2 Government housing programmes

Need for an overarching housing policy framework

Participants said that there is a lack of strategic coordination across jurisdictions in respect of housing policy and, related to this, that there is no coherent national housing policy framework.

It was suggested that inter-jurisdiction arrangements are handled better in the area of health and that some lessons might be learned from the health model.

RA and the CSHA were given as an example of two important policy instruments which operate with a lack of linkages and synergy with each other. RA was described as needing to be part of a broader housing assistance system rather than as a supplement to income support payments with eligibility criteria that have little to do with housing stress.

It was said that the housing policy framework should, from an overarching perspective, encompass both expenditure based (e.g. public housing, RA, First Home Owner Grant, etc.) and tax based (e.g. negative gearing, housing stamp duty, capital gains tax) housing interventions, as well as the range of different housing options – public, community, rental and homeownership. It was said that typical RA payments are small when compared to tax exemptions granted to owner occupiers (especially when compared to those in high value housing).

Government housing support should be applied more consistently across tenure types. Consideration should be given to allowing an RA type payment to assist low income people entering homeownership – e.g. RA type treatment of interest payments. New Zealand was cited as an example with a cross-tenure home supplement. As it is, it was said, the absence of support for homeowners is a disincentive to change tenure. A homeowner facing affordability stress who would be eligible for RA has an incentive to sell and become a renter, which may not be a good long-term outcome either for the individual or government as a provider of support.

It was said that the simultaneous needs to support people in different tenure types and to be neutral across tenure types mean that it is necessary to deliver assistance across tenure types to allow for a variety of housing career paths.

Any national framework would need to be sensitive to regional differences in the mix of problems that policies need to address. Policies need to be sufficiently flexible to allow the allocation of resources at the regional level to respond to specific and often unique regional needs.

Participants believe that there has been an increasingly “hands off” approach from governments to housing outcomes at the bottom end of the market. This is manifest, for instance, in the scaling down of public housing programmes. In addition, there has been inadequate governmental response to emerging difficulties such as affordability problems for renters in the private market, and affordability issues faced by homeowners.

It was also said that governments impede desirable reallocation of the housing stock, for instance with stamp duties. For example, older couples or single people whose children have left home are discouraged from moving to smaller residences, which would then free up their larger residences for families seeking this type of accommodation.

Supply-side versus demand-side intervention in the rental market

It was felt that many current affordability problems have their origins in supply side developments, such as the “house price boom” of recent years.

Participants expressed the view that remedies must also lie on the supply side. It was felt that without supply side measures any changes made to enhance the effectiveness of RA will be limited in impact. For example, some participants feared that simply increasing RA payment levels could be of limited usefulness because it could have the unwanted outcome of increasing rental levels unless the supply of affordable housing is also expanded.

Public housing is a supply-side instrument, but others are available. In the UK, developers in East London are required to allocate 30 per cent of new developments to affordable housing.

There is certainly a case for more demand-side intervention, such as an increase in RA ceilings. Current RA rates are too low and there are far too many households in housing stress.

Some participants thought that increasing RA would not be a cost effective solution and that other remedies should be considered. For instance, it was felt that negative gearing could be re targeted to stimulate increased supply of low cost housing.

Changed role and extent of public housing

It was said that there has been a long term move away from public housing by governments. As a result the public housing stock has not grown in line with demand and entry criteria require increasingly higher levels of disadvantage. Due to this, people are forced into the private rental market, but government assistance in the private rental market is less generous and the private rental market typically does not provide tenants with much security of tenure (most leases have durations less than 12 months).

It was said that public housing is qualitatively different from private rental in that it can be used to address discrimination and assist people with complex housing needs. Traditionally it has provided more security of tenure than the private rental market. Its affordability support is better targeted than RA and is more generous.

Particular problems arise because public housing offers much more than affordability support. Public housing is used to allocate housing to groups who are discriminated against in the market and it is used to promote the supply of stock for people with special needs. The fact that there is affordability support in the form of RA in the private market does not mean that these problems will be addressed (even if RA eligibility were comprehensive for people on low incomes). The scaling back of public housing has left a gap in the policy strategies used to address housing disadvantage.

Participants were also concerned that the diminished public housing stock has meant that managers increasingly use the stock as a “temporary support”, which means that public housing no longer offers the lifetime tenure security that it once did.

There was a widely held view that more resources need to be put into the public housing system.

Participants in Darwin were highly critical of the failure of the public housing system to deal well with Indigenous people’s needs.⁴ At a minimum there needs to be a large increase in the resources allocated for construction and maintenance of dwellings and to support the development of “homemaker” skills. There also needs to be a recognition that some problems – such as “drop in” visitation and domestic violence – are practically beyond the control of some tenants and public housing authorities need to find way to more actively deal with problems that can arise.

Policy imperatives in the private rental market

It was felt by many that the role of RA is unclear. People were perplexed by the tying of affordability support to income support payment eligibility rather than tying it to housing need and affordability benchmarks. It was felt that RA is really just a supplement to income support payments for a subset of people and families who are in housing stress, meaning that there is no programme to assist a significant number of needy people in the private rental market. Yet many participants identified needy groups in the private rental market that they felt deserved support. For instance it was said low income singles and couples without children, Austudy recipients and recently arrived migrants should receive support. And it was felt that support should be more generous for those on low incomes and in high cost areas. When asked to suggest solutions to these problems, many participants suggested an expansion of RA eligibility and amended entitlement calculations, to deliver support to these groups.

It was said that affordability is not the only problem that exists in the private rental market, but this is really all that RA addresses. It was said that other important issues it fails to deal with are:

- the supply of suitable rental housing which is collocated with jobs and social supports;
- security of tenure; and
- discrimination.

Promoting the supply of low cost rental housing

⁴ Perhaps, to some extent, this reflects the particular circumstances of the Northern Territory (where our sessions with organisations closely involved with Indigenous housing issues were held). The Northern Territory Government’s effort levels in the areas of homelessness, housing and Indigenous support were less than half what the Commonwealth Grants Commission assesses to be an average “effort” level – in spite of the fact that the funding formula compensates the Territory for the high needs that it has in these areas.

There was a widely held view that the supply of low cost rental stock is inadequate and that something needs to be done to encourage the flow of resources into low cost rental housing. It was said that, at the least, there needs to be more certainty about the future role and extent of RA to encourage institutional investment at the lower end of the market. But there is also a view that private markets cannot be relied on to bring forward the necessary response and that government intervention is needed.

One suggestion was to change tax structures to promote supply. For example, ACOSS (2005) proposes that deductions for negatively geared passive investments in property and shares should be limited to income earned from those investments, and not be deductible against wages and other personal income. The savings could then be used to fund a tax credit for investment in low cost rental housing, similar to the US Low Income Housing Tax Credit. A tax credit equal to 4 per cent of construction costs for low cost rental housing was costed at \$100 million in the first year of operation.

It was also suggested that more could be done to promote “portfolio” investment in affordable housing. This means the establishment of “funds” which raise money in the capital markets and use it to purchase – or construct – large numbers of properties for letting in the private rental market. This is in contrast to a market in which landlords are predominantly private individuals with one or at most a few rental properties (so-called “mum and dad” investors). It was said that portfolios could achieve better diversification of tenant risks than “mum and dad” investors and that portfolio investors would therefore be more willing to take on “risky” tenants.

A range of interventions to promote the supply of low-cost rental housing were raised as possibilities:

- increase the flow of funds from the capital market to social housing providers with a Commonwealth bond (AHNRC 2001, ACOSS 2003a);
- establish a stock exchange listed company as a vehicle for private sector investment in affordable housing (AHNRC 2001);
- set a prescribed ratio for investment in affordable housing for certain investment entities (AHNRC 2001);
- cease universal access to negative gearing concessions for property investors and target the savings to investors in low cost rental property (e.g. as in ACOSS 2003a);
- redirect development profits to investment in low cost rental housing (ACOSS 2003a);
- land tax reform (Yates 2002).

It was argued that increases in the supply of accessible, as well as affordable, housing for people with a disability should be encouraged, eg through legislation for standards that would result in generally more accessible dwellings.

It was noted that RA is not the only type of assistance in the private rental market. Assistance is also given in connection with other cash flow problems faced by low income groups in the rental market. Examples in Victoria include Bond Assistance and the Housing Establishment Fund, as well as consumer protection for private renters; there are similar schemes in other states.

Tenure security

It was suggested that there might be some value in encouraging long-term leases in the private rental market, for instance by introducing an RA premium for landlords entering into five or seven year leases with low income tenants. Another suggestion was to facilitate the introduction of shared equity products to assist income support recipients into homeownership.

Community housing

It was said that community housing plays an important role in the social housing sector. It gives more control to tenants, including security of tenure, a say in how the cooperative operates, and some control over who comes and goes. The “self management” aspect of community housing was seen as a real strength.

It was said that resources in the community sector are inadequate. The case was mentioned of Yilli Rreung Housing Aboriginal Corporation in Darwin which services a quarter of the Territory’s Indigenous population and has a building programme of five houses per year. It was felt that NGOs need more support to fulfil their roles in community housing. This includes resourcing and recognition of the changing nature of customers (e.g. the need to deal with “deinstitutionalisation” of people with behavioural problems).

SAAP

When there is an overflow from housing programmes it spills onto SAAP service providers. The failures of housing policy increase the SAAP work load. Participants pointed to an increasing demand for SAAP and inadequate indexation of funding for SAAP places. It was said that there needs to be an increase in the level of SAAP funding to match caseloads and then realistic indexation.

Interaction of RA with other social policy programmes

Participants were generally concerned that the “Welfare to Work” Budget measures would cut off support to deserving recipients, and specifically concerned that it could reduce eligibility for RA in undesirable ways.

Participants said that if RA were defined as a housing payment, rather than a supplement to other forms of income support, people in low paid jobs would be more likely to be eligible for assistance with housing costs.

3.3 Targeting of RA

It was felt by most that RA should be focused according to affordability criteria but that it is not. One participant commented that “of the existing recipients, a third don’t need it because they’re not under housing stress, and of the two thirds who do need it, only half are getting enough.” For example, it was said that 36 per cent of recipients still spend 30 per cent of income or more on housing. Participants said that there are problems both in terms of the way RA is distributed among eligible customers and who is eligible. Particular concern was expressed about the exclusion of some low income groups.

Treatment of eligible recipients

Participants noted that the available data shows that RA does help a lot of people. One said that “it reduces the proportion of customers paying over 30 per cent of their income in rent

from 67 per cent to 34 per cent”. However, participants pointed out that this means 34 per cent of RA recipients are still in housing stress.

A contrast was drawn with the UK system, under which the “gap” between rent paid and an income based capacity to pay benchmark is taken into account in determining rent assistance. In overseas systems it is common to see rent subsidies based on the gap between an assessed capacity to pay rent (e.g. 25 per cent of income) and either an assessed fair market rent or actual rent. Sometimes all of the gap is met by a rent subsidy, sometimes a fraction of it is covered. In contrast the Australian system does not include income as a determinant of RA.

A contrast was also drawn between RA and the implicit rent subsidies in public housing which are a consequence of a “25 per cent of income” ceiling on actual rent paid.

Many participants felt that RA should take into account income and use something like the public housing “25 per cent of income” ceiling on actual rent paid (or at least some realistically available rent).⁵ One participant said that “there is no sensible reason to set RA subsidies different from public housing.” The failure to take income into account means that RA is not closely targeted on affordability. Its adequacy is highly variable across different individuals.

However, some participants said that there is an advantage from not targeting on income as it minimises work disincentive effects.

The deficiencies of RA are exacerbated by the fact that the RA parameters (ceiling threshold, co-contribution rates etc.) are not varied to allow for different housing costs in different regional markets. The consequence is that there is more affordability support in low cost markets and less in high cost markets. There is therefore also a regional variation in RA adequacy. Many in the focus groups felt that some regional differentiation was needed, and these calls reflect the views put in earlier submissions by NGOs (e.g. ACOSS 2005 calls for the Australian Government to consider “the introduction of a ‘zoning’ system to take account of regional variations in rent” – p. 47).

The “economies of scale” rationale for the “sharers measure” is regarded as highly questionable. It was said that either the existence of such economies of scale should be demonstrated or the measure should be removed.

Concerns were raised that Indigenous customers may not be accessing RA. This is at least partly due to their habitation of community housing with rents set too low to attract RA.

One participant said that the provision of RA to some FTB recipients is “an add-on in what is already a generous part of the income support system”.

Eligibility criteria

It was felt that some groups are inappropriately excluded from RA support including:

- low income working households without children (the “working poor”);
- Austudy recipients;
- recently arrived migrants ineligible for income support; and

⁵ One participant also stated that this was the original objective of RA.

- people reliant on long term insurance benefits.

It was said that RA should be available to all low-income households, regardless of income source or employment status, and that one way to implement this would be to use the eligibility criteria as for the low income Health Care Card. It was acknowledged that there might be work disincentive effects with an income-related RA payment. However, it was felt to be grossly inconsistent not to extend eligibility to the working poor. Moreover, any disincentive effects would not necessarily be worse than the current situation.⁶

Care needs to be exercised with the RA treatment of separated families. The recent Ministerial Taskforce on Child Support has proposed that FTB should no longer be split where a non-resident parent cares for a child less than 35 per cent of the time (Ministerial Taskforce on Child Support 2005). However, the Taskforce recommends that RA eligibility should remain for parents who care for children 14 to 34 per cent of the time (subject to meeting other FTB criteria).

It was argued that, if one looks at RA in a holistic sense as an affordability support, it is arguable that it should be available to home purchasers in temporary financial stress. It could, for instance, take into account mortgage interest payment as a quasi rental payment. Where mortgaggers suffer financial setbacks, such as job loss or difficulties arising from marital breakdown, assistance would be available in a quantum similar to what would be received in the private rental market.

Adequacy

There was a general feeling that RA payment levels are inadequate (e.g. ACOSS 2005 has called for the maximum rate of RA to be raised by at least \$10 per fortnight). It was said that this had occurred because over time CPI indexation has not kept pace with trends in private rents.

It was said that too many people are on the maximum rate of RA, and that this is a reflection of the maximum rate being set too low for today's housing market.

Some of the most severe affordability problems are among social security-dependent renters in older age groups who live in high cost areas. There are people paying rents of more than 50 per cent of income. It was argued that some sort of "premium" or "gold" rent assistance should be introduced to deal with these older renters.

The 75c in the dollar subsidy

It was noted that many RA recipients are on the top rate and that therefore the 75c in the dollar subsidy would not affect marginal choices. It was suggested that the 75c in the dollar subsidy between the threshold and the ceiling "has a rationale as a mechanism to support consumer choice".

3.4 Operational issues

Few operational issues were identified by the focus groups. The ones that were mainly concerned the delivery of RA through the income support system.

⁶ Under the current structure there is arguably an RA-related disincentive to leaving unemployment. If RA eligibility were extended to working people on low incomes this disincentive would be removed. Thus although a disincentive to work more hours arguably would be introduced, there would also be an offset in the form of diminished disincentives to have a job.

Rent verification requirements were described as creating difficulties for some tenants because of landlord behaviour – for example, an unwillingness to issue rent certificates. It was said that Centrelink “assumes that tenants can and should be assertive in such situations, but some customers are unable to do this, or fear eviction if they challenge their landlord”. Centrelink was seen as needing to take more care with vulnerable customers as the withdrawal of RA can result in homelessness, which is a highly undesirable outcome.

Positive endorsement was received for Centrepay (a direct debit arrangement operated by Centrelink). It was described as “one of the best things Centrelink has ever done”. Both landlords and many RA tenants support Centrepay. “People think it’s great. It helps their budgeting, it makes landlords happy and it saves on bank fees.”

One participant said it would help if “trusted third party” arrangements which allow support groups to enter applications and information to Centrepay online were extended more widely. This would make it easier for those organisations to assist Centrelink customers.

4 Discussion of themes and issues emerging from focus groups

This section presents discussion of some of the key issues raised in the discussions. It does not try to reach conclusions about what the policy answers should be. It analyses some of the complex issues that were raised, drawing on factual evidence from previous research studies and considerations of how policies and programmes may interact.

4.1 Difficulties in securing affordable and appropriate housing

Supply shortages

Trends in the supply of low cost rental housing are explored in Yates, Wulff and Reynolds (2004). The authors note that between 1986 and 1996 there was diminishing supply of rental property at the lower cost end of the market (at constant prices) accompanied by a large increase in the number of low income households in the private rental market. They find that between 1996 and 2001 the private rental stock grew, but all of that growth was in properties in the top quintile of the rent distribution. Over the same period rising incomes reduced the number of households who “need” this low rent stock. Consequently, on one measure, the shortage of low rent dwellings declined from 150,000 in 1996 to 134,000 in 2001. But there was an increase in the proportion of the low rent stock occupied by middle and high income households. The authors conclude that the shortfalls were most serious in Sydney and Melbourne.

Non-shelter outcomes

Bridge et al (2003) conducted a very extensive review of the literature relating to housing assistance and non-shelter outcomes. Their findings are not specific to RA. They report that:

- Housing assistance can foster better educational outcomes by freeing up household resources to invest in education and training and by providing security of tenure and a stable learning environment. It can also, by improving the physical, social and economic foundations of neighbourhoods, positively influence education outcomes – but it can too have adverse effects, for instance if it produces spatial concentrations of poor households.
- The impact of housing assistance on labour supply depends on the design of the assistance programmes. (Empirical effects of affordability support are considered in more detail in projects described below.) Tenure is also a relevant factor, and it may be that homeownership and public housing occupancy reduce a person’s willingness to relocate in search of employment.
- Housing circumstances are correlated with curative health outcomes for some groups (notably older Australians and people with a mental illness). The connections between housing, ability to access support services, and health outcomes are cloudy. Certainly correlations exist between secure and adequate housing and some morbidities. Housing renewal can reduce morbidity and improve wellbeing and life quality (but is not guaranteed to).
- Overcrowding has been identified as a causal factor in increased infection rates and respiratory disease. It has ambiguous consequences for wellbeing and mental health, and perhaps an important question is how much capacity householders have to stop overcrowding when it does become problematic.
- Concentrations of public housing have been associated with high crime rates. There is a range of possible reasons for this, including poor design, a tendency for public

housing allocation mechanisms and/or self-selection to direct individuals with a predisposition to crime into particular estates.

- There are many studies suggesting that homeowners are more socially connected with their communities than renters. Homeownership has been said to have a range of positive non-shelter impacts but the isolation of explicit causal linkages is difficult. Homeownership is clearly associated with wealth accumulation.
- There are many studies that conclude that neighbourhood is an important influence on important outcomes for children and adults. However, there is much uncertainty as to just what features of a neighbourhood play a causal role.

Phibbs (2005) report the results of a study of non-shelter outcomes for people moving into public housing. On average the respondents reported improvements in health, feelings of safety and security, and school outcomes. There were mixed effects on labour market participation.

Bradbury and Chalmers (2003) investigate connections between changes in location, employment and housing affordability. They found that, compared to other income support recipients, unemployed people were more likely to move, and likely to move further. Younger and single people were more likely to move as were those with some non-benefit income or renting privately. People in high housing cost regions were also more likely to move as were those living in low unemployment regions, but often to other low unemployment localities.

Whelan (2004) uses the HILDA dataset to analyse the impact of housing assistance on labour market activity. He finds that “there is some evidence that receipt of RA reduces the likelihood that an individual is observed to be engaging in paid employment. Conversely the analysis of hours worked suggests that receipt of [housing assistance] measures, especially RA, does not impact on the choice of hours worked”.

With studies of this type there is uncertainty about the extent to which RA (or indeed any other form of assistance) causes worse labour market outcomes. In the absence of any government interventions at all, one would expect to see varying outcomes in the labour market. But people who would, in the absence of government housing programmes, get poor labour market outcomes, are more likely to be people that actually do take up housing programmes. Researchers in the studies cited attempt to control this. However, it is notoriously difficult to filter out these complications completely, and there is still some uncertainty as to the exact consequences of RA for labour market participation.

Wood et al (2005) also consider the impacts of housing assistance on incentives for labour market participation. In their study incentive mechanisms are explicitly modelled. EMTRs are used to capture incentive effects on hours worked and “Replacement Ratios” (RRs) are used to capture incentive effects on having a job or not.⁷ Inter alia the study shows that:

- Although recipients of government pensions and benefits have EMTRs which are substantially higher than those of non-recipients, RA itself generally does not boost effective marginal tax rates and therefore has relatively limited incentive effects on hours worked. This is in sharp contrast to public housing which does boost EMTRs. RA does not have much impact on EMTRs because it is not income-contingent; public housing rents are.

⁷ The replacement ratio is the ratio of the income support received without employment to the income received in employment. The higher is the ratio, the less is the gain from taking a job, and hence the less the incentive to take a job.

- Disincentives to have a job are on average smaller for RA recipients who are not on family payments. This conclusion rests on the fact that income support payments tend to be relatively smaller for this group whereas there assumed earning potential is not at so sharp a discount to family payment recipients.⁸
- The impact of RA entitlement itself modestly increases disincentives to have a job, particularly for recipients of non-family payments (e.g. using SIHC data the average exit RR is 63 per cent whereas it would be 59 per cent without RA). However, the disincentive effect is more pronounced for public housing tenants (e.g. using the SIHC data the average RR is 77 per cent compared with 68 per cent without RA).

Hulse and Randolph (2004) report the results of interviews of public and private renters in Sydney and Melbourne. A significant minority of public renters saw increased rents as a major cost of entering paid employment. In contrast, there was no indication that any loss of RA featured in the job decisions of private renters.

Discrimination

Participants said that discrimination is prevalent in the rental market. It is useful to distinguish between two types of discrimination: discrimination on “past history” and “profiling” (known as “statistical discrimination” in the economics literature). An example of the former would be discrimination against a person who has in the past defaulted on tenancy obligations. An example of the latter would be discrimination against a person simply because they are Indigenous. The distinction is relevant because discrimination of past history is in some sense a product of an individual’s own actions. Discrimination in the form of profiling definitely is not.

It is not surprising that landlords make use of easily observed characteristics to make risk assessments. The phenomenon exists because it is costly, and sometimes even impossible, to make detailed assessments of tenant risk at the individual level. In lieu of detailed assessments landlords often fall back on “rules of thumb”.

For instance, a landlord’s past experience may lead her to think that an employed professional is less likely than an unemployed person to default on tenancy obligations. When faced with a choice between a professional and an unemployed person as a tenant, the landlord could conduct a detailed investigation of the unemployed person’s reliability as a tenant. But it is costly to do that, and the landlord probably would not. The more likely outcome is that the landlord accepts the employed person. Discrimination of this type, commonly referred to as “profiling” is not a product of malice, rather it is a hard-nosed commercial decision.

While profiling may be rational and without malice, it is of course still potentially tremendously unfair. What it means is that people are judged not on their own past behaviour, but on the past behaviour of other people who a landlord thinks they are “like”.

In many areas of life profiling is explicitly prohibited. For instances, insurance companies are precluded from charging different premiums to people because of gender, age, race, etc. There are even prohibitions against differentiating premiums in respect of some characteristics that could be regarded as elective – for instance private health insurers cannot charge smokers more. Insurance companies tend to offer policies with standard wording and prices which are open to all comers which makes it easy to monitor and limit the extent of profiling. But rental housing is not offered in this way. Indeed many landlords own just one

⁸ There are some sizeable differences in the RR results according to whether they are calculated using HILDA or the ABS Survey of Income and Housing Costs.

or a few properties, so transactions are one-off and it is hard to clearly identify any discriminatory treatment. This makes it very difficult to stop profiling in the rental market.

One traditional solution to discrimination has been the public housing system. Homeownership is also a potential solution, albeit one that is not available to people who are unable to afford entry to homeownership.

4.2 Government housing programmes

Lack of an overarching framework

The absence of an overarching, national housing policy framework was often commented on. The development of such a framework would be a useful step. At the very least it would serve as a reference point when considering policy options.

Ideally an overarching framework would identify the horizontal equity consequences of existing government policies. There will always be some debate about what parameters to admit in an analysis of horizontal equity, but a useful starting point would consider the differential levels of support across different tenure types.

Support comes in a variety of forms: concessions on income and capital gains tax, government provision at sub-market rates (with implicit subsidies entailed) and cash transfers.

The following factors would need to be considered:

- The income tax treatment of a homeowner differs from that of a landlord in that: the value of the implicit rental stream is tax-free; capital gains are exempt from gains tax; mortgage interest deductions are not available. The value of these exemptions will generally be greater for individuals on higher incomes because the concessions are received at higher marginal tax rates. They will also be greater the higher the value of the property occupied. Wang, Wilson and Yates (2004) show that the extent of concessions is greatly influenced by mortgage status (based on 1999 figures outright owner households had an average \$3,200 concession compared with negative \$300 per year for mortgager households).
- Homeowners also receive other tax concessions not generally available to landlords such as land tax exemptions. There may also be concessions embedded in the states' stamp duties applying to housing transactions.
- As far as GST is concerned the implicit rent of owner occupiers is notionally "input taxed" and this is also true for most private rentals, including caravan parks.
- Upon entering homeownership for the first time there is a widely available "First Home Owner Grant" which could be conceived of as capitalised affordability support.
- There is an implicit subsidy to public housing tenants. In contrast to the tax concessions available to homeowners, implicit subsidies for public housing tenants are negatively related to income.
- Some private renters are eligible for RA (Wang, Wilson and Yates report average assistance of \$2,470 per assisted household in 2001-02) while some get none. There will be a negative correlation between RA and income. However, the "fit" will be

highly imprecise. People with like household and dependent circumstances, and with equal incomes and rents, will get quite different RA support.

- Some specific programmes also provide a significant measure of support to some relatively small populations – viz support to homeless people via SAAP and support to people in aged care residences. While these programmes may be small in the scheme of things, they cannot be treated as peripheral in a holistic framework as they are of great importance to the affected customers who may not access other support programmes.

Significant parts of the data that would support such a framework are collected under the CSHA and analysed by the Australian Institute of Health and Welfare and its associated researchers. Their work paves the way to study how the tenure-dependent character of housing supports leads to breaches of the horizontal equity principle. It would then be interesting to ask why cross-tenure variations exist. Can they be rationalised on incentive and efficiency grounds? Or are they simply a result of administrative and political expediency? The answers to these questions could be extremely useful to make the different arms of housing policy work together better, including in targeting resources to areas of highest priority.

It is interesting, for example, to consider the tax concessions afforded to owner-occupiers. Table 4.1 shows the annual tax concession available to the owner-occupier of a \$337,000 dwelling.⁹ The value of the concessions can be determined by calculating the income tax that the owner would be liable for if owner-occupied housing were subject to taxation of yields and capital gains with deductibility of mortgage interest rates. The value of the concessions depends on both the equity in the home and the owner-occupier's marginal tax rate. It can be seen that the concession is larger (a) the greater the degree of equity in the home and (b) the higher is the individual's taxable income.¹⁰ For a homeowner with an income of \$50,000 and a 50 per cent equity stake, the concession is worth about \$2,000 per annum. A homeowner with an income exceeding \$95,000 and 100 per cent equity receives a concession of about \$8,700 for the same house.¹¹

Table 4.1
Annual value of owner-occupier tax concessions at different marginal tax rates and equity levels

Income range	Marginal rate (Per cent)	Equity (per cent of dwelling value)				
		0	25	50	75	100
\$0 - \$6,000	0	-	-	-	-	-
\$6,001 - \$21,600	15	-\$758	\$126	\$1,011	\$1,896	\$2,780
\$21,601 - \$63,000	30	-\$1,517	\$253	\$2,022	\$3,791	\$5,561
\$63,001 - \$95,000	42	-\$2,123	\$354	\$2,831	\$5,308	\$7,785
More than \$95,000	47	-\$2,376	\$396	\$3,168	\$5,940	\$8,711

* Calculations assume property value of \$337,000, 4 per cent rental yield, 3 per cent average annual capital gain taxed on an accrual basis at half the marginal rate, and mortgage interest rate of 7 per cent.

⁹ This was the median first home price in the June quarter 2005 (HIA–Commonwealth Bank 2005).

¹⁰ The comparisons here are over the same house – i.e. the median first home. In reality high income earners occupy more valuable homes than low income earners and the scale of differences in tax concessions will be much greater than what is shown here. However, confining attention to the median first home owner sets aside the complicating issue of whether externalities are larger when more valuable homes are held by owner-occupiers.

¹¹ The comparisons here are at a point in time. More robust comparisons could be had by using a lifetime analysis, as is done for indirect tax exemptions in Cameron and Creedy (1995), but the data compilation is then considerably more complex. One could predict that considerable differences would still exist between people who rent for their whole life and people who buy homes (especially those who pay them off early in their lives). However, the contrast between recent home purchasers with low equity and long-time home owners with high equity would be less relevant in the lifecycle framework.

While an externality argument for different treatment of different tenure types might be put forward, as in Gans and King (2003) in respect of homeownership, it is hard to see why that concession would vary according to income levels and equity levels. It is not clear how the vastly different rates of concession seen in Table 4.1 cannot be justified on welfare grounds.

Role of public housing

On several occasions participants suggested that there should be an expansion of the public housing stock. But this view is not universally shared – for instance Gans and King (2003) are critical of public housing as an assistance measure on the grounds that it denies recipients of housing assistance a degree of choice about what housing to access. In principle a government agency could make the optimal housing choice for an individual but in reality that is unlikely to happen because it cannot have perfect knowledge of an individual's priorities and preferences. Devolving the decision to individual households may significantly improve outcomes. For instance, public housing tenants who need to move may find that their options are confined to the relatively small pool of vacant housing stock in the public system. The benefits of a wider range of choices could be quite significant (they might, for instance, mean substantially reduced commute times to work or getting a child into a preferred school).

This raises the important question of what it is that separates public housing from private rental housing.

One important difference is that the implicit subsidies to public housing tenants are in some instances more generous than the subsidies available to tenants in private rentals. This in itself would not seem to constitute a very strong ground for public housing in preference to private housing – there could be some harmonisation of the affordability assistance offered in public and private housing. The actual level of the assistance could then be addressed on its merits and applied synchronously to the two tenure types.

But the arguments for public housing go beyond this. Two important additional features of public housing are that (a) it provides greater security of tenure to tenants and (b) it can be operated in a non-discriminatory fashion to assist those who are likely to be precluded in mainstream housing markets.

It is possible that private markets could provide more security of tenure, for instance by offering longer term contracts. There might be more inclination to do this if there was a greater presence of portfolio investors in the rental market. For small investors it is possible, but by no means certain, that long tenure arrangements are seen as adversely affecting the marketability of a property. It is probably also relevant to take into account the ways in which long term leases bind. Public housing tenancies are beneficial to tenants in that they give the tenant security without requiring the tenant to commit to a long term lease. In private rental markets, on the other hand, long term leases would typically involve two-way commitments, and would typically involve higher rentals where the tenant reserves the right to terminate on short notice. In this sense public housing offers a concession to the tenant beyond what is revealed in a straight comparison of rents.

It is possible as well, in principle, that governments could address discrimination in the private rental market. One approach would be to subsidise the rent payments of groups subject to discrimination, effectively paying a premium for certain kinds of tenants. But this

would be problematic. Choosing the right premium would be difficult and there would also be potential political difficulties in setting different subsidy rates according to factors such as race. A much more practical approach would be for government to act as guarantor to private rental tenants. A uniformly available guarantee would provide more (implicit) assistance to those who need it more, without government needing to make assessments or manage differentiated rates of assistance.

Guarantees are probably important to an increasing part of the community. According to Powall and Withers (2004), Australians' employment arrangements have become less secure. For instance, between 1993 and 2003 the proportion of Australian employees who were in casual employment arrangements increased from 22.7 per cent to 27.6 per cent (Parliamentary Library 2004). While this sort of labour market flexibility may have benefits to some employers and workers, it is unlikely to be viewed positively by landlords.

The possibility should also be admitted that governments may wish to override the choices of individuals on externality grounds. For instance, in South Australia the public housing authority for many years had a policy of providing public housing in desirable neighbourhoods to avoid concentrations of disadvantaged tenants in areas where they are effectively disconnected from other parts of the community. The operation of individual choice in private markets cannot be expected to produce this result.

Finally, it should be remembered that in some areas there simply is no deep private rental market, and in those cases the private rental market would not appear to offer any advantage in terms of diversity of choice. It is possible that private development could occur if a more supportive institutional environment emerged but government would need to take a much more interventionist role in the private rental market than it currently does – for instance offering guarantees. Public housing would seem still to have an important default role until, if ever, a satisfactorily functioning market solution can be found.

Policies to promote supply

Participants frequently mentioned “supply-side” and “demand-side” interventions. The distinction is set out in Gans and King (2003) in the following terms:

Supply-side policies aim to directly influence the supply of low income housing while demand-side policies aim to influence this supply indirectly, by increasing the ability of low income households to afford housing. Thus demand-side policies aim to improve low income access to housing in the short run and increase the supply of low income housing as the market reacts to the changed demand in the long term.

As Gans and King note, supply- and demand-side interventions can have the same effects. Yet in our discussions there was a common presumption that supply- and demand-side policies would have different effects. Very commonly this was due to differences in the targeting of the policies. For instance, a subsidy to providers of low cost housing should have similar effects to a support payment to occupiers of low cost housing. But it will not have the same incidence as a support payment confined to low-income occupiers of low cost housing. The difference really arises from the targeting regime more than the side of the market on which the intervention occurs. When comparing proposals for intervention in the housing market it is useful to keep the matter of targeting to the fore: Who is being assisted?

A range of measures were proposed to increase the supply of low cost rental housing such as:

- tax concessions to landlords;
- measures to increase flexibility in the allocation of the existing housing stock;
- development quotas;
- a more generous RA scheme; and
- a more certain RA environment.

Wood, Watson and Flatau (2005) simulate the impact of a tax credit for investors in low cost rental housing. What they model is similar in substance to the Low Income Housing Tax Credit (LIHTC) scheme that operates in the US, but with the important qualification that they do not incorporate an allocation mechanism to direct low cost housing to low income families (whereas the US scheme does incorporate this). The simulations find that among the poorest 20 per cent of Australian households, the scheme reduces the incidence of housing stress from 77 per cent to 72 per cent. The authors note that better results could be had if there was also some targeting of the low cost stock to low income households. Their analysis also highlights interactions between supply- and demand-side policies: by causing a moderate decrease in rents, the LIHTC actually reduces RA payments, and this is a budgetary offset.

The work of Wood and his co authors shows just how important targeting mechanisms are in understanding the impact and cost of interventions in rental markets (the point is also made in Yates 2002). It seems likely that many of the differences between demand-side and supply-side policies actually arise because of differences in the targeting regime bundled with each. It is important to know this because it may mean that policy comparisons of affordability measures are to some extent comparisons of different targeting regimes. Of course affordability is not the only relevant dimension of the supply- or demand-side choice – tenure types, discrimination, provision of suitable stock are also important relevant factors.

One of the arguments put forward by participants was that there would be advantages in promoting “portfolio” investment. While this argument may have some substance it needs to be carefully considered. Firstly, the idea was sometimes bundled with community housing, i.e. an NGO running a portfolio of properties. Where that is the intended model, the supply benefits that arise may be more to do with the concessional nature of the cooperative’s rental policies than with a portfolio model per se. Secondly, if one considers the case of a portfolio operating to a purely commercial model, the question arises whether it would behave differently from a small investor. While it is true that a portfolio can diversify risks, and therefore reduce exposure to large adverse events, diversification cannot totally remove bad risks.¹² A portfolio may be more willing to “take a chance” but will still be motivated to avoid bad risks and will expect to be compensated when it takes them on.. And while it is possible that portfolio investors could find new ways to deal with bad risks, their options are limited. For instance, requiring larger bonds is often prevented under legislation. Thirdly, incentives to portfolio investment would seem more likely to have an effect if accompanied

¹² The point can be illustrated with an example. Assume there are two types of tenants, “good” tenants and “bad” tenants, and that the landlord expects to receive a rent of \$4,000 over a coming six-month period. It is known that with a good tenant the landlord will definitely get his \$4,000. But with a bad tenant there is only a 50 per cent chance that he gets the \$4,000. For a landlord with just one tenant the “expected” return (in a statistical sense) is \$2,000 but there is a high degree of uncertainty about what will be received – it may be zero or it may be \$4,000. Thus the bad tenant has two undesirable features to the small landlord. The first is that the expected return to the landlord is just \$2,000, compared with \$4,000 with a good tenant. The second is that the return is uncertain. Now with a portfolio approach the uncertainty can be diversified away, but the low expected return cannot. With a large portfolio, say a portfolio with 100 “bad” tenants, there is a high chance that about 50 will default and 50 will not. Thus the return has a reasonably degree of certainty – on average about \$50 per tenant. But this is still much inferior to the \$100 received from a “good” tenant. The portfolio approach diversifies the uncertainty, but it does not correct for the lower expected return from a “bad” tenant.

with incentives to rent to people in housing need. But in that case it might be just as effective to provide incentives to rent to the needy but remain neutral on whether investment is carried out by individuals or channelled through portfolios.

It was suggested in the consultations that “empty nesters”, whose children have left home and who therefore find themselves in houses larger than they need, should be subsidised to move. Any consideration of this issue should also consider the extent of any impediments from taxes such as stamp duties on property transfers. This issue is very problematic because these stamp duties are one of the few ways that exist to extract tax contributions from owner-occupier property owners in line with services provided to them. However, they are much inferior to consistently-applied taxes on property, such as land taxes with minimal exemptions, mainly because they tax transactions in property rather than the property itself. They are a tax on moving, rather than a tax on property.

Extension of RA

One of the difficulties with any widespread extension of RA is the budgetary costs. It is possible that with a more clearly enunciated housing framework it would be possible to reallocate resources from other forms of housing assistance.

A second concern that may arise is that enhanced RA would flow through into higher rents. To believe that an increase in RA would be dissipated in higher rents and higher prices one would have to believe that:

- (a) the enhancement was large in the scheme of things, and
- (b) the supply of housing is inelastic.

Supply elasticity is likely to vary for different sorts of housing. Supply will be inelastic for old, run down stock which is amenable to renovation. Its supply is, definitionally, inelastic – it is not possible to make more old houses. So if there is a surge of interest in occupying residences of this type, then rises in prices can be expected. But the supply of new dwellings is likely to be more elastic. This then leads to the question whether there are, more generally, certain geographic areas in which the supply of housing is inherently inelastic. The answer to this question must be that, in general, there are not physical constraints which make it overwhelmingly difficult to increase the housing stock. By and large it is possible to expand the housing stock within geographic areas by introducing higher-density housing. However, if high density housing is more costly to build it may be accompanied by a permanent ratcheting-up of housing prices. Forces like this may be at work over the medium term for those areas of major cities which have experienced urban consolidation (e.g., Sydney and Melbourne).¹³

Planning policies have a potential impact. To the extent that local planning policies impede increases in urban density, supply will be less elastic and a greater flow through to rents and prices could be expected. In some rapid-growth areas there are planning policies to impede the growth of the housing stock. These policies might be implemented on grounds of infrastructure burdens or in terms of the urban amenity of the extant community.

Planning policies may also have an impact via selective development policies. If councils are not enthusiastic to have low cost housing, and use development controls to discourage it, then the consequences are potentially significant. If low cost housing is associated with

¹³ Associated with it there has no doubt been a surge in the value of underlying land parcels (which are in fixed supply).

households with social difficulties, there is a potential for “not in my back yard” factors to influence development policies.

In our discussions little was said about the impacts – positive or negative – of local government.

Last resort assistance

There is a complex range of government programmes operating in the housing market. Those policies, and the environments in which they operate, will change over time, sometimes with consequences that were not predicted. It is important to pay careful attention to the caseloads of “last resort” programmes, such as the SAAP, and for government to be ready to respond rapidly to changing demands on such programmes. In addition, careful attention should be given to “unmet demands” at a point in time. This would involve analysis of the characteristics of demands that were not met, the reasons that they were not met, and consideration of whether they should be met.

4.3 Targeting of RA

National Shelter and ACOSS (2003) summarise RA’s performance in delivering affordability in the private rental market. They report that over 35 per cent of RA recipients spend more than 30 per cent of their incomes on rents, that the RA programme does not extend eligibility to many low income workers and students and thus does nothing to deliver affordability to these groups, and that the numbers affected are large”. Australian Bureau of Statistics (2005) reports that among the whole population of private renter households in Australia in 2002-03, 32 per cent spent (541,000) spent more than 30 per cent of their income on rent. 11 per cent (188,000) spent more than 50 per cent of their income on rent. In discussions it was pointed out that RA is also available to many who are not in affordability stress.

It should of course be kept in mind that there is no indisputable standard for calculating housing stress. In fact there are degrees of housing stress. In discussions there seemed to be very great weight put on a 25 per cent benchmark, possibly because this is the standard ratio used in public and community housing.

Wood, Forbes and Gibb (2005) examine the incidence of housing stress in 1996-97, comparing public and private rental tenants using a range of stress measures. They note that public housing rental formulas around Australia typically set rents no higher than 25 per cent of household income. That being so, one might expect to find no public housing tenants in stress using a 25 per cent benchmark. However, there is some variance between states and territories in the income definitions used and there are some unusual consequences arising in multiple income unit households. Moreover, Wood et al produce an “equivalent income” measure which is better suited for comparison of different household types. As a consequence they do report some housing stress in the public housing population.

Table 4.2 summarises some of their results. Using a 25 per cent stress benchmark, and after subsidies, 31 per cent of private tenants are in stress compared with 37 per cent of public tenants.¹⁴ But looking at the bottom of the income distribution for the two renter groups, a

¹⁴ The figures for public housing are surprising, as public housing authorities usually set rents with something like a “25 per cent of income” rule, in which case there would be no cases of stress using the 25 per cent benchmark. The authors discuss the anomaly and conclude that it relates to differences between the income measures used by state housing authorities and the income measures in the authors’ dataset. One important factor is that the figures cited here relate to an “equivalent income” concept that adjusts for household size and composition. If one uses more straightforward income measures the degree of stress

much higher proportion of private tenants are in stress than public renters (67 per cent versus 33 per cent). This result is consistent with the targeting arrangements that are in force. Public housing subsidies, other things equal, are larger for low income households. In private rentals, on the other hand, subsidies are not tied closely to income. At higher-level stress benchmarks a similar theme emerges – on average private tenants are no more stressed than public tenants but private tenants on low incomes are much more stressed.

Table 4.2
Incidence of Affordability Related Housing Stress at Different Stress Benchmarks

	Stress benchmark: rent as a proportion of income*		
	25 per cent	30 per cent	40 per cent
Proportion of whole sample in housing stress:			
Private tenants – after RA	31	22	12
Public tenants	37	26	13
Proportion of bottom two income quintiles in housing stress:			
Private tenants – after RA	55	43	29
Public tenants	33	32	12

* Calculations for equivalent income are reported.

Wood and his co-authors also consider the “targeting error rate” for RA. The logic of the measure is that if RA were perfectly targeted then every household with rent exceeding 25 per cent of income (or some other such benchmark) would get RA and no house with rent less than 25 per cent of income would get RA. Using the 25 per cent benchmark, the target error rate is 24 per cent (17 per cent of households do not get it, but should, whereas 6 per cent do get it but should not). The error rate is a bit lower using a 30 per cent benchmark. It is higher using a 40 per cent benchmark, particularly in terms of households in stress but not being assisted.

It was often said that RA is not well targeted to households in housing stress. Figures like those above certainly bear out that contention. There are ways in which RA targeting could be improved:

- An income element could be introduced to the entitlement calculation, as happens with public housing assistance for instance. But this has the drawback that it introduces potential work disincentives. There is a difficult decision here as to what is the right balance between ameliorating housing stress and introducing potential work disincentives.
- Another possibility would be to extend RA entitlement more broadly. As it is, “stressed” households that are not eligible for income support cannot receive RA.
- The maximum rate of RA could be regionally differentiated. It seems likely that a reallocation of RA to direct more into high cost markets would reduce the extent of housing stress.

As noted by Hulse (2002) Australian income security policy has tended to emphasise equal treatment across the country. Such frameworks may allow some regional variations in

among public renters is much smaller: 20 per cent of public tenants spend more than 25 per cent of their “gross income” and 22 per cent spend more than 25 per cent of their “disposable income”.

relevant outcomes. To illustrate, there is a rent range over which RA varies. If “fair market rents” in different regions fell within this range, then the RA scheme might be said to allow for regional variations in costs. People in cheap regions would have rents at the low end of the range and smaller RA payments while people in expensive regions would have higher rents and higher RA. But in fact many people are on the ceiling rate of RA. The capacity of the current structure to produce RA outcomes sensitive to regional cost differences would seem to be quite limited.

This in turn raises the question why the 75c in the dollar range exists at all. It would of course be possible to have a flat rate of RA (differentiated by household type) for each housing market. Renters could then go into the market knowing that they would keep any rent savings that they managed to make and would incur the full costs of any excess rent that they accept. As it stands, there is not much incentive to try to save rent over the 75c in the dollar range (the tenant keeps just 25c in the dollar of any saving). This may contribute to some clustering at the rent ceiling.

There are two possible rationales for the 75c in the dollar element. Firstly, if one thought that rent variations within regions were largely out of control of tenants, then one might choose to compensate for them. Secondly, one might think that household is some sort of “merit good” deserving of subsidy. After all, owner occupier exemptions are correlated with the value of the housing too.¹⁵ Just how strongly these reasons support the 75c in the dollar subsidy is an unresolved empirical question.

The first of these two reasons may have a bearing on the issue of regional variations in rent. If one starts from the assumption that peoples’ locations are a given, then it seems clear that there are inter-region variations in rent that are unavoidable. The question then is to what extent RA addresses those variations and whether it should. An argument can be mounted that it is horizontally inequitable not to: as it is, for renters in like degrees of housing stress, RA provides a degree of relief that varies significantly across regions. (See Johnston 2002 for further discussion.)

If one does not take location decisions as a given, then a case against regionally based rates of RA could be made along the lines that it is not desirable to promote relocation into what are already high cost markets. This rationalisation sits uneasily alongside policies surrounding unemployment assistance which penalise unemployed people who move to areas with poor employment prospects. However, policy could be constructed on the basis that (a) RA strives to be neutral over location choices and therefore not to exacerbate pressures in the housing market, and therefore does not vary across markets, and (b) unemployment assistance is targeted according to job prospects. In this view each policy is allocated to a single objective. Unemployment assistance may lead to different effects on different housing markets, just as industry location choices, technological changes and lifestyle choices do. An implication of this view is that horizontal inequities (which would appear to be quite large) are simply allowed to persist. In this context it is interesting to note recent comments by the Governor of the Reserve Bank of Australia, Mr Ian McFarlane (2005):

In dollar terms Sydney is still way more expensive than anywhere else in Australia. I think it is so expensive that it is in the interests of people, particularly a lot of young people, to go elsewhere to where their lifestyle is more affordable.

¹⁵ The valuation of tax exemptions for owner occupiers is not entirely straightforward. Account needs to be taken of the facts that: the implicit rental income stream is not taxed at the owner-occupiers marginal tax rate; mortgage interest payments are not deductible; and capital gains are not taxed at the normal rate (which is half of the marginal rate). Moreover, the marginal rate depends on the circumstances of the owner. The value of exemptions is likely to correlate more closely with housing equity than with housing value, but there is still likely to be a correlation with housing value.

It was argued that in high cost locations it is difficult to attract key workers such as teachers, nurses, police, etc. and that housing policy should seek to address this (the “key worker argument”). It needs to be recognised that the adoption of such an objective is a significant qualitative departure from the objectives that are usually cited in the context of housing assistance. It would mean that, instead of targeting affordability and access across the board, housing policy would be assigned the role of assisting employers to save them the cost of offering higher wages or housing assistance to attract key workers. This potentially means transferring resources from people with housing stress to the employers of key workers. Of course if housing policy maintained an emphasis on providing assistance in correlation with housing stress, this would not preclude key workers having access to affordability supports on the same terms as “non-key” workers, or indeed non-workers.

One issue that was frequently raised was the failure of Indigenous Australians to access RA. This may be because they have a substantial presence in community housing, where rents are highly concessional, and indeed to such an extent that tenants do not qualify for RA or qualify for only small amounts of RA. With this in mind, it is arguable that affordability assistance is delivered, but simply delivered via different channels (i.e. non-Indigenous people are more likely to get assistance via RA and Indigenous people are more likely to get assistance via community housing). This is not to deny that some special response to the plight of Indigenous people is required – in our view it is the deepest failing in the current policy mix – but rather that something more than conventional affordability support is needed.

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Appendix A

State and territory housing officials' perspectives

This section documents some specific matters of detail that were raised at a focus group comprising state and territory housing officials but which are not included in the summary in Section 3. Representatives from the jurisdictions were not asked to make formal submissions and, in accordance with this, the ideas that were raised are documented here on an unattributed basis. There were differing opinions on some issues and the reporting of a point of view here should not be taken to imply that it had universal support.

A.1 Difficulties in securing affordable and appropriate housing

One suggestion made to address the demand-supply imbalance in affordable housing was to place more focus on social housing and to pay a higher rate of subsidy to organisations that provide housing at below market costs. This was seen as helping to reduce inflationary pressures, and as preventing a transference of RA payments into profits for landlords.

Governments need to encourage private investment in low cost housing, and because RA plays a critical role in making this affordable for some groups, it was seen as important to convey the message that it will be part of a long term provision of assistance by government. Participants pointed to research which shows that a subsidy needs to be provided in order to encourage private investment in low cost housing.

Generally participants suggested that lower housing costs on the urban fringe tend to be accompanied by higher non-housing costs, for instance in the form of transport costs. But it was also said that some costs can be higher in inner city locations (e.g. food and entertainment).

A.2 Government housing programmes

It was said that there is a lack of strategic coordination across jurisdictions in respect of housing policy. A comparison was made with health, which is also an area in which jurisdictions share responsibilities. It was suggested that the model that applies in health policy, whereby state, territory and national ministers meet regularly and share responsibility for the national health system, was identified as an appropriate model for housing. In the area of housing policy, current coordination mechanisms were described as relying on an annual meeting of Australian Government, state and territory ministers. Participants regard the current approach to housing policy as "fragmented".

RA and the CSHA were given as an example of two important policy instruments which operate with a lack of linkages and synergy. RA was described as needing to be part of a broader housing assistance system rather than as a supplement to income support payments with eligibility criteria that have little to do with housing stress.

Participants felt that in many cases the best outcome that governments could facilitate is homeownership. That said, it is important to recognise that most of the needy are not homeowners and are not in the short term able to become so. Programmes need to maintain a focus on the needy, which means delivering support via public housing, RA or other mechanisms. There are people who will rent all their lives.

It was suggested that the current practice of delivering affordability support to the economically disadvantaged via public housing and RA, but with no support available to homeowners, may impede transitions out of renting into homeownership (i.e. people on low incomes who are eligible for support from public housing or RA will not get that support if they become homeowners).

It was said that the simultaneous needs to support people in different tenure types and to be neutral across tenure types mean that it is necessary to deliver assistance across tenure types to allow for a variety of housing career paths.

Any national framework would need to be sensitive to regional differences in the mix of problems that policies need to address. Policies need to be sufficiently flexible to allow the allocation of resources at the regional level to respond to specific and often unique regional needs.

A.3 Targeting of RA

It was noted that RA relates only to rent whereas there are other housing expenses that can contribute to affordability stress (e.g. costs like gas or electricity).

RA does not offer help to “key workers” – for example, those in the hospitality industries, nurses, childcare workers – in high cost locations. It can be difficult to attract key workers to high cost locations.

People reliant on long term insurance benefits were also identified as excluded from RA support.

Participants identified a need for nationally agreed benchmarks to measure housing affordability. The current approach was described as a “budgeting standards approach” that focuses on money left after housing to meet other needs. This was seen as shifting the focus to adequacy of income support. Appropriate benchmarks, by contrast, would focus more on the level of housing stress.

Participants expressed the belief that the poor targeting of RA can be partly attributed to its delivery mechanism, whereby it is paid as a supplement to an income support payment, rather than as a specific housing support payment determined mainly with reference to an individual’s capacity to afford housing. It was suggested that an alternative delivery mechanism, such as licensing the payment to the states and territories, would allow more critical housing needs to be specifically targeted with a consequently improved distribution impact (but it was not made clear what specific targeting improvements would be made or why they could not be achieved under Australian government delivery).

A lack of flexibility in assessing eligibility was seen as impacting on RA’s targeting capacity. At present, the amount of rent paid, income support payment eligibility and household structure are used to determine who receives assistance and how much. Officials believe that improved outcomes could be achieved if the range of variables used to determine who receives assistance and overall programme requirements were expanded. For example, the system used in the United Kingdom was described as being more flexible because payments are based on other relevant personal circumstances – such as income. However, any increase

in flexibility would need to be costed as this could increase the programme's total cost, as occurred in the United Kingdom and led to a tightening of eligibility criteria.

The scope of RA was seen as being able to be broadened to include different tenure types, including homeownership. This would address an alleged failure of the existing policy structure to provide affordability assistance to low income homeowners. Easing the move to homeownership was seen as also helping to address the problem of middle-income earners remaining in low cost housing rather than moving on to homeownership (and thereby exacerbating the under-supply of low cost public and private rental housing).

Appendix B

NGOs' and researchers' perspectives

This section documents some specific matters of detail that were raised at focus groups with NGOs and at meetings with a number of academic researchers. The ideas that were raised are documented here on an unattributed basis. There were differing opinions on some issues and the reporting of a point of view here should not be taken to imply that it had universal support.

B.1 Difficulties in securing affordable and appropriate housing

The disappearance of the low rent stock is related to income growth. Income growth tends to cause a bidding up of rents, and because there has been differential income growth location premiums have grown in some markets. One researcher felt that this was the primary cause of the shrinking low rent stock, and that neither the influence of RA nor migrations across tenure types have much part to play.

Yates (2002) argues that it is common, but misleading, to represent private rental as a positive “choice” by households, reflecting the fluid nature of employment, relationships and decisions about where to live. In this view private rental is a convenient option during a housing career which is likely, later, to involve homeownership. Yates says that “there is sufficient evidence to suggest that, while these arguments may hold for a limited number of high income or high wealth households, for most, private rental has become a tenure of constraint, not choice”. Private rental is increasingly a tenure for the disadvantaged, and this means that housing support needs to target disadvantage in the private renter population.

In its submission to the Productivity Commission’s First Home Ownership inquiry, the National Association of Tenant Organisations (2003) said:

Tenant databases have operated without regulation for more than a decade, and have proved to be a massively abusive presence in the rental housing system. The negative effect of tenant databases is two-fold. First, a database listing has a specific and severe impact on the person listed: it can effectively make them homeless. Secondly, the threat of being listed hangs over all tenants, for the duration of their tenancies and after, and generally discourages them from asserting their rights or taking up issues with their landlords ...

There are also concerns about the more recent operation of tenant databases in public housing. Tenants can have “complaints” recorded against them without the validity of the complaint necessarily being established (e.g. it was said that one public housing authority records complaints against tenants without taking steps to determine whether the complaint was justified or not).

For people of all ages housing stability enhances ability to engage in the community and to participate economically. The example was mentioned of a cooperative supporting elderly Vietnamese people, which has allowed the development of strong internal community support, and has as a consequence eased reliance on institutionally delivered supports.

It was suggested that difficulties in making the transition to homeownership probably explain part of the phenomenon of delayed marriage and low fertility.

Rents are not the only costs faced by renters. Renters who have to move, in particular, face costs such as power connection fees and bonds, and start up costs for basic necessities such as white goods ie curtains, fridges etc.

In addition, housing that is affordable to rent can be costly in other respects. Much low cost housing is old and energy-inefficient, and therefore subject to high utility costs, a problem that is often exacerbated by lack of connections to efficient energy sources such as gas. Low cost housing is often expensive in transport costs as it tends to be on urban fringes. Often low cost housing is poorly located for social support services such as schools and health facilities.

Shortages of low cost rental housing are pronounced in Sydney, Canberra and Melbourne. They can also be very pronounced in small regional markets, particularly when economic developments occur that cause an influx of new workers. Problems are also commonly seen around regional university campuses.

It was noted that to service a mortgage equal to the Sydney median property price a household income of \$142,000 is needed, which is well in excess of average incomes. People who in past generations might have achieved homeownership may not be able to do so in the future.

The shortage of housing stock suitable for people with a disability means that it is very hard for them to move, for instance in pursuit of employment opportunities, or otherwise to improve their life circumstances (e.g. moving out of the parental home or leaving an unhappy relationship).

There is a severe shortage of public housing in the Northern Territory yet many Indigenous Australians have no realistic alternative to public housing. With a “priority” listing (e.g. a mother with children escaping domestic violence, or a young homeless person with financial difficulties) a six to 12 week wait could be expected with the offer then likely to be in a bad area with run down housing. Public housing tends to be located in areas of low socio economic status, and has high exposure to violence and other abusive behaviour, alcohol abuse, risks associated with the presence of itinerant people, etc. In spite of the shortage, the public housing stock is being sold off. Parts of the stock has not been upgraded for 20 years, and an annual maintenance budget of \$1,700 per house is unrealistically small to keep housing in good condition. There needs to be a better asset management strategy, including a replacement strategy.

Discrimination against Indigenous Australians is very common in the private rental market. This discrimination occurs in a variety of ways. At the most basic level is straight discrimination on the basis of appearance. It was reported that Indigenous people who would seem to fit the profile of a good tenant – educated, articulate, in stable employment – would be rejected time and again when they physically met a prospective landlord. Commonly Indigenous people in this situation would choose to be homeowners, and if are financially capable this takes them out of the private rental market. For Indigenous Australians who are not in stable employment the chances of securing private tenancies are seen as poor (it was said that landlords will leave properties vacant rather than let to tenants fitting this profile), and when they do get tenancies it would typically be for low quality stock.

The way in which Indigenous customers present for housing support is also just different from what could be expected from a non Indigenous perspective:

“You might have a mother present with five children – and it always is a mother, not a father. Maybe two are biologically hers. She is looking after the other three and

nobody else is. If she doesn't get emergency housing she isn't assertive. She'll accept whatever she gets even if it means sleeping outside."

"Women do the child-raising. Yet support structures don't recognise this. Welfare payments typically go to the male and leases are typically in the name of the male."

B.2 Government housing programmes

It was also said that governments impede the reallocation of the housing stock, for instance with stamp duties. The case of "empty nesters" was given as an example. Older couples or single people whose children have left home have the option of moving to smaller residences – which would then free up their larger residences for families seeking this type of accommodation. While those sorts of choices must always be choices for the individual, governments could do more to facilitate them. For instance, they could remove stamp duties which act as an impediment to selling properties. Or they could subsidise some movers – for instance the elderly making the transition to supported residences which are smaller but offer design features and environments that are relevant to their needs.

Differing state and territory policies also introduce regional variations in what is available. In Darwin it was noted that the availability of low income home loans is poor. A comparison was made with South Australia's HomeStart loans, which are reported to have been used quite extensively in the Indigenous community.

In concept supply side problems could be addressed by increasing RA sufficiently. However, it was argued that this was unlikely to be a cost effective solution and that other remedies should be considered. For instance, it was felt that negative gearing could be re targeted to stimulate increased supply of low cost housing.

Participants also expressed the belief that the public housing system has always to greater or lesser degree taken on the task of supporting people with complex needs in the housing market. Governments have pushed people into the private market, and the RA system goes some way to assisting those who have affordability problems. However, assistance mechanisms are not in place in the private rental market to help those facing discrimination or those who need specific types of property that are in short supply (e.g. properties suitable for people with a disability). In fact, public housing is arguably the more appropriate mechanism to assist people with complex support needs.

It was said that some public housing authorities are moving away from this traditional role and becoming more commercial in their approach. For instance, one public housing authority was said to have recently introduced a policy of requiring references from prospective tenants.

Suggestions were made about how to help Indigenous tenants succeed in public tenancies:

- There is a presumption that Indigenous Australians have the knowledge that is typical among non Indigenous Australians about how to look after a house. But these skills are largely imparted informally during upbringing, and it does not happen for many Indigenous children, especially those raised in remote areas. Outreach programmes have been run successfully on a pilot basis to train Indigenous women in skills that are taken for granted in the mainstream community: how to clean an oven, how to clean a bathroom, etc, but they have not been widely implemented. Much better public housing results in remote communities could be had by supplementing housing provision with homemaker training.

- Public housing managers need to be more sympathetic to the realities that face Indigenous head tenants. They need to be more active in finding ways to manage responsibilities which are by habit placed on the tenant but which experience shows the tenant cannot manage. This includes strategies to manage “drop in” visitors (who stay for weeks) and deal with the consequences of domestic violence. Simply recording perpetual “tenant responsibility debts” or “noise and disturbance” records is counterproductive.

It was felt by many that the role of RA is unclear. The view is expressed, for instance, in Hulse (2002), where she describes RA in Australia as “... a hybrid between housing assistance and income security.” She notes that RA developed as part of the income security system, and separately from housing policy. Consequently, RA reflects the distinguishing features of the Australian income security system in being national, tax financed, extensively means tested and entitlement based on a categorical basis with little scope for discretion. Despite its origins in the income security system, funding for RA has become, incrementally, Australia’s largest housing assistance programme but it is “...premiered on an assumption that the problem faced by income support recipients is insufficient income, manifested in problems of housing affordability.” Consequently, its design is limited to issues of affordability ignoring other housing issues that include quality and appropriateness, location, security of tenure, tenancy management and access to support services. Such issues are assumed to be addressed by consumer choice and market forces in spite of the fact that restricted supply of low cost housing means that consumer choice is extremely limited.

Several participants said that increased clarity is needed to identify RA as a housing payment, rather than as an income support supplement. One participant questioned the relevance of the distinction.

For some participants the “income support” vs “housing support” distinction relates to payment arrangements. As it is, RA is bundled with income support payments. They also explored the arguments for and against paying RA to service providers rather than to those receiving housing payment assistance, although it was acknowledged that there might be privacy issues. There was also concern that such a change could cause payments to flow into higher rents in which case some countervailing measures might be needed.

It was felt that community housing plays an important role in the social housing sector but that resources in the community sector are inadequate. The case was mentioned of Yilli Rreung Housing Aboriginal Corporation in Darwin which services a quarter of the Territory’s Indigenous population and has a building programme of five houses per year.

Community housing can work well getting stable outcomes for the Indigenous community. One of the participants had prior experience running community housing and believes that community housing can make a very positive contribution. The scheme she had worked for capped rents at 25 per cent of tenants’ incomes. “Head tenants” are both responsible for their units and are part of the management committee of the cooperative. If tenants move to sustained higher income they are required to move on. The average tenancy duration is four to five years.

B.3 Targeting of RA

Single people and childless couples receiving low incomes from paid employment are not generally eligible for income support and therefore miss out on RA. Thus the “working poor” miss out on support, even though their affordability difficulties may be just as bad as the difficulties faced by income support recipients. It was said that increased casualisation of the workforce has led to growth in this group of people. It was felt that RA should be available to all low income households.

It was suggested that, if one looked at private renters with casual incomes who earn less than \$400 per week, more than half would be paying in excess of 30 per cent of income as rent.

It was said that limited RA availability creates potential problems in the supply of essential services workers like nurses, carers, police, fire fighters in high cost markets as the housing located near these services is usually unaffordable.

If extension of RA to the working poor is not feasible, the “work disincentive” effects might be alleviated by having an extended phase out for RA when people move into employment.

Exclusion of Austudy recipients from RA was felt to be unfair. Exclusion of this group was described as “... an active disincentive to education participation”. Survey research reported in Burke, Pinkney and Ewing (2002) confirms that ability to cover housing costs is an important element in young peoples’ decisions whether to study or not. ACOSS (2003a, b) calls for the extension of RA access to students over 25 years receiving Austudy and to families with dependent young people on Youth Allowance. The Senate Employment, Workplace Relations and Education References Committee’s inquiry into student income support also unanimously recommended that RA be made available for all recipients of Austudy (Senate 2005).

B.4 Operational issues

There is said to have sometimes been some confusion at Centrelink over the interpretation of community housing leases. It is desirable to avoid this as unintended overpayments can occur and are problematic to sort out later.

Specific groups identified as experiencing difficulty in communicating with Centrelink and with RA operational processes are Indigenous customers and newly arrived migrants.

Another issue of concern is the potential to lose income support payment because of “breaches” applied to a primary payment. If income support payments are halted then it is likely that rent will not be able to be paid, and tenants could be evicted.

Although definitions of RA entitlement are explicitly defined, some of the criteria are complex, and there were concerns that they were not always applied consistently and appropriately by Centrelink. It was said that there was a case of Centrelink telling a tenant of community housing that they were ineligible for RA; how prevalent this was is unknown. Any mistakes in granting RA can also be problematic if Centrelink amends a decision to grant and seeks repayment.

It was reported that there have been a number of cases where people receiving RA have had a RA review (i.e. had a form sent to them asking them to verify their rent details) and for whatever reason the form has not been received by the person. When Centrelink does not

receive the form back within 14 days the RA is automatically cancelled and there is a 13 week time limit to claim arrears. Participants said that while responding to Centrelink communications may be seen as an element of the mutual obligation framework, it is not clear that this can produce good outcomes in the case of people with mental illness. In the cases cited people have not realised that their RA has been cancelled, at least not for many months and when outside the time limit for arrears. Furthermore, in one case a client did not receive a notice of cancellation from Centrelink. It was said Centrelink is not legally required to notify RA cancellation but does so at least in some cases. It was said that Centrelink is doing more and more of these Rent Reviews (for some people its a regular 6 monthly occurrence) and therefore more people are vulnerable to having their RA cancelled and not noticing due to mental illness, drug and alcohol dependence etc. It was said that recent research has found that 34 per cent of income support recipients have experienced mental illness or substance abuse over the past 12 months.

The case was also cited of a young man aged 21 years who had been living with his mother and stepfather who then moved with his father to a rental property. Both signed the lease. The son then became unemployed and claimed NSA and the father was already receiving NSA. However the son is not eligible for RA because he is seen to be living in the “principal home of a parent”. It was said that this seems a bit unfair, and it was questioned whether this really was the intention of the legislation.