



City Futures Research Centre

Demand-side assistance in Australia's rental housing market: exploring reform options

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Presentation overview

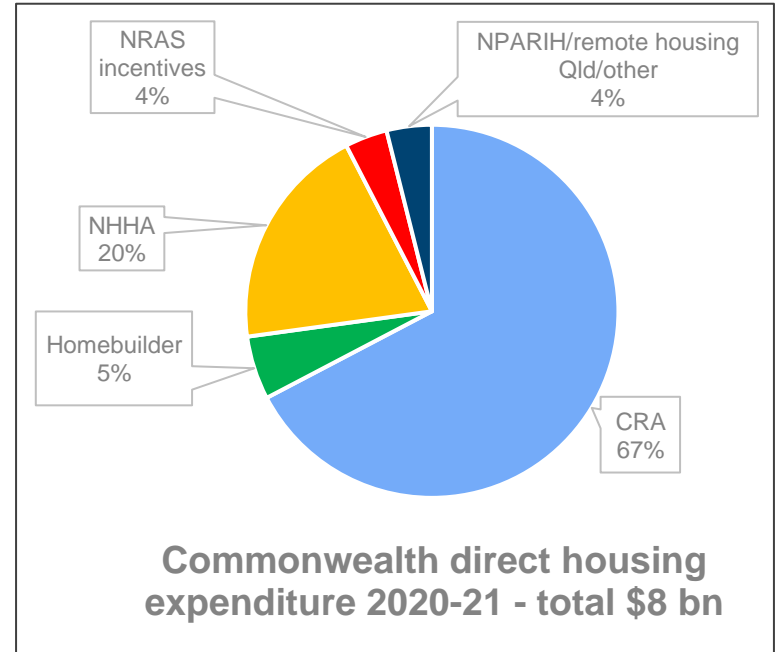


1. CRA as a form of 'housing allowance'
2. CRA effectiveness and modelled reform options
3. Reform option effectiveness, cost and implications
4. Conclusions and next steps

1. CRA as a form of 'housing allowance'

CRA as a form of subsidy

- Housing subsidies – enabling adequate and affordable provision for low income hhlds
- Alternative approaches:
 - Supply subsidies: enable suppliers to offer housing at less than cost of provision (market price) or
 - Demand subsidies: enable consumers to pay price demanded for housing in the market
- Latter officially preferred as ‘flexible’ and compatible with pro-market approach



Purpose of housing allowances

- Ambiguity on whether purpose is to enable recipients:
 - a) To raise their level of housing consumption above that which they would otherwise be able to afford (primarily a housing policy), or
 - b) To retain sufficient income after housing costs to avoid deprivation (primarily a social security policy).
- Priority (a) implies housing allowance system linked to other measures – e.g. requirements that properties be inspected and meet certain standards.

CRA structure

- Supplementary allowance added to other payments – e.g. pension, JobSeeker – where recipient pays rent above relevant threshold
- Recipient qualifies for 75 cents for every dollar of rent above relevant threshold, up to max rates (or caps)

Recipient status	2020 rent threshold (\$ pw)	2020 min rent for max CRA (\$ pw)	2020 max rate (\$ pw)
Single – no children	\$62.30	\$155.37	\$69.80
Couple 3+ children	\$120.96	\$244.54	\$92.68

- Public housing tenants ineligible

2. CRA effectiveness and modelled reform options

CRA adequacy or effectiveness

- A third (34%) of low income CRA recipients still in rental stress even when assisted

Housing stress benchmark	Pre-CRA	Post-CRA
30% (moderate)	65%	34%
40% (severe)	42%	18%
50% (very severe)	25%	9%

- 18% of low-income private renters needing assistance excluded because ineligible for benefit to which CRA tied
- But 23% of recipients not in rental stress
- Arguably inadequate because caps too low – implies need for larger budget
- Insensitive to huge regional variations in private market rents – more far-reaching reform needed

Reform options

- Three reform options modelled – aim: to better match payments to housing stress
- Reform scenario specification influenced by:
 - AHURI-convened stakeholder workshop (Federal/state govt policymakers, NGOs)
 - Existing advocacy for CRA reform (e.g. ACOSS)
- The scenarios:
 - Reform 1: Raise max CRA rate by 30%
 - Reform 2: Re-balance rent thresholds to address higher levels of housing stress among households with no children
 - Reform 3: Enfranchise low-income renters in rental stress irrespective of entitlement to qualifying benefits
- Modelling basis: 2017 HILDA data

Reform option 1: Raise max CRA rate by 30%

- Consistent with ACOSS campaign objective
- Hybrid reform could raise max rate in certain more expensive housing markets – like NZ Accommodation Supplement

Income unit type	Actual (2017)		Reformed		
	Max CRA rate (\$pw)	Min rent at which CRA max rate paid (\$pw)	Change in max CRA rate (+30%) (\$pw)	Max CRA rate (\$pw)	Min rent at which CRA max rate paid (\$pw)
Single - no children	\$66.50	\$147.97	\$19.95	\$86.45	\$174.57
Couple 3+ children	\$88.27	\$232.99	\$26.48	\$114.75	\$268.29

Reform option 2: Adjust min rent thresholds

Follows from analysis showing that, under current settings:

- Those most likely to be in rental stress but receiving no CRA are single adults – especially young people in employment
- Households with children over-represented among those with housing costs below 30% of income but receiving CRA

Income unit type	Actual		Change in weekly rent threshold (\$)	Reformed	
	Weekly rent threshold (\$)	Rent threshold as share of gross income		Weekly rent threshold (\$)	Rent threshold as share of gross income
Single no children	59	39%	-15	44	29%
Single with children	78	31%	15	93	37%

Reform option 3: Change CRA eligibility criteria to reflect housing need

- CRA entitlement purely based on experience of rental stress
- More closely aligned with ‘true housing allowance’ model – e.g. UK Housing Benefit
- Detach eligibility from entitlement to other qualifying social security payment
- Recipient can be low income worker not on other benefit
- Constitutionally difficult because of limitations on Commonwealth Govt powers

3. Reform option effectiveness, cost and implications

Reform effectiveness and cost

- All three reform options reduce no of low-income renters in rental stress – either by more accurate targeting (esp. Reform 3) or allowing higher payments (esp. Reform 1)
- Reform 1 adds \$1 billion to gross cost (22%) – no ‘losers’
- Reform 3 reduces overall expenditure – by cutting out many current recipients who qualify without experiencing rental stress as defined

	Actual	Reform 1	Reform 2	Reform 3
Low income renters in stress (000s)	848	506	545	477
Total CRA spend 2017 (billion \$)	4.6	5.6	4.7	3.4
Reform cost – actual cost (billion \$)		1.0	0.1	-1.2
CRA budget ‘lost’ through rent inflation		0.04	0.01	0.02

Community housing implications

- Currently, vast majority of CHO tenants receive CRA
- Crucial component of CHO business model because rent calculation factors in 100% of CRA – typical CHO enabled to generate small surplus on operational expenditure
- By changing CRA entitlement amount and/or claimant eligibility, Reform options 2 and 3 could negatively impact CHO revenue to some extent
- Report therefore notes (p67) further research needed on possible reform impacts for CHOs because of possible **'adverse revenue impact on providers (subject to compensatory arrangements)'**
- Prospect of any significant CRA reform raises question on CRA treatment as effective CHO provider subsidy (essentially untargeted and carrying no specific obligations)

CRA increase capture or ‘capitalisation’

- Aside from community housing – do private landlords capture CRA in higher rents? – i.e. does boosted demand push up rent for all?
- International evidence mostly says yes, but effect varies – suggests context and payment design features are important
- Results of modelling Australian HILDA data:
 - Generally, no CRA effect on private rents
 - In moderately disadvantaged areas (lower 50% SEIFA), small effect: **6.6 cents in \$CRA** captured in higher rent
 - In severely disadvantaged areas (lowest 10% SEIFA), significant effect: **32.4 cents in \$CRA** captured in higher rent

CRA increase capture or ‘capitalisation’

- Why no general effect?
 - Cash payment (not a voucher)
 - To tenants (not landlords)
- Why small-significant effect in disadvantaged areas?
 - Inelastic supply?
 - LL/agent practice?
- Implications for reform
 - Beware what other design features may be up for grabs
 - Importance of supply-side responses (social housing) in disadvantaged areas

Reform 3: possible means of overcoming constitutional constraints

- CRA tied to other social security payments because Fed Govt constitutional power for social security (s 51(xxiiiA)) is specific and narrow – does not support stand-alone rent/housing assistance payment
- What other constitutional powers might support Reform 3?
 - External affairs (s 51(xxix)) – implementing the human right to housing?
 - Grants to states/territories (s 96) – per FHOG. But opens up design features to negotiation/variation?

4. Conclusions

Conclusions

- A range of CRA reform options, all offering improved affordability outcomes
- Reforms 1 and 2 increase costs for Fed Govt, but no or few losers
- Reform 3 has best affordability outcomes, and reduces costs... but there would be losers, including CHOs – so necessary CHO compensation would cut net gain
- CRA design features that protect against capture by LL should be preserved
- Reform 3 faces a constitutional problem – getting around it may open up other design features to change
- Federal Govt openness to any significant reform likely to raise wider questions on public renter eligibility and possible imposition of market rents in PH

Key references

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