

# **Rent assistance to private and community sector tenants**

A background paper

Prepared by Craig Johnston  
January 2002

# Acknowledgments

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Shelter Brief 18

Written by Craig Johnston.  
January 2002.

Thanks to the community workers and social activists who participated in consultative meetings and to the organisations and individuals who provided information and opinions, and in particular:

AIDS Council of NSW – Julie Callaghan  
Bobby Goldsmith Foundation – Mark Tietjen  
Combined Pensioners and Superannuants Association of NSW – Denise Steele and Phoenix van Dyke  
Disability Advocacy Organisations – Disability Council of NSW, Legacy Sydney, Mental Health Coordinating Council, People with Disabilities (NSW), People Living with HIV/AIDS (NSW)  
Inner and Eastern Sydney Migrant Inter-agency – Joanne Petrovic  
National Community Housing Forum – Adam Farrar  
NSW Federation of Housing Associations – Eleri Morgan-Thomas  
Tenancy Legal Working Party  
Tenants Union of NSW – Zanne Landles and Paula Rix  
Welfare Rights Centre  
Western Sydney Tenants Service – Robert Mowbray

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## Questions

Question 1: What are the pressing anomalies and inequities in eligibility for rent assistance? How might those anomalies and inequities be rectified?

Question 2: Should the 30% indicator of housing stress be used as the basis for setting the amount of rent assistance to be paid, in addition to its current role in monitoring and reporting housing affordability?

Question 3: Should a 'partial gap subsidy model' be used as the basis for setting the amount of rent assistance to be paid?

Question 4: Should advocacy for increases in rent assistance be focused on what might be 'saleable' or feasible in specific budget deliberations by the Commonwealth?

Question 5: What are the arguments for and against varying rent assistance subsidies by region, so that residents in high rent regions get a higher amount of payment?

Question 6: If rent assistance payments were to be varied by region, so that residents in high rent regions got a higher amount of payment, what would those regions be?



This background paper outlines some key public policy issues around the role of rent assistance as an intervention to improve the standard of living and quality of life of low-income Australians. The data come from a review of selected academic and policy literature, and from interviews with a number of workers in NSW nongovernment organizations contacted in October-November 2001.

## 1 Introduction

Rent assistance has not had a good image in public policy debate on housing assistance.<sup>1</sup> It is the upstart. A diversion of resources away from the main game – public housing. The policy candidate of neo-liberal individualism against social-democratic statism. Yet government expenditure on rent assistance has grown, and it is a key component in financing housing provided by nonprofit landlords. This background paper is about some of the major policy issues around rent assistance, approached not from any sour grapes or resentment or begrudging tolerance of it, but from a pragmatic and critically-appreciative consideration of its contribution to tenants in private and community sector rental housing. Those issues focus on the effectiveness of Centrelink rent assistance as an intervention to assist low-income people in housing need.

Rent assistance is received by nearly a million Australians – some 976,300 people. They include more than 40% of households in private rental housing.

Rent assistance is one of the two main government-funded forms of housing assistance to low-income Australians. The other assistance is that provided through the Commonwealth–State Housing Agreement (CSHA) and related state government programs. The Commonwealth government provided grants of \$1.204 billion to state and territory governments for the provision of housing assistance, in 2000-2001. Most of this grant funding was for expenditures under the *Housing Assistance Act 1996* (Cwlth) – \$1.037 billion. The rest was for Indigenous housing, [non-Indigenous] community housing, and crisis/supported accommodation assistance, and (some limited funding) for home purchase assistance and private rental assistance outside of the Centrelink rent assistance program. State/territory governments also contributed \$368.8 million to public housing and related

■  
<sup>1</sup> The term and program ‘rent assistance’ is sometimes confused with generic assistance given to private and community sector renters. For example the NSW Department of Housing has a program to assist private renters overcome financial barriers to establishing new residential tenancies, RentStart, which was called the Rental Assistance Scheme until October 1999; that department also provides special assistance with rent-payments to private tenants with disabilities. Those two programs are forms of rental assistance, but they are not the ‘rent assistance’ which is the subject of this background paper. Private rental market assistance programs under the Commonwealth-State Housing Agreement include bond loans; assistance with rent payments and cash assistance additional to Commonwealth rent assistance; relocation expenses; and advice and information (Australian Institute of Health and Welfare 2001, pp.68-69). This paper uses rent assistance, without the ‘al’, to solely refer to the Commonwealth government rent assistance delivered by Centrelink as in income support supplement on behalf of the Commonwealth departments of Family and Community Services, Veterans Affairs, and Education, Science and Training. Rent assistance is also distinct from rental rebates given to public housing tenants. Both rent assistance and rental rebates are forms of rental subsidies. Some writers use the acronyms CRA or RA for the Commonwealth’s rent assistance program.

programs in that year. (Department of Family and Community Services 2001, p.100,106)

Of the two main forms of housing assistance, rent assistance is the more important. This program is funded solely by the Commonwealth government, which increased expenditure significantly in the 1990s. Expenditure was \$1.717 billion in 2000-2001. The main reason for the increased expenditure was increases in the maximum rates of assistance.

Figure 1 indicates the patterns of Commonwealth and state/territory government expenditure on housing assistance over the last 2 decades.<sup>2</sup> Figure 2 indicates Commonwealth expenditure on rent assistance over the last decade.<sup>3</sup>

Figure 1: Government expenditures on housing assistance

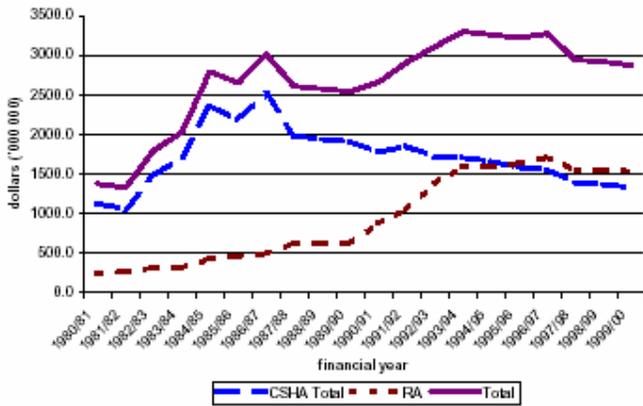
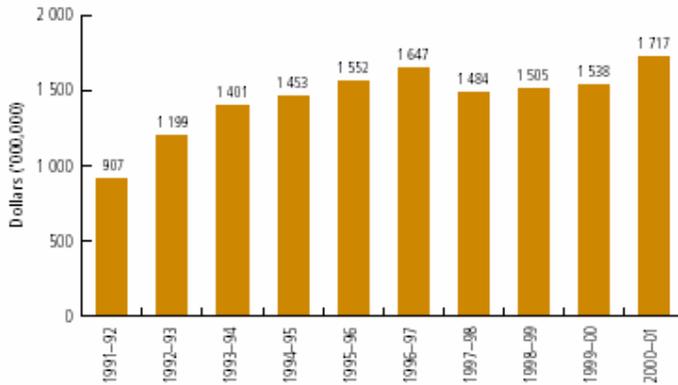


Figure 2: Rent expenditure 1991-1992 to 2000-2001 (\$ millions)

Figure 11: Rent Assistance expenditure 1991-92 to 2000-01 (\$'000 000)



<sup>2</sup> Berry and Hall (2001, p.75). Expenditures are those by Commonwealth and state governments, for the years 1980-1981 to 1999-2000; dollar amounts are constant 2000 dollars

<sup>3</sup> Department of Family and Community Services (2001, p.111).

## 2 Background

This section outlines some of the environmental factors, notably the nature and state of housing markets and the nature of government welfare interventions, that frame public policy debates on rent assistance.

### 2.1 Stress in rental housing markets

The concept 'housing stress' is used in public policy literature to refer to a situation where a household is paying more than 30% of its gross income on housing costs (National Housing Strategy 1991). Berry and Hall (2001) scoped the extent of housing stress in Australia, in a report for the Affordable Housing National Research Consortium.<sup>4</sup>

They reported that 54.7% of private renter Australians were paying more than 30% of their incomes on housing costs (citing Australian Bureau of Statistics data from 1999). Four out of 5 low-income private renters in Sydney were in housing stress.

They found that no private renters in the bottom 40% of incomes could affordably buy any dwelling in any metropolitan locations in Sydney, in June 2000. Only 4% of those households could afford to rent a 3-bedroom house in outer western Sydney, at that time. Only some 50% of those households could afford to rent a 1-bedroom unit in outer western Sydney (Berry and Hall 2001, p.53).

They reported that housing stress had increased substantially for low-income private renters over 1986-1996 in Sydney. While 67.3% of private renters in Sydney were in housing stress in 1986, this proportion had increased to 80.7% in 1996 (p.55). Stressed renter households are growing more rapidly than renters as a proportion of all households in Sydney; while stressed renter households comprised 24% of all Sydney households in 1986, they comprised 49% in 1996 (p.57). There has also been an increase in the numbers and proportions of households paying more than 30% of their income in rent. Berry and Hall suggested that housing affordability problems might be 'climbing the income ladder'; that is, it is now affecting not only the unemployed and under-employed people, but also those who have been described as the 'working poor' and even middle-income households (p.59).

These developments on the demand side are matched by adverse developments on the supply side. The total private rental stock in Australia increased by 38% between 1986 and 1996 (Wulff and Yates 2001, p.76), but there has been a decline in the supply of that stock let at lower rents. The supply of low-rent stock declined by 18% cent between 1986 and 1996 (Wulff and Yates 2001, p.76). Low-income

■  
<sup>4</sup> The Affordable Housing National Research Consortium was an ad hoc group that undertook research on housing affordability, over 1999-2000. It comprised the Housing Industry Association, Australian Council of Social Service, Real Estate Institute of Australia, Australian Council of Trade Unions, National Community Housing Forum, Urban Development Institute of Australia, Property Council of Australia, Royal Australian Institute of Architects, Master Builders Australia, and Royal Australian Planning Institute. The principal consultants were the Australian Housing and Urban Research Institute.

households have become more concentrated in the low-rent private rental stock, as the supply of that stock has decreased. The low-rent stock declined as a proportion of total stock from 26% in 1986 to 15.5% in 1996 (Wulff and Yates 2001, p.76). Yates and Wulff (1999, p.16) estimate that there is a chronic shortage of low-rent rental dwellings in Australia of some 150,000.

There has also been more competition for the low-rent stock between low and higher-income households. Wulff and Yates (2001, p.63) note:

Not all low rent stock, however, is available for low income households. Higher income households will often prefer low rent stock and, in many cases, may be more successful than low income households in obtaining access to this stock. In 1996, for example, only 2 in every 5 of the low rent dwellings remaining in the private rental stock were occupied by low income households. Higher income households occupied almost 60 per cent of the low rent stock. This meant there was only 1 low rent dwelling available for every 3 low income households in Australia in 1996 ...

## 2.2 Rent assistance as income support

Rent assistance is a non-taxable, untied cash payment to people who get social security or other income-support benefits from the Commonwealth government and who rent accommodation.<sup>5</sup>

It is available to people who rent in the private rental market, in community housing, and in other renting situations. Wulff and Rees (1999) note that the notion of private renting used in social security arrangements is a wider one than that typically used in housing literature on private renting; for example, it includes paying rent to home-owning parents and to landlords in non-private dwellings such as hostels and retirement villages. See Table 1.<sup>6</sup> An association of rent assistance with the private rental housing *tenure*, alone, is therefore inappropriate, though rent assistance recipients are overwhelmingly (78%) in the mainstream private rental sector.

Table 1: Landlord arrangements of rent assistance recipients

Landlord arrangement	Number of rent assistance recipients	Percentage
Private landlord	254,487	27.3
Real estate agent	414,256	44.5
Non-resident relative	58,585	6.3
Resident landlord	141,427	15.2
Boarding house, hostel	18,516	2.0
Retirement village, nursing home	20,984	2.3
Social housing	22,654	2.4
Total rent assistance income units	930,909	100.0

The eligibility criteria for rent assistance are given in Box 1 on page 5.<sup>7</sup>

<sup>5</sup> R. Karmel cited in Berry and Hall (2001, p.60).

<sup>6</sup> Wulff (2000, p.23); data are for 1998.

<sup>7</sup> Centrelink (2001, pp.112-113, p.126); *Centrelinkfacts* (n.d).

## Box 1: Eligibility criteria for rent assistance

Rent assistance is paid to eligible Australian residents who rent accommodation and pay rent above a set threshold based on their family circumstances.

To be eligible a person must be getting a Centrelink payment or Family Tax Benefit (more than the base rate of Family Tax Benefit part A).

Abstudy recipients have been eligible since 1 July 2000 when Abstudy was realigned with Centrelink's Youth Allowance.

To qualify for rent assistance a person must be paying more than a threshold amount for:

- rent (other than for public housing);
- service and maintenance fees in a retirement village or hostel;
- lodging (where the person pays for board and lodging and cannot identify the amount paid for lodging, 2/3<sup>rd</sup>s of the amount paid will be accepted as rent);
- fees paid for the use of a site for a caravan or other accommodation which the person occupies as their principal home; or
- fees paid to moor a vessel that the person occupies as their principal home.

Tenants who rent from a 3<sup>rd</sup> party organization, such as a disability-housing provider, might be eligible even if they make their rental payments directly to a state housing authority for administrative convenience.

Sub-tenants in public housing can get rent assistance provided the principal tenant (of the state housing authority) pays market rent or has notified the housing authority that the sub-tenant is living there.

Tenants of community housing providers might be entitled to rent assistance, even if a state or territory housing authority owns the dwelling.

People living in Defense Force Housing might be eligible for rent assistance.

People living in non-Commonwealth funded aged care hostels and nursing homes might be eligible for rent assistance for their fees. Some facilities that are subsidized might have non-subsidized beds: resident of those non-subsidized beds might qualify for rent assistance.

In order to get rent assistance people must establish an ongoing liability to pay rent.

Recipients who go overseas for short periods and have an ongoing rent liability in Australia may retain eligibility for that period.

Homeowners might be eligible so long as they are not an 'ineligible home-owner'. The *Social Security Act 1991* (Cwlth), section 13 (1), defines an 'ineligible home owner' as persons other than ... '(d) a person who pays amounts for the use of a site for a caravan or other vehicle, or a structure, that is the person's principal home.'<sup>8</sup>

<sup>8</sup> On this basis, Centrelink recipients who own their homes but pay ground rent are eligible for rent assistance. This applies, for example, to some residents of the Pottery Estate, Lithgow, who pay amounts for the use of a site for a structure that is the person's principal home. The Welfare Rights Centre, Sydney, advised the Western Sydney Tenants Service: 'Residents of Pottery Estate would have no difficulty in getting rent assistance for the ground rent they pay (assuming they are otherwise eligible). There are a couple of useful [Administrative Appeals Tribunal] cases, e.g. in *Re Cleary and Repatriation Commission* (1997), a service pensioner lived in a demountable two-bedroom unit on his niece's land. On the basis of the arrangements for occupancy involved, the Tribunal held that rates, building maintenance, building insurance and lawn maintenance paid by the pensioner as a condition of occupancy were components of his "rent", i.e. "amounts payable for the use of a site for a structure; occupied by the person as the person's principal home". The main issue is that the "rent" or "site fee" or in your clients' case "ground rent" is a condition of occupancy of the land, that is, if the person fails to pay the rent then they forfeit their right to occupy the site.' Centrelink advised the Western Sydney Tenants Service: '... these people would be eligible to claim Rent Assistance for the "Ground Fees" they pay, provided they meet other relevant criteria. In reference to the ineligible homeowners, provided these customers' "homes" can be judged as similar to demountable type structures that may be found in a retirement or mobile home park, the owners of [This footnote continues on the next page.](#)

Centrelink is the provider of rent assistance; it does so as a client of other Commonwealth agencies that have policy responsibility.<sup>9</sup> The major policy and purchasing agency is the Department of Family and Community Services. The Department of Veterans Affairs and Department of Education, Science and Training also purchase rent assistance delivery from Centrelink for their customers, for holders of veterans pensions and Abstudy recipients.<sup>10</sup>

## 2.3 Payments

The subsidy that rent assistance recipients get varies according to the amount of rent they pay and the nature of their household. Box 2 gives a general description of how the amount of subsidy is worked out.<sup>11</sup>

Box 2: Payment modes for rent assistance

Rent assistance is paid at a rate of 75 cents for each dollar of rent paid above a relevant rent threshold, subject to specified maximum rates. The maximum rates and rent thresholds vary, depending on the customer's family circumstances (that is, whether they are single or partnered and the number of dependent children in the family). For singles without children, the maximum rate also varies according to whether accommodation is shared by others. Single people living in boarding style accommodation such as hostels, private hotels or boarding houses can claim the full single rate of rent assistance. They are not subject to the sharer's rate of rent assistance. For eligible people who have dependent children, rent assistance is paid with their Family Tax Benefit through fortnightly instalments through the Family Assistance Office. People with children have rent assistance paid as an addition to their Centrelink payment.

Table 2 and Table 3 indicate the current rate of payments for customers without dependent children and with dependent children (respectively).<sup>12</sup>

■ ■ these would not be classified as ineligible home owners.' (Email from Robert Mowbray, Western Sydney Tenants Service, 29 October 2001.)

<sup>9</sup> The laws that provide for rent assistance as an entitlement are the *Social Security Act 1991* (Cwlth), *Student and Youth Assistance Act 1973* (Cwlth), and *Veterans Entitlement Act 1986* (Cwlth). The *Indigenous Education (Target Assistance) Act 2000* (Cwlth) allows for purchase of rent assistance to Abstudy recipients.

<sup>10</sup> The Department of Education, Science and Training was established after the 2001 federal election and incorporates the former Department of Education, Training and Youth Affairs. It has responsibility for the legislation, the *Indigenous Education (Target Assistance) Act 2000* (Cwlth), under which Abstudy is established. For information on Abstudy see 'Introduction to Abstudy', online at <[www.detya.gov.au/schools/guidelines/abstudy/part1/index.htm](http://www.detya.gov.au/schools/guidelines/abstudy/part1/index.htm)>, accessed 6 November 2001.

<sup>11</sup> Centrelink (2001, p.126).

<sup>12</sup> Centrelink, 'How much Rent Assistance do I get?', <[www.centrelink.gov.au/internet/internet.nsf/payments/pay\\_how\\_ra.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/pay_how_ra.htm)>, accessed 9 October 2001; rate from 20 September 2001.

Table 2: Rent assistance rates for customers without dependent children

Family situation	Maximum payment a fortnight	No payment if fortnightly rent is less than	Maximum payment if fortnightly rent is more than
Single, no dependent children	\$89.60	\$79.40	\$198.87
Single, sharer, no dependent children	\$59.70	\$79.40	\$159.00
Couple, no dependent children	\$84.40	\$129.40	\$241.93
One of a couple who are separated due to illness, no dependent children	\$89.60	\$79.40	\$198.87
One of a couple who are temporarily separated, no dependent children	\$84.40	\$79.40	\$191.93

Table 3: Rent assistance rates for customers with dependent children

Family situation	Maximum payment a fortnight	No payment if fortnightly rent is less than	Maximum payment if fortnightly rent is more than
Single, 1 or 2 children	\$105.00	\$104.58	\$244.58
Single, 3 or more children	\$118.72	\$104.58	\$262.87
Couple, 1 or 2 children	\$105.00	\$154.84	\$294.84
Couple, 3 or more children	\$118.72	\$154.84	\$313.13

Rent thresholds and maximum rates are adjusted in line with the Consumer Price Index (CPI) in March and September each year.

## 2.4 People

Nearly a million Australians – 976,333 people – got rent assistance recipients, as at 1 June 2001.

Figure 3 (on page 8) gives a breakdown by Department of Family and Community Services social security payment type.<sup>13</sup>

Of the 976,333 Department of Family and Community Services customers getting rent assistance, on 1 June 2001, 44% were single without children, living alone; 10% were single without children, sharing; 23% were single with children; 15% were couples with children; and 8% were couples without children. See Figure 4 on page 8.<sup>14</sup>

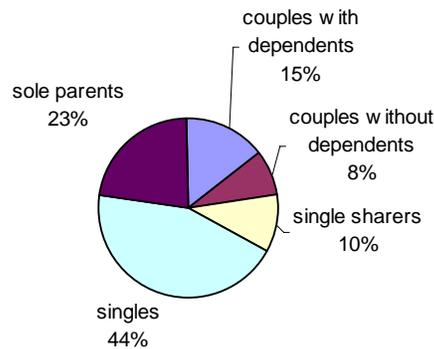
<sup>13</sup> Department of Family and Community Services (2001, p.112, Table 22); data as at 1 June 2001; data do not include customers of the Department of Veterans Affairs or the then Department of Education, Training and Youth Affairs. Family Tax Benefit and Parenting Payment Partnered customers are counted only if neither they nor their partner receive any other social security payment.

<sup>14</sup> Department of Family and Community Services (2001); data as at June 2001; data do not include customers of the Department of Veterans Affairs or the then Department of Education, Training and Youth Affairs. Wulff and Rees (1999) give more detailed breakdowns on household living arrangements, based on a 1998 national survey of rent assistance recipients, that show a greater complexity of those arrangements than can be gleaned from administrative data.

Figure 3: Number of income units receiving rent assistance, Australia

	Income units getting rent assistance		Sex of recipients (per cent)		
	Number	Per cent	Female only	Male only	Both members of a couple
Age Pension	153,454	16	9	4	3
Disability Support Pension	161,833	17	7	9	1
Newstart Allowance	227,204	23	9	13	1
Parenting Payment Single	193,359	20	18	1	0
Parenting Payment (Partnered)	29,266	3	3	0	0
Youth Allowance	91,212	9	5	4	0
Family Tax Benefit	84,098	9	8	1	0
Other payments	35,907	4	2	1	0
Total	976,333	100	61	33	5

Figure 4: Rent assistance recipients, by income unit



The Department's customers getting rent assistance included:

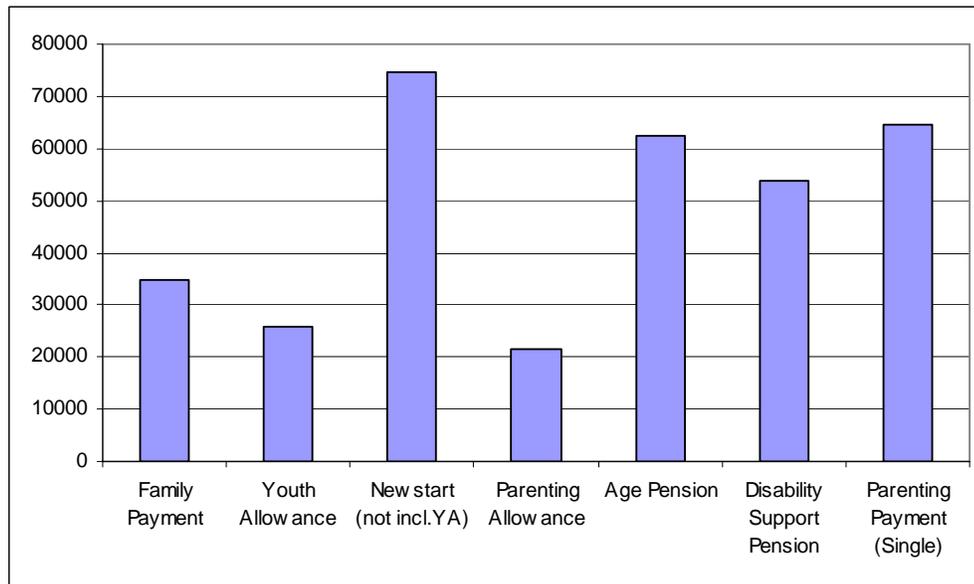
- 470,304 workforce-aged customers;
- 359,445 families with dependent children;
- 178,259 Age Pension clients (10% of age pensioners); 1,941 women receiving Wife Pension (Age) (7.3% of wife aged pensioners); 823 women receiving Widow B Pension (12.7% of widow B pensioners);
- some 71,295 full-time students (23.1% of full-time students) and 19,311 non full-time students (22.8% of non full-time students);
- 10,374 Carer Payment customers.<sup>15</sup>

<sup>15</sup> Department of Family and Community Services (2001, p.45,60,156,192,206). These numbers add to 1,111,752. The data are as at June 2001 except for workforce-aged customers, where the data are for 2000-2001.

In 2000, some 81,569 young people were in receipt of rent assistance, out of an estimated 846,000 young people in independent living (Burke and Ewing 2001, p.3).<sup>16</sup>

There are some 344,444 recipients of rent assistance in New South Wales.<sup>17</sup> Of those, 186,360 (54%) live in Sydney and 158,054 (46%) live in the rest of the state. A breakdown of NSW rent recipients by Department of Family and Community Services social security payment is in Figure 5.<sup>18</sup>

Figure 5: Rent assistance recipients, by payment type, New South Wales



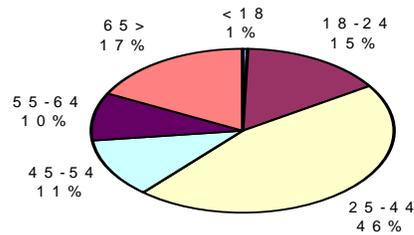
<sup>16</sup> Single people aged under 25, without dependants, who live with their parent or guardian, are not eligible for rent assistance.

<sup>17</sup> Data supplied by the Department of Family and Community Services, Canberra, 5 November 2001; data as at 19 October 2001. The data do not include recipients who were paid rent assistance by or on behalf of the Department of Veterans Affairs or the then Department of Education, Training and Youth Affairs.

<sup>18</sup> Department of Family and Community Services, unpublished data; data as at 19 October 2001. Figure 5 does not include 6,868 'other pensioners'.

Most NSW Department of Family and Community Services customers who get rent assistance are in the middle age ranges. See Figure 6.<sup>19</sup>

Figure 6: Rent assistance recipients, by age, New South Wales



Most indigenous people in New South Wales who get rent assistance live outside Sydney. Most non-indigenous New South Walers who get rent assistance live in Sydney. See Table 4.<sup>20</sup>

Table 4: Rent assistance recipients, by indigenous status, New South Wales

Indigenous status	Place	Number	Proportion
Indigenous	Sydney	1416	0.4%
	rest of NSW	4730	1.4%
Non-indigenous	Sydney	178566	53.0%
	rest of NSW	152336	45.2%
		337048	

Recipients of rent assistance constitute more than 40% of private renter households (Hulse 2001, p.9).

Wulff and Rees (1999, pp.5-6) note that confusion often arises because there is a mismatch between the number of rent assistance recipients and the number of private rental dwellings. While 80% of rent assistance recipients live in households where they have primary responsibility for meeting housing costs, another 20% live as members of another person's household. These 20% have not been easily detected in Australian Bureau of Statistics (ABS) census and household surveys on tenure.

Over 300,000 private renter social security recipients do not receive rent assistance. In mid 1999, nearly 2/3<sup>rds</sup> were below the rent assistance threshold and were therefore not eligible. A *quarter* had not had their rent information verified. Only a

<sup>19</sup> Department of Family and Community Services, unpublished data; data as 19 October 2001.

<sup>20</sup> Steering Committee (2001, Table 16A.23); data as at March 2000.

very small proportion were living rent free or with parents. (Purdon Associates 2000, p.89) See Table 5.<sup>21</sup>

Table 5: Reasons private renters on social security did not get rent assistance

	Above rent assistance category					Below rent assistance category		Total
	Young/ living at home	Not verified	Change of address	Hardship	Other	Rent free	Below rent threshold	
NSW	1,634	26,370	306	4	9,689	303	58,657	96,963
	1.7	27.2	0.3	0	10	0.3	60.5	
Australia	4,496	72,861	858	6	27,991	848	200,920	307,980
	1%	24%	0%	0%	9%	0%	65%	100%

A quarter of all rent assistance rent recipients paid less than \$100 a week in rent, in 1998. The proportion of rent assistance recipients in mainstream private rental paying less than \$100 a week is lower – at one-fifth. (Wulff 2000, pp.27-28)

The average rent assistance subsidy in Australia was \$67.61 a fortnight – \$1,758 a year, in June 2001 (Department of Family and Community Services 2001); the Commonwealth paid \$1.717 billion to 976,333 recipients.

More than half of the recipients (57%) get the subsidy at the maximum rate (Department of Family and Community Services 2001, p.112).

In March 2000 the average rent assistance subsidy in Sydney was \$63.20 a fortnight. The average subsidy in the rest of New South Wales for the same period was \$60.52 a fortnight.<sup>22</sup> (Steering Committee 2001, Table 16A.31)

Most recipients of rent assistance (69%) would be paying more than 30% of their income on rent if rent assistance was not available. See Figure 7.<sup>23</sup>

Figure 7: Percentage of income that would be spent on rent by rent assistance recipients, without rent assistance

Under 20 per cent	20-30 per cent	30-40 per cent	Over 40 per cent
9	22	22	47

Rent assistance improves housing affordability for recipients. Figure 8 shows the ratio of housing costs to income for recipients, before and after getting rent assistance (as at December 2000).<sup>24</sup> Without getting rent assistance 69% of

<sup>21</sup> Adapted from Purdon Associates (2001, p.89, Table 6.1); data are for June 1999.  
<sup>22</sup> These data are for rent assistance recipients who were customers of the Department of Family and Community Services; they do not include recipients who were paid by or on behalf of the Department of Veterans Affairs or the then Department of Education, Training and Youth Affairs.  
<sup>23</sup> Department of Family and Community Services (2001, p.94); data are for December 2000.  
<sup>24</sup> Department of Family and Community Services (2001, p.111, Table 21).

recipients would be in housing stress; with rent assistance, this proportion drops to 33%.

Figure 8: Ratio of housing costs to income, before and after rent assistance

				<b>If rent assistance not available</b>	<b>With rent assistance available</b>
				<i>per cent</i>	<i>per cent</i>
Paying more than 30% of income in rent	Dec 2000	June 2000	June 1999	69	33
				75	42
				76	42
				74	38
Paying more than 50% of income in rent	Dec 2000	June 2000	June 1999	28	9
				33	11
				33	12
				30	9

A key issue in public policy debate about the effectiveness of rent assistance is the large proportion of private renters – all of whom are low-income or getting some social security support – who are paying more than 30% of their income on rent (even with rent assistance) – some 325,00 Australians.

## 2.5 Program management

Rent assistance is not the only mode of housing assistance. It is one of a number of ‘demand-side’ programs that sit side by side with ‘supply-side’ programs. These are shown in Table 6 on page 13.<sup>25</sup>

The trend in housing policy has been away from ‘in-kind’ housing assistance to ‘in-cash’ housing assistance. This development was particularly marked under conservative Nixon and Reagan governments in the USA in the 1970s and later (Winnick 1995; Orlebeke 2000). In Australia, it was also supported by the Hawke and Keating social-democratic governments in the 1990s (Monro 1997). A concern about disparity in subsidy levels between social security customers in public and private rental tenures (following the National Housing Strategy of the early 1990s) led to great focus on subsidies to private renters. The turning point in Australia was probably the 1992-1993 Commonwealth budget. The government announced that rent assistance would be paid according to an affordability benchmark by 2000. Foard (1995, p.26) speculated that the establishment of an affordability benchmark and associated reforms of rent assistance might tilt the balance between public housing and rent assistance, in favor of rent assistance. Indeed, the rebalancing happened in 1995-1996, as can be seen from Figure 1 (on page 2 of this paper). The increased expenditure on rent assistance in the 1990s is mainly the result of extensions in eligibility and real increases in the maximum rates during the early 1990s.

<sup>25</sup> Hulse (2001, p.3).

Table 6: Types of supply and demand housing assistance subsidies

	Supply subsidies	Demand subsidies
Paid to:	Financiers, developers, builders, landlords	Consumers - purchasers and renters
Objective:	To lower the cost of producing housing units	To improve the consumer's capacity to pay for housing
Portability:	Subsidy attached to housing units	Subsidy attached to household
Direct subsidies - once only (examples):	Capital grants to public or community housing	Home purchase grant Payment of initial costs associated with rental (bond/relocation)
Direct subsidies - ongoing (examples):	Low interest loans to public and community housing developers or private owners/developers Operational subsidies to enable housing producers to change 'below market' rents	Rental subsidy payments, e.g. rent assistance Mortgage relief schemes
Indirect subsidies - once only (examples):	Once-only depreciation allowances	Capital gains tax exemption on owner-occupied housing Stamp duty concessions
Indirect subsidies - ongoing (examples):	Tax measures such as negative gearing, tax credits	Tax relief on mortgage interest Tax credit for renters

At base, the changes were about equitable allocation of resources. Winnick (1995, p.103) describes the dilemma as one of 'chasing equities: deep subsidies for the fortunate few, or shallower subsidies for the deserving many'. The changes were also associated with a desire to avoid *government failure*, that is the perverse effects of government interventions that focussed on hardware (building) rather than the software of human relations. In many areas of social policy in the 1990s, management reformers introduced notions like focusing on outcomes not inputs, cashing out subsidies, empowering the consumer, take the service to the consumer not the consumer to the service, and giving consumers the choice of how they spent their subsidy.

An overview of policy and program developments in the rent assistance program is given in Box 3 (on page 14).

The cost of administering the rent assistance program cannot be strictly identified because the subsidy is delivered with other social security payments. However, it is estimated that the administering cost of delivering rent assistance to each 1,000 recipients is \$21,650 a year (Steering Committee 2001, p.793).

### Box 3: Development of the rent assistance program

1958	rent assistance introduced as a supplementary allowance for pensioners
1975	Henderson poverty inquiry recommends increased rent assistance
1976-1978	Fraser government proposes and withdraws a Housing Voucher Allowance Experiment
1982	public tenants no longer eligible for rent assistance
1986	eligibility extended to unemployment beneficiaries
1987	eligibility extended to low-income families eligible for additional family allowance
1987	Social Security Review research paper argues for greater focus on rent assistance for private renters
1988-1989	Centre for Policy Studies at Monash University argued for the introduction of general housing allowances
1989	National Housing Policy Review rejects a broad-based housing allowance as a substitute for public housing
1990	indexation of maximum rate of assistance introduced
1991	National Housing Strategy develops notion of 'housing stress' based on an affordability benchmark and proposes changes to rent assistance to make it a direct housing subsidy related to affordability benchmarks or to introduce a common rent assistance program for private and public tenants (with no rent rebates in public housing)
1992	Minister of Housing and Community Development, Brian Howe, proposes a general rent assistance model for all the rental tenures
1993	Industry Commission recommends common rent assistance to private and public tenants
1995	Council of Australian Governments proposes reshaping of housing assistance, involving the Commonwealth to fund rental subsidies for both public and private tenants, the Commonwealth to stop funding the states for the expansion of the public rental stock, and the states to finance and provide public rental housing.
1997	the Commonwealth withdraws a proposal to incorporate the rent assistance program into the CSHA, as part of a strict delineation between the role of the Commonwealth as a provider of income support and of the states as providers of social housing
1997	Senate committee report on housing assistance recommends a region-based formula for different rent assistance payments based on rent levels
2000	maximum rates of rent assistance were increased by 10%, from July, to compensate for the impact of Goods and Services Tax-induced rent increases; 8% was a real increase in rates and 2% was an advance of CPI-related increases due in March 2001
2000	Reference Group on Welfare Reform proposes a modular model for social security payments with an add-on payment for housing costs above a specified level, limited to private renters, through rent assistance

The Department of Family and Community Services (2001, p.117) reported one of its performance highlights for 2000-2001 as the completion of a post-implementation review of the first two stages of the 'improve Rent Assistance Compliance' Budget Measure. This measure introduced new verification rules for rent assistance customers who do not have a written tenancy agreement. Stage Three started on 20 September 2001.

Centrelink completed 91,068 reviews of rent assistance recipients in 2000-2001 (Department of Family and Community Services 2001, p.117). These led to lower subsidies in 13,614 cases, resulting in fortnightly savings of \$1,247,010, and to higher subsidies in 2,695 cases, resulting in fortnightly increases of \$89,081. It had 3,937 debts totaling \$1,473,308. The most common identifiable reasons for a review were that the customer was not paying rent or was an ineligible property-owner.

The Department of Family and Community Services (2001, p.118) has indicated that work is required to ‘reduce the complexity of the Rent Assistance program’.

## 2.6 Placement

Rent assistance is unlike other housing assistance programs. It is not explicitly constructed to achieve housing affordability. There is a cap on the maximum amount of subsidy given, which is related to the generosity of the taxpayer, not to any benchmark of typical rent ceilings. And so it is more of a contribution toward affordability, or a buttress against unaffordability. The payment rate is related to rent levels, but not against any benchmark of affordability. It is, moreover, not incorporated in the CSHA as part of the suite of programs addressing housing outcomes.

Rent assistance is part of the social security system. It is an *untied income supplement* to the general income support provided to Centrelink customers, in recognition of the extra costs that private renters have (just as the social security system has a mobility allowance, remote area allowance, and pension education supplement). And this is how recipients see it. Berry states, ‘... it is delivered and treated by recipients as a form of income supplement, not as a subsidy tied specifically to housing.’ (2001, p.19)

From research on sole parent private renters, Burke and Hulse (2001, p.7) reported that 75% said that it helped them afford other essentials of living and 61% said that it helped improve their general standard of living.<sup>26</sup> Research with young people shows similar views. Burke and Ewing (2001, p.7) reported that many young people might not see rent assistance in terms of improving their housing outcomes, but of improving their general living standard.<sup>27</sup> When asked how rent assistance helps them, 71% of students said ‘afford other living costs’ and another 53% said ‘improve my standard of living’. Burke and Ewing acknowledge that rent assistance is seen and used by most young people as an income support, rather than housing, program; the customer may use the money for rent, but they may also choose to use it on any other good or service.

Similarly, the AIDS Council of NSW (ACON) reported that rent assistance was important for Disability Support Pensioners’ overall standard of living and quality of life.<sup>28</sup> The \$40 was a big proportion of a pensioner renter’s income, nearly 20%. Without rent assistance they would still face the same rent levels and what they would forego is food, and health care and medications, ‘and you can forget about

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<sup>26</sup> These findings come from an AHURI-funded study of sole parents in public housing and sole parents in receipt of rent assistance and renting in the private rental sector, which is comparing the effect that public housing and rent assistance have on the housing circumstances and wellbeing of sole parents. The research includes a large sample survey (1,716 respondents) in three states. See Burke (2001), Burke, Aspin and Short (2001), and (Burke and Hulse (2001).

<sup>27</sup> These findings come from an AHURI-funded survey of 2,500 young people in receipt of rent assistance, which examined the impact on their decision-making about housing, education and employment.

<sup>28</sup> Interview with Julie Callaghan, ACON, Sydney, 25 October 2001.

clothes and leisure'. They would have less social interaction with other people, and 'There would also be greater levels of depression, and possibly suicide.'

These research findings and observations in Australia are similar to those in the USA following an evaluation of Experimental Housing Allowance Program in the early 1970s. Recipients of housing allowance did not use the allowance to upgrade the quality of their housing; they used the money saved on rent on other goods and services. Bernard Frieden commented (cited in Winnick 1995, p.109):

The poor do not give housing quality the high priority that program administrators do. In the long history of housing reform in the United States, [EHAP was] the first time that the beneficiaries of a program have been able to make their views known on how the money should be spent. The views of the reformers have always dominated; in fact, we know almost nothing about whether earlier generations of slum-dwellers would rather have had the cash than either model tenements or public housing projects. But the poor of this generation have spoken clearly through the housing allowance experiment. Their main problem, as they see it, is cost, not quality.

Burke and Ewing (2001, p.9) note:

As currently structured, Rent Assistance operates as both an income support (giving clients a choice of how they spend the money) and a housing payment (it is called Rent Assistance). This raises important policy issues. If it is an income support, the ability to have payments differentiated by housing markets is limited by the social security legislation, unless some form of high cost area allowance can be added on. If made into an explicit housing program where expenditure is linked to actual housing payments, it might facilitate greater ability to achieve affordability outcomes, but then create the problem that the money cannot be used for other purposes, e.g. education.

This hybrid nature of the intervention is similar to the situation of the accommodation supplement in New Zealand, but different from the housing vouchers in the USA (Hulse 2001).<sup>29</sup>

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<sup>29</sup> Hulse (2001) compares different models of housing allowance programs. In the USA low-income working households not in receipt of social security benefits are eligible for housing vouchers, and thus the housing voucher scheme is clearly a housing assistance intervention and not an income support or hybrid scheme. However, that scheme is not an entitlement program, and there are often long lists for vouchers, or lists might be closed if there are no funds (p.8).

### 3 Key findings

This section reports on issues raised about the effectiveness of rent assistance. Because there is a reasonable body of debate on supply-side versus demand-side interventions, and this background paper is not a history book, the major focus is on the late 1990s. The findings are grouped under 6 sub-headings:

- eligibility criteria and conditions
- regional and local variations in rents
- impact on rent levels
- adequacy in assisting or achieving affordability
- relative outcomes and alternatives
- Centrelink's customer service

#### 3.1 Eligibility

The two major issues around eligibility have been about those low-income people who are not eligible because they are not social security customers, and about those who are not eligible because they are not private or community sector tenants. People who express concern about this latter issue are in effect questioning a program targeted specifically to private and community sector tenants.

Equity concerns, about some low-income people not being eligible for rent assistance because they are not social security customers, have been raised for at least a decade. The Industry Commission recommended that eligibility be extended to all those on low incomes renting privately, including low-income households with children and Austudy recipients, following a major inquiry into public housing in 1993 (Industry Commission 1993a, p.97).

Similar arguments were put forward at the end of the decade. Berry and Hall (2001, p.71) argued that the rent assistance program did not comply with the principle of horizontal equity, which recommends that similar households in different tenure situations receive similar effective level of housing assistance. Under the eligibility conditions for rent assistance, single people and couples without children who are fully employed but get paid low wages, and do not get any pension or benefit, but who do rent in the private sector, do not receive any rent assistance. They contrast this with the situation of pension and benefit recipients who enjoy identical incomes to this low-wage group, but who get some of their income from a pension or benefit, and who do get rent assistance. They point out that the primary eligibility criteria for rent assistance are not income and privately renting, but social security and privately renting.

In 1997, Shelter New South Wales proposed that there be an income eligibility test for rent assistance, separate to the eligibility tests for social security payments, to break that link between social security and privately renting (Rodden 1997, p.29).

There are also some restrictions on social security recipients. A young person under 25 years who gets an income support payment but lives at home with their parents is not entitled to rent assistance. The Australian Council of Social Service

(ACOSS), in a submission to the Commonwealth government before the 2001-2002 federal budget, recommended that all income support recipients who live at their parental home be eligible for rent assistance, irrespective of their age (Australian Council of Social Service 2001). The rationale for this recommendation was to improve financial assistance to families with older dependent children. Some of those children might be social security recipients (such as young people with disabilities getting Disability Support Pension).

The ACOSS also objected to older students receiving an Austudy payment not being eligible for rent assistance, whereas younger students receiving Youth Allowance are eligible. It argued that both groups of students would be expected to have broadly similar living circumstances. It recommended that Austudy recipients be eligible for rent assistance from 1 January 2002 (with a budgetary costs of \$38 million; \$78 million in 2002-03).

The link between eligibility for rent assistance and eligibility for an income support payment can become problematic if social security status is lost because of the punitive nature of the social security system. Social security recipients who are found to have breached conditions of receipt of income support will lose their rent assistance. This could mean that they lose their home because they are no longer able to pay the rent. Roden (1997, p.28) noted that, 'This massive penalty is not commensurate with the original breach.'

Centrelink's penalizing of its customers because of breaching became more severe at the turn of the century. See Box 4.<sup>30</sup>

#### Box 4: The impact of social security penalties

The Welfare Rights Centre (Sydney) studied Centrelink's practice of penalizing its customers for 'breaches' of conditions in being a customer. It found that breaches for a 3<sup>rd</sup> time doubled as a proportion of all Activity Test breaches from 1999 to February 2001, from 7% to 14%. Those who are breached a 3<sup>rd</sup> time lose all social security payment for a period of 8 weeks. By the time a person has served this penalty, plus their previous penalties, they have lost or been 'fined' \$3,384. The Centre predicted that, at this rate of breaching, the number of 3<sup>rd</sup> Activity Test breaches would be 35,406 in 2000-2001. It argued, 'This represents an alarming number of people who are without income support for eight weeks.' A breach may stay on a customer's social security record for a period of up to 2 years.

Disability advocacy groups spoken with during this project thought that the loss of rent assistance by social security recipients if they (re-)entered the work force presents a 'poverty trap'.

They suggested that, rather than losing rent assistance when moving out of the social security system, Centrelink customers should be able to keep it so long as

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<sup>30</sup> Welfare Rights Centre (2001, p.8).

they have a Commonwealth Pensioner Concession Card or Health Care Card.<sup>31</sup> The savings from those people not re-entering the social security system as full customers would offset the cost of extending rent assistance to them for 6 or 12 extra months.

The Welfare Rights Centre, Sydney, reported that the major problem areas with ineligibility for rent assistance by low-income people were:<sup>32</sup>

- students aged 25 and over;
- people aged under 25 who are living with their parents, as for example many young people with Disability Support Pensions might be, or other young people getting Youth Allowance – these young people do not get rent assistance even if the parents are paying high rents (only 9% of Youth Allowance recipients get rent assistance);
- immigrants without dependent children who are not eligible for (any) social security assistance because of a 2-year waiting period for eligibility for social security for immigrants; however, immigrants with children may get a Family Tax Benefit and thus are eligible for rent assistance;
- people without dependent children receiving accident or injury compensation payments who are precluded from getting social security payments;
- young people who have had their social security payment cut off because they have been ‘breached’ 3 times.

The Centre suggested that eligibility be extended to holders of a Commonwealth Pensioner Concession Card and Health Care Card even where the holder is not getting a social security payment. This suggestion is similar to that made by disability advocacy groups.

Debates around whether public tenants and home purchasers should be eligible for rent assistance (or a common housing benefit) have been based on assessments of the relative degrees of subsidy given to people in the 3 major housing tenures.

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<sup>31</sup> Disability Support Pensioners whose payment is cancelled due to the person commencing employment or due to the level of earnings from the employment are entitled to a Pensioner Concession Card for 12 months after cancellation of payment. Beneficiaries and Special Benefit recipients in receipt of a Pensioner Concession Card are entitled to retain the card for 6 months after cancellation due to income from employment or due to the level of earnings from this employment. Recipients of Newstart Allowance, Special Benefit, Exceptional Circumstance Relief Payment, Farm Family Restart Income Support, Partner Allowance, Widow Allowance, Youth Allowance (not full-time students) and Parenting Payment (partnered) receive a Health Care Card every 12 weeks. If one of those payments (other than an Exceptional Circumstance Relief Payment) is cancelled due to employment, the card can be kept for a further 6 months, provided the person had been receiving the payment for 12 months or more when cancelled. Health Care Cards – Low Income Card may be claimed (for 6 months at a time) by people not receiving a pension, allowance or other benefit and who earn a low-income over the 8 weeks prior to claim. Youth Allowance full-time students and Austudy recipients may apply for a Low Income Card on the basis of their income over the past 8 weeks.

(Information from Centrelink website, [www.centrelink.gov.au](http://www.centrelink.gov.au), accessed 12 November 2001.)

<sup>32</sup> Discussion with Welfare Rights Centre staff, Sydney, 6 November 2001.

Hulse (2001, p.6) noted that Australia was unusual in restricting housing allowances within its income security system to private renters. Some 15% of recipients of the accommodation supplement in New Zealand were purchasers (until changes in the scheme at the turn of the century), and some 7% of social assistance recipients in Canada were owners/purchasers who could get assistance with housing costs.

Burke, Aspin and Short (2001, p.4) noted that many low-income sole parents who are purchasers experience low levels of housing affordability, yet do not get the subsidy available to private renters. They asked, 'Should it be a rent assistance or housing assistance program?' (p.17)

In Australia, where assistance to home purchasers has been located outside the social security system, in specific housing assistance programs in state and Commonwealth spheres, proposals to break the link between rent assistance and the private rental tenure have focused on inequities in subsidies between the major rental tenures. Public tenants, on average, get a rent subsidy that is 110% more than private renters getting rent assistance (Allen Consulting Group 2001, p.28). In New South Wales the rent for a typical public housing dwelling is 56.2% of the market rent, adjusted for rent assistance (Department of Family and Community Services 2001, p.108).<sup>33</sup> Croce (2001, p.15) notes that: 'While [social security customers in public housing] are ineligible to receive Rent Assistance, they often have better standard of living outcomes than do private renters who receive Rent Assistance primarily because it provides a reasonable security of tenure.'

This disparity was one of the drivers of suggestions for a common housing allowance – at least for social housing and private tenants, possibly for home-purchasers – in the 1990s. The Commonwealth government wanted to remove its subsidies to the states for capital subsidies to public housing in favor of demand-side subsidies in the form of rent assistance to both public and private tenants, in 1996-1997 (Berry and Hall 2001, p.74). However, it pulled back because of opposition by the states.

Nongovernment organizations were hostile to the proposal (Stewart 1996; Ecumenical Housing 1997; Roden 1997). This was because of the risk that public tenants would get a smaller subsidy unless the total pool, for what is now two pools, was increased to a level so that all renters would get a subsidy equivalent to what public tenants get through public housing now. They also had concerns if the common allowance was a payment within the social security system, because some public tenants were not social security recipients and because social security recipients lose rent assistance when they change or lose their social security or workforce status. Finally, they thought the proposal would deny to state housing authorities the option of cross-subsidizing their properties from higher rent-paying tenants.

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<sup>33</sup> The Department compared rents charged to all public tenants with the market rent the dwellings would attract if rented privately. It then reduced the market rent figures by the amount of rent assistance households would receive if renting privately (Department of Family and Community Services 2001, p.108).

A Senate inquiry into housing assistance expressed no opinion on whether rent assistance should be extended to other tenants (Senate Community Affairs References Committee 1997, p.46).

Many stakeholders at consultations undertaken by the Australian Housing and Urban Research Institute (AHURI) over 2000-2001, to stimulate discussion about national housing policy in Australia, saw merit in making rent assistance a more general housing assistance payment, extending it to mortgage interest – thus supporting home ownership among low-income people – and, possibly, to public housing rents (Donald, McGlashan and Leisser 2001, p.10).

During research for this paper, the Western Sydney Tenants Service suggested that rent increases by the Department of Housing (DoH) highlighted an anomaly with eligibility for rent assistance.<sup>34</sup> A public tenant paying market or near-market rent is not eligible for rent assistance, but a tenant in the private rental market paying an identical rent for comparable premises in a similar location is eligible, and might have their rent subsidized by up to \$89.60 a fortnight (if single with no dependant children). In localities where market rents are relatively low (and so the public tenant's household income does not have to be high to be paying market or near-market rents for DoH properties), this creates an inequity between tenants in the two markets. The Service suggested public housing tenants disadvantaged in this way be eligible for rent assistance.

This anomaly was illustrated by one public tenant with examples from Casino.<sup>35</sup> She said that the actual rent paid by a tenant in public housing can be higher than net rent paid in the private rental market, where the rents were lower for properties of a higher standard than public housing and better situated (that is, closer to the town center).<sup>36</sup> This anomaly is contributing to an exodus of tenants from the public housing estate.

### 3.2 Adequacy

Given the housing stress that most low-income renters experience, and the role of rent assistance as a contribution to the specific housing costs of private and community sector tenants, how can we assess whether the amount of the subsidy is adequate (in terms of affordability)? The Department of Family and Community Services and Steering Committee for the Review of Commonwealth/State Service Provision use as indicators the proportion of income spent on rent before and after rent assistance (Department of Family and Community Services 2001, p.111;

<sup>34</sup> Email from Robert Mowbray, 2 October 2001.

<sup>35</sup> Email from Roslyn Zemcevicus, president of the (former) public tenants association, Chequerboard Hill Inc., 6 November 2001.

<sup>36</sup> Roslyn Zemcevicus gave this example. A couple on Newstart with 2 children (under 12 years) pays about \$90 to \$95 a week to the DoH. If a DoH tenant has additional children or if the children are aged between 12 years and 16 years, the rent would be higher (because of the higher rate of family allowance they receive). The same couple renting privately, paying a weekly rent of \$130 (regardless of the number of occupants) would receive Centrelink rent assistance of around \$50 a week, and so actually only pay \$80 a week rent. (Email, 6 November 2001.)

Steering Committee for the Review of Commonwealth/State Service Provision 2001, p.788).

The Department of Family and Community Services (2001) reports that rent assistance improves housing affordability for recipients. Before getting rent assistance, 69% of recipients were in housing stress; this proportion dropped to 33%, with rent assistance (as at December 2000). (See Figure 8 in this paper, on page 12.)

While the Department of Family and Community Services focuses on the data indicating that rent assistance does make a difference for most, other writers have focused on those renters for whom it has not achieved housing affordability. Berry and Hall (2001, p.70) investigated whether rent assistance helped recipients alleviate housing stress in Sydney and Melbourne between 1994 and 2000. These were their findings.

- For single persons and couples without children eligible to receive rent assistance, there was almost no type of (average priced) rental dwelling that was affordable in any local government area in either Sydney or Melbourne in 1994 or 2000.
- Rent assistance provided no substantial alleviation of housing stress for single persons and couples without children.
- The number of locations where single person and no-child couple households will not experience housing stress declined significantly since 1994.
- For single persons with 1 or 2 children and eligible to receive rent assistance, only 1-bedroom flats were affordable in 20% of locations (that is, all other dwelling types were not affordable by this group in any local government area) in 2000, and rent assistance was far less effective in widening choice in 2000 than in 1994.
- Couples with 1 or 2 children and eligible to receive rent assistance had a wider range of locational and dwelling choices than any other group, but rent assistance was providing greater choices in 2000 than in 1994 for this household type only where this group was renting 3-bedroom housing.

They concluded that rent assistance was much less effective in broadening dwelling and locational choices in 2000, than in 1994, in either Melbourne or Sydney, and that what level of effectiveness was achieved was largely confined to family types in which there were dependent children.

They argued (p.73) that the program could have been maintained at the effectiveness of 1994 levels only with a significant increase in the rent cut-off levels and maximum amount of assistance payable.

The Allen Consulting Group (2001, p.34) estimated that there were some 500,000 Australian households in housing stress. This figure was calculated by counting 41% of rent assistance recipients (some 385,000 households) in housing stress,<sup>37</sup>

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<sup>37</sup> This proportion of 41% of rent assistance recipients in housing stress applied to mid 2000. The proportion was 33% in December 2000. See Figure 8. The Department of Family and Community  
[This footnote continues on the next page.](#)

and assuming another 115,000 households facing housing stress but ineligible for rent assistance. The Group calculated that the Commonwealth would need to spend an additional \$910 million a year on rent assistance, on the assumption that each of those households needed an average of \$25 a week in additional support.

Policy work done by nongovernment organizations on rent assistance in the mid 1990s focused on promoting the notion of benchmarks that would determine the amount of subsidy paid. (In contrast, the present formula only has an indirect genuflection to rent levels, and has a maximum payment set by the generosity (or limits thereon) of the taxpayers.)

Ecumenical Housing (1997) proposed the application of adequacy benchmarks (which linked occupancy standards with median rents) in 3 different zones across Australia (Ecumenical Housing 1997). This model would have seen increases in payments, and was supported by Shelter New South Wales (Roden 1997, p.53).

Yates (1996, p.41) suggested that the problems with determining a benchmark rent could be 'forgotten' by adopting a *partial subsidy gap model* (or, the European model) for setting the level of subsidy. The rent subsidy would be set according to a formula which increased the subsidy as rent increased, but – as with the current rent assistance subsidy-setting formula – the subsidy would not cover the full gap between rent paid and what is deemed affordable. The subsidy would vary according to household circumstances and vary with income (unlike rent assistance, currently). Households in better dwellings or higher cost locations would pay more for their housing than their counterparts in lower-priced housing, but they would be paying only a portion of the difference, not the whole difference as they currently do. The subsidy would be paid on actual rent and does not require setting a benchmark: it can be applied Australia-wide, and so would not require Centrelink to have different rules for different states or zones. She described this approach as a compromise between the affordability approach of the public housing rental rebate model and the price signal approach of the current rent assistance model.<sup>38</sup>

In recent years nongovernment organizations have tended to eschew grand plans for creating a new system in favor of modifications to the existing model. In a submission to the Commonwealth government before the 2001-2002 budget, the ACOSS (2001) recommended an increase in the maximum rate of subsidy. It was particularly concerned that the current maximum rate was not useful for recipients in Sydney, the Australian Capital Territory and the Northern Territory. It recommended that the 2000-2001 federal budget include an increase in the maximum rate of rent assistance by \$5 a week from 1 January 2002, preferably in

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Services (2001, p.112) attributes the improvement in affordability since June 2000 to higher maximum rates under the Commonwealth government's 'New Tax System'. The average rent assistance increased by 10% after June 2000, while the average rents paid by recipients increased by 5%.

<sup>38</sup> Yates (p.45, f4) expressed this approach as:  $\text{Subsidy} = a(R - bY)$ ,  $a < 1$ . R is market rent, Y is income, and b is the proportion of income deemed to represent an affordable housing payment; a and b are parameters to be determined and can vary with household type. She interpreted the current rent assistance model as one that, before the maximum level of rent assistance is reached, sets  $a = 0.75$  and allows b to vary between approximately 0.10 and 0.15 depending on statutory levels of income for different household types.

all regions but, at a minimum, in those higher cost regions of Australia. It estimated the costs of this would be \$55 million in 2001-2002 and \$110 million in 2002-2003 (cost for global increase).

The NSW Federation of Housing Associations noted the problem with the amount of maximum payment.<sup>39</sup> If rents are lower than the maximum rent threshold, then the maximum payment can assist affordability. This could be the case in many parts of the state outside Sydney – which, however, might not have the employment opportunities and other physical and social infrastructure that low-income people need; in areas with declining populations there is a mismatch of affordable housing with jobs. Increasing the maximum payment and maximum rent threshold would be costly at even a small increase (of say \$5).

ACON noted that the maximum amount of rent assistance was not sufficient for HIV positive people who are not also eligible for the DoH special assistance subsidy – special (SAS), to be able to afford private rental housing in greater inner Sydney.<sup>40</sup> ACON said that the boundaries of what is affordable keeps on moving further out from the inner-city suburbs where gay and lesbian people with HIV feel most comfortable and free from social prejudice and where their social networks are. High rents are fragmenting communities as low-income gay and positive people are forced into ‘foreign’ suburbs. Rent assistance does not give these low-income people choice of safe and reasonable-quality housing. Lodging houses are not suitable for many positive people because they have to share kitchens and bathrooms, which means they have no privacy about their medications. If they get a total of \$220 a week from a disability support pension and rent assistance (say \$180 plus \$40) and pay \$150 for a room in an inner-city lodging house at \$150 a week, then they spend 70% of their income on housing and only have \$70 to live on. ‘Unless you are a young person in a shared house, 2 to a bedroom, I really wonder where people live.’

The Welfare Rights Centre, Sydney, described the levels of payment for renters with children as ‘pathetic’.<sup>41</sup> They reported that many such recipients use their Family Tax Benefit to help pay the rent.

The ACOSS recommended that the Government reverse a 1997 decision to reduce the payment to single people in shared housing by one-third. It argued that the ‘single, sharer, no dependent children’ rate ignored the high costs that shared households faced, and disputed any assumption that single sharers could achieve similar economies of scale in their living costs as couples and families.<sup>42</sup> It

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<sup>39</sup> Interview with Eleri Morgan-Thomas, NSW Federation of Housing Associations, Surry Hills, 18 October 2001.

<sup>40</sup> Interview with Julie Callaghan.

<sup>41</sup> Discussion with staff of the Welfare Rights Centre.

<sup>42</sup> Three-fifths of single rent assistance recipients in group households in 1998 were younger than 35 years of age, most were born in Australia, most relied on the Newstart allowance and had very low incomes (Wulff 2000, p.19). Wulff and Rees (1999, p.10) reported that group household living arrangements allowed single rent assistance recipients to live in dwellings that were more expensive than those rented by single rent assistance recipients living alone. Nearly half of group households are in inner-city suburbs. This situation could follow from lifestyle choices, and also from economic constraints that encourage group living. Chapman (2001, p.75) notes that the varying payment to  
[This footnote continues on the next page.](#)

estimated the cost of this recommendation (if effective from 1 January 2002) as \$27.1 million (\$55.5 million in 2002-2003).

The Welfare Rights Centre, Sydney, commented that lower, sharer's rate would not be so bad if the amount fully payable in rent assistance was not so low.<sup>43</sup> Moreover, young people share to save money, and the reduced rent assistance for sharer comes as a 'penalty' for doing this.<sup>44</sup>

The Commonwealth government seems to accept a benchmark of 30% of household income for the purpose of reporting the impact of rent assistance. (We can infer this from its use in reports by the Department of Family and Community Services and Steering Committee for the Review of Commonwealth/State Service Provision). However, we can also infer that it rejects the benchmark as a basis for setting subsidy levels. In its comment on performance data for rent assistance (Steering Committee for the Review of Commonwealth/State Service Provision 2001, p.795), the Commonwealth government said: 'The adoption of an affordability benchmark would fail to recognize the element of choice exercised by customers who place a higher value on housing than placed by others in comparable circumstances.'

Following its inquiry into public housing in the early 1990s, the Industry Commission (1993a) concluded that the amount of subsidy given to private renters, through rent assistance, should not be the same as the amount of subsidy given to public tenants, through rental rebates. This was because public housing was a more cost-effective long-term means of providing appropriate and affordable housing: the higher subsidy to public tenants reflected the net benefits gained through public housing relative to rent assistance. In its submission to that inquiry the Department of Social Security (1993, p.8) had suggested that the scope for rent assistance to imitate the structure and value of benefits provided by public housing was limited.

### **3.3 Regional and local variations in rents and subsidy**

There are two spatial dimensions to rent assistance: variations in rent levels across Australia by locality and region, and the extent to which the basis on which rent assistance is calculated addresses those variations (whether it does, and whether it should).

The housing market in Sydney is heavily influenced by the place of that city in the Australian, regional and global economies. Housing purchase and renting prices are higher than those in the rest of New South Wales and the rest of Australia. Burke (1998, p.47) said, 'The low income housing problem is and will always be worse in Sydney compared to the rest of Australia'.



single sharers in group households in effect links the provision of rent assistance to the 'house' rather than the person, a situation that does not apply to other recipients.

<sup>43</sup> Discussion with staff of the Welfare Rights Centre.

<sup>44</sup> Thirty-five per cent of young people in group living pay more than 25% of their income on housing costs. This contrasts with young people living alone, 66% of whom pay more than 25% of their income on housing costs (Burke and Ewing 2001, p.6).

Berry and Hall (2001, p.70) found that single persons with 1 or 2 children and eligible to receive rent assistance, could afford only 1-bedroom flats in 20% of Sydney locations in 2000 (keeping housing costs to 30% of their income). All other dwelling types were not affordable by this group in any local government area in Sydney in 2000.

The basis on which rent assistance is calculated makes an indirect reference to rent levels. The minimum rent levels set mean that in areas where rents are very low (less than \$39.70 a week, for singles with no children), no rent assistance is paid. This link has theoretical rather than practical application. The lowest median rent for new bonds lodged with a letting of a 1-bedroom flat in greater Sydney in the September quarter 2001 was \$100, in Bankstown and Wyong local government areas (Housing New South Wales 2001). So, the minimum threshold has no relevance to the *mainstream* private rental market in Sydney.<sup>45</sup> The lowest median rent for new bonds lodged with a letting of a 2-bedroom flat/unit in non-metropolitan New South Wales in the September quarter 2001 was \$95, in the Lachlan local government area. So, the minimum threshold has no relevance to the mainstream private rental market in rural New South Wales. The maximum amount of subsidy is given if a weekly rent is over \$99.43 (for singles with no children). So, variability in payments by region is negated by high rents across the state. Median weekly rents for new bonds lodged for a 1-bedroom flat were over this threshold for 49 of the 53 local government areas in metropolitan New South Wales, and for every non-metropolitan local government area except one, in the September quarter 2001.<sup>46</sup>

Nongovernment advocacy organizations working with people with disabilities thought that low-income people in non-metropolitan areas were not necessarily better off because of lower, comparative rents.<sup>47</sup> People in country areas were faced with a relative shortage of 1-bedroom units and so might have to take more expensive, 2-bedroom units. Alternatively, they might choose cheaper housing out of town, which creates higher transport costs and could contribute to social isolation. These problems are exacerbated if the person has a mental health and substance abuse problem, or HIV/AIDS. The groups emphasized that there is a social impact, not just an economic impact, of people being forced to live in low-rent areas.

While these data and experiences are contemporary, the phenomenon is not. The National Housing Strategy (1991, p.44) thought that rent assistance should respond

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<sup>45</sup> The minimum threshold would be relevant in submarkets within the private and community rental housing sectors, such as in boarding/lodging houses, residential parks, community housing, aged care facilities, and other special needs housing provided by nonprofit landlords. Rent variations across and within these submarkets would reflect the nature of the housing provided rather than rents in the locality or region, though 'mainstream' rent levels would influence the rents in those submarkets.

<sup>46</sup> Median weekly rents for new bonds lodged ranged from \$70 to \$98 in the Cessnock, Lake Macquarie, Maitland and Port Stephens local government areas, in the September quarter 2001. The median weekly rent for a 2-bedroom flat/unit in Lachlan was \$95 in the September quarter 2001. (Housing New South Wales 2001)

<sup>47</sup> Meeting with disability advocacy groups convened by People with Disabilities (NSW), Redfern, 8 November 2001; interview with Julie Callaghan.

to regional differences in rents, and suggested that it be linked to income and to housing costs (against an affordability benchmark).

The Industry Commission (1993a, p.99) thought that the problem that private renters faced with regional differences in rents could be mitigated by locating public housing in high-rent areas.

Supporters of the notion of an affordability benchmark (for example, Foard 1995; National Shelter 1997; Roden 1997; Senate Community Affairs References Committee 1997; Nicolades, Webb and Hounslow 1998) did so because of a desire to link those benchmarks to the level of subsidy paid.

The Victorian organization, Ecumenical Housing, proposed variation of housing subsidies across 3 different zones across Australia, for each of which there would be different adequacy benchmarks (linking occupancy standards with median rents) to determine subsidy levels (Ecumenical Housing 1997, pp.51-52). It suggested that the median rent for each zone be set according to the median rent of the highest metropolitan area rents included within each zone, which were those of Sydney, Melbourne and Adelaide. Its proposed zones were:

- Zone 1 – Sydney metropolitan area
- Zone 2 – Melbourne metropolitan area, Brisbane metropolitan area, the Australian Capital Territory, the Northern Territory, non-metropolitan New South Wales, non-metropolitan Queensland<sup>48</sup>
- Zone 3 – Adelaide metropolitan area, Perth metropolitan area, Hobart metropolitan area, non-metropolitan Victoria, non-metropolitan South Australia, non-metropolitan Western Australia, non-metropolitan Tasmania

The Senate Community Affairs References Committee (1997) recommended a regional-based formula for setting subsidy levels, but did not push this proposal strongly. It noted that: ‘... some low income renters prefer to spend a higher proportion of their income in rent in order to live in a more desirable locality close to a range of services and save on transport and other costs. It is not for the taxpayer to compensate for the consequences of that choice.’ (p.44)

In a submission to the Commonwealth government before the 2001-2002 budget, the ACOSS (2001) recommended an increase in the maximum rate of subsidy across the board, but as a fallback position, at least to recipients in higher cost regions. It nominated Sydney, the Australian Capital Territory and the Northern Territory.

This matter was also raised during consultations undertaken by the AHURI to stimulate discussion about the context and direction of housing policy in Australia.

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<sup>48</sup> Ecumenical Housing thought there was a case for including the Australian Capital Territory and Northern Territory in the highest rent zone (zone 1), but excluded them from that zone because they have relatively high levels of public housing stock, which put them in a better position to accommodate tenants in housing stress. (Those two jurisdictions have the highest proportions of public housing in Australia: some 20% in the Northern Territory and some 12% in the Australian Capital Territory (Australian Institute of Health and Welfare 2001, p.70).)

Stakeholders suggested regional differentiation and/or changes to the maximum rate of rent assistance and the 'rent test' and income test to provide more substantial assistance in high cost areas (Donald, McGlashan and Leisser 2001, p.10).

The inequity in amount subsidies was raised in the work of the Affordable Housing National Research Consortium over 2000-2001. Berry and Hall (2001, p.71) argued that the rent assistance program did not comply with the principles of horizontal equity because the proportionate value of the housing benefit conferred varies widely across Australia. The maximum amount of benefit and the maximum rent cut-off point is the same, yet the amount of housing services that can be purchased varies because of the different housing costs in cities and regions. The Allen Consulting Group (2001, p.27) found that the maximum available amount of rent assistance was most inadequate for those living in Sydney and Melbourne where rents are above the national average.

Staff of the Welfare Rights Centre, Sydney, had two perspectives on this matter.<sup>49</sup> One was that a higher rent assistance payment in Sydney might imply that social security payments *generally* should be higher in Sydney because of the higher cost of living in that city. Another was that people in rural areas might seek higher social security payment rates because of their comparatively higher costs of transport. They suggested that social security payments should be seen as a baseline payment for any Australian. A 'compromise' suggestion was that a special case might be able to be made for rent assistance to be regionally-variable, because housing costs were the single biggest and lumpiest component of household expenditure. In this scenario, a higher rate of rent assistance could be paid only to those private tenants assessed as eligible for allocation of public housing.

Hulse (2001, p.12,9) notes that – unlike equivalent schemes in New Zealand and the USA, where subsidies are varied by region (New Zealand) or local area (USA) – only in Australia is there no consideration of local or regional rent levels in setting the maximum level of subsidy.

### 3.4 Impact on rent setting

There is a steady body of literature, especially in publications associated with the community sector, that asserts or predicts that rent assistance is rent inflationary. Shelter New South Wales argued this position at least as far back as 1977,<sup>50</sup> and again in 1997 (Roden 1997, p.39). This view was put in consultations undertaken by the AHURI on the future of national housing policy, held in 2000-2001 (Donald, McGlashan and Leisser 2001, p.10). However, in some 20 years of advocacy proponents of the rent inflation position have not provided any empirical evidence for it. Moreover, there is also a body of literature that puts a counter view, based on an assessment of the actual impact of what is a small subsidy and the relative inelasticity of supply in the specific sub-markets occupied by low-income private renters.



<sup>49</sup> Meeting with Welfare Rights Centre.

<sup>50</sup> Foard (1995, p.27) cites a 1977 NSW Shelter document arguing this.

Econsult (1989) observed that housing allowance programs have not generally led to increases in rent levels, in Europe and the USA, and they reached the same conclusion following research in Melbourne.

Econsult (1991) identified a number of factors that defined rent-setting processes by real estate agents.<sup>51</sup> Real estate agents adjusted rents to minimize a rent *hiatus* between lettings. Agents tested the market for a higher rent in situations of strong demand. They had a base rent below which they would not let, where the letting would yield a net cost: this was about 6% of the value of the property. Only a small minority always put up a rent after the expiry of the initial fixed term of a lease; some of those who did increase a rent at this point moderated the increase for 'good tenants'. Most agents said that good tenants would receive favorable treatment, by delaying an increase or moderating the amount of the increase.

Econsult were particularly concerned with the processes in 'base rent' submarkets rather than 'quality-aligned' submarkets, because rent assistance recipients are located in the former.<sup>52</sup> They identified greater demand for, than supply of, base rent housing, and regarded supply of housing in this submarket as 'close to inelastic'. Real estate agents rationed the limited supply according to a number of factors. One of these was the letting price. The base rent was the 'price of a ticket' to participate in the market, rather than an equilibrium price determined by the free interaction of supply and demand (p.25). But after considering an applicant's income in general terms, the key criteria that agents used to decide which low-income applicant to approve were the likelihood of reliability in paying the rent (the applicant's 'rent record') and of trustworthiness in looking after the dwelling.<sup>53</sup> The bidding power of tenants is not determined by the price they are willing to pay, but by these other factors.

Econsult identified 5 factors that mitigated against rent assistance generating higher rents in the 'base rent' submarket (pp.25-26).

- The product offered to consumers was relatively homogenous. The consumer had few prospects of trading up to a better quality dwelling. They will therefore spend a marginal increase in income (the rent assistance subsidy) on other things than housing.

<sup>51</sup> The data come from a survey of real estate agents in Sydney, Dubbo, Bendigo and Brisbane, conducted in September 1990; the field work involved 96 face-to-face interviews and survey of 42 pro-forma questionnaires (with some overlap of the respondent from these 2 methods).

<sup>52</sup> They defined the base rent submarket as that where the consumer transactions involved predominantly investor landlords motivated by capital gains and tax breaks, sub-standard dwellings with relatively high land value, and low-income consumers. They defined the quality-aligned submarket as that part of the rental housing market typified by predominantly 'accidental' landlords, good to excellent quality dwellings, and consumers of adequate means who are in the rental market temporarily. (Econsult 1991, p.29)

<sup>53</sup> Data from 59 real estate agents in 4 states/territories surveyed in 1999 on views to young people indicate that successful tenancy applicants need to demonstrate sufficient income to cover rent and associated costs as a necessary pre-condition for an application to be approved, and that agents use a number of risk management criteria to assess those applications, such as rental history (Chapman 2001, pp.112-113). This survey was done in association with the National Youth Coalition for Housing.

- The consumer is likely to be already paying a base rent that is higher than the quality of the dwelling justifies. In so doing they are denying themselves other consumer items. They will use a marginal increase in income to purchase some of those other items.
- Real estate agents concentrate on the non-financial attributes of tenants, rather than the details of an applicant's income, in tenant selection. Income is used only to broadly categorize prospective tenants, such as whether to constrain them to the base-rent submarket (or conversely, the quality-aligned submarket).
- There was little evidence of collusion among landlords or real estate agents in the agent-managed rental housing sector.
- Landlords were generally divorced from the rent-setting process in the agent-managed sector and had little knowledge of pensions, benefits and rent assistance. The level of knowledge about social security entitlements was low among real estate agents.

The National Housing Strategy (1991, p.44) acknowledged the work by Econsult (1991) that rent assistance had not led to increased rents. It merely expressed a (theoretical) concern that the larger rent assistance program it proposed (based on affordability benchmarks) could lead to higher rents, but said this risk could be minimized by setting a maximum rent and by increasing the supply of private rental housing (1991, p.45).

Foard (1995, p.29) found that income received each week was not a significant determinant of rent expenditure, 'contrary to the expectations of those who have argued that the benefits of additional cash assistance would be sacrificed on the altar of higher housing consumption and landlord profiteering'.<sup>54</sup> He found that additional rent assistance payments were not likely to produce any demand-driven rent increases, because households receiving social security payments were likely to spend less on rent than households getting the same amount of income from other sources (p.29). He found that low-income households were only likely to spend higher amounts on rents (for larger dwellings) if household size compelled them to. Thus, there was little likelihood of 'over-consumption' of housing by households in the bottom half of the income distribution (p.30). Based on this analysis of consumer behavior, he suggested that debates about the inelasticity of private rental housing supply were no longer relevant to an assessment of the efficacy of rent assistance reform (p.30).<sup>55</sup>

Monro (1997, p.18,59) noted that, while rent assistance increased significantly since the early 1980s, both in terms of the maximum amount of assistance available to individuals and the total amount paid by the government, and while rent levels had undergone cyclical fluctuations, rents had generally risen less than the overall rate of inflation.

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<sup>54</sup> Foard's analysis was based on data from two surveys of a total 23,100 households in 1991, one done for the National Housing Strategy (called Housing and Location Choice) and one done by the Australian Bureau of Statistics (called Income, Housing Costs and Amenities).

<sup>55</sup> He did not kill off debate about the relevance of the inelasticity of supply in the private rental housing market, however; it was revisited by Berry and Hall (2001, pp.62-67).

The Senate Community Affairs References Committee found no evidence that landlords put up rents in response to increases in rent assistance (1997, p.40).

By the late 1990s major nongovernment organizations had become more cautious about the rent-inflationary position. Nicolades, Webb and Hounslow (1998) noted the argument that the provision of rent assistance might simply encourage landlords to charge higher rents. But they recognized that a consumer might use the money to increase consumption of other household items that they had been previously under-consuming (rather than consuming more housing, and thus contributing to rent inflation). 'This is an area of debate in which there is much disagreement, and where further research is required.'

Nonprofit nongovernment organizations approached during this project were also skeptical about rent assistance having an inflationary impact in the mainstream rental market.

Eleri Morgan-Thomas of the NSW Federation of Housing Associations was unaware of any examples of the inflationary effect of rent assistance on rents in privately-owned housing headleased by community housing associations.<sup>56</sup> She thought that, given the nature of most private landlordism in Australia, few private landlords would set rents on a 'rational' basis: the key driver in rent setting was the return on the investment in the long-term. She did not believe that receipt of rent assistance by a tenant would affect the approach of private landlords to rent-setting. She also suggested the question should be asked in reverse; that is, if the Commonwealth stopped its rent assistance program, would rents come down? She ventured the answer to that question would be 'no'.

ACON thought it was unlikely that rent assistance drove up rents, because the maximum amount of rent assistance was 'so insignificant'.<sup>57</sup> In inner Sydney rents were set on the basis of what people are prepared to pay, and they are driven by the high-income earners who are now choosing to live there. If rent assistance was taken away, so that a pensioner was living on, say, \$180 not \$220, the rents would not fall – the tenant would just be worse off.

The Bobby Goldsmith Foundation also did not think there was any inflationary impact on rent levels, at least in inner Sydney, because the amount of the subsidy was 'so insignificant'.<sup>58</sup>

Disability advocacy groups had no evidence for or against a view that rent assistance had an inflationary effect on rents in the general private rental market, but expressed some skepticism that it would.<sup>59</sup>

Workers with low-income older people pensioners expressed neutrality on whether rent assistance would lead to increased rents.<sup>60</sup> They thought that private landlords

<sup>56</sup> Interview.

<sup>57</sup> Interview with Julie Callaghan.

<sup>58</sup> Interview with Mark Tietjen, Bobby Goldsmith Foundation, Sydney, 19 November 2001.

<sup>59</sup> Meeting with disability advocacy groups.

would not necessarily know if a tenant was in receipt of rent assistance. They had come across one situation in their case work where a landlord calculated the amount of rent assistance an existing tenant would get for different, new rent levels, when considering to increase the rent asked for. See Box 5.<sup>61</sup> This is an example of rent in mainstream private rental being set at a higher level taking into account that the tenant would be compensated by a higher amount of rent assistance. One case does not show a picture of endemic or systematic abuse of rent assistance by for-profit landlords, of course.

Box 5: Possible rent impact: case 1

A 69-year old woman in a wheelchair received a rent increase notice from her landlord. He increased the rent by \$60 a week. The rent increase notice was invalid. I sent a letter to the landlord, telling him that the notice was invalid and that my client would continue to pay the old rent. Both my client and the landlord are German-speaking and move in the same community. The landlord contacted my client and discussed his proposed rent increase with her. She argued that she would not be able to afford the new increased rent. A few days later, the landlord contacted me. As I am German as well, he felt confident in discussing with me the proposed rent increase. He asked me, if I could tell him how much rent assistance my client would get if he increased the rent a certain amount, with the view to increasing the rent for the amount of rent assistance she would receive if she had to pay higher rent. His proposal was that he would write a statement that she is paying a higher rent than she actually does, if she would pay the increase in her rent assistance straight to him.

A community-based tenancy advice and advocacy service also provided the case indicated in Box 6.<sup>62</sup>

Box 6: Possible rent impact: case 2

A tenant came to the Marrickville Legal Centre with a notice of termination for rent arrears. She was around \$600 behind on a \$150 a week tenancy. She had been in the tenancy for around 6 years and had fallen into rent arrears on several occasions previously. This was her 2nd notice of termination. On the 1st occasion she had successfully negotiated an agreement to pay back the arrears in instalments. Marrickville Legal Centre agreed to try and negotiate an agreement for her to pay back her arrears. In the course of the negotiations the agent said, 'She has got no excuse, I even got her the form to sign up for rent assistance but she hasn't bothered to do that.' On enquiry, it turned out that the tenant had applied for rent assistance on being advised by the agent and was receiving it. In this case, rent assistance was certainly an important factor in the tenant being able to maintain a marginal tenancy. The agent was familiar with the general entitlement of the tenant to rent assistance. It is not known if this affected the amount of rent the landlord charged.

Members of the Tenancy Legal Working Party (a forum of nongovernment and government workers involved in legal aid case work with private renters in New



<sup>60</sup> Interview with Phoenix van Dyke and Denise Steele, Combined Pensioners and Superannuants Association of NSW, Surry Hills, 17 October 2001.

<sup>61</sup> Email from Phoenix van Dyke, Combined Pensioners and Superannuants Association of NSW, 24 October 2001.

<sup>62</sup> Email from Sarah Boddington, Marrickville Legal Centre, 2 November 2001.

South Wales) suggested that the question of any inflationary impact of rent assistance on rents needed to be answered in relation to different submarkets.<sup>63</sup> The dynamic could be different in submarkets that are outside the mainstream rental market, in housing types and situations where large numbers of social security recipients are congregated and where the rents fell within the lower and upper rent threshold range, such as boarding and lodging houses, retirement villages, residential parks, and social housing providers for people with disabilities.<sup>64</sup>

They suggested, for example, that residential park owners would be aware of which of their customers could be getting rent assistance; and owners could soften an increase in rent or site fees by absorbing more rent assistance. They mentioned a case involving residents in a retirement village: the village service/maintenance fee was within the band between the lower and upper rent thresholds. The village management proposed to put fees up. The existence of rent assistance gave resident advocates the opportunity to negotiate a new fee that did not take as much money from the resident's pocket.

Members of the Tenancy Legal Working Party suggested that there needed to be state-based regulatory controls to cap rents or the duration between rent increases, to protect private renters from rent inflation. One suggestion was for the particular acknowledgment given to prevailing market rents by the *Residential Tenancies Act 1987* (NSW), in setting processes for a tenant's application to the Residential Tribunal for an order that a rent increase is excessive, be changed to reflect the provision of the *Residential Parks Act 1998* (NSW).<sup>65</sup>

Another suggestion was for the provisions in both of those Acts that put the onus on the consumer to prove that a rent increase is excessive,<sup>66</sup> to be repealed, so that the onus is on the owner to justify a rent increase which the tenant claims is excessive. This was because it is difficult for tenants to gather the information required to evaluate the relevant matters the Tribunal may have regard to.

The Affordable Housing National Research Consortium considered the issue of rent inflation at a theoretical level. Berry and Hall (2001) rejected the 'economically conventional' position that suggested that rent assistance should stimulate demand for rental housing, which should increase the supply of low-cost rental housing, and which should in turn lead to rent prices falling back to levels appropriate to an equilibrium position of supply and demand (pp.62-63). They identified the factors relevant to a conclusion that rental housing markets cannot be described as efficient. Those were (pp.63-65): a lack of comprehensive, real time information by

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<sup>63</sup> Meeting with Tenancy Legal Working Party, Millers Point, 26 October 2001.

<sup>64</sup> Wulff (2000, p.27) reported that boarders and lodgers in receipt of rent assistance pay lower rents than other rent assistance recipients; in 1998, 25% paid less than \$60 a week, 50% paid less than \$75 a week, but 25% paid more than \$100 a week.

<sup>65</sup> Section 48 of the *Residential Tenancies Act 1997* (NSW) provides that the Tribunal, when determining whether a rent increase is excessive, may 'have regard to the general market level of rents for comparable premises (other than premises let by a government department, administrative office or public authority) in the locality or a similar locality and may also have regard to' 6 other, specified matters. Section 57 of the *Residential Parks Act 1998* (NSW) includes the general market level of rents in a list of 10 specified matters.

<sup>66</sup> That is, s.47 of the *Residential Tenancies Act* and s.55 of the *Residential Parks Act*.

consumers or providers; the heterogeneity of the product; barriers to entry and exit for consumers and providers; and, supply lags and illiquidity. The US and English literature they surveyed (pp.65-67) cast some doubts on whether rent assistance could generate a supply-side response by private for-profit providers.

None of this literature, however, contained any empirical evidence of rent price increases attributable to a demand-side subsidy.

Rent assistance does have a direct impact on processes of rent-setting and actual rents set in many forms of *community-managed housing*, in situations where the rents are below the rent assistance maximum rent threshold, or where the nonprofit landlord seeks to capture the total amount of rent assistance to reduce their fiscal risk and remain trading. In some specific housing for people with disabilities or older people, all the (maximum rate of) rent assistance is factored into rent-setting formulas.

That renters in housing managed by nonprofit or community-based landlords are eligible for rent assistance has been a key factor in development of new models for financing social housing.

Porter (2000, p.6) refers to a model for partial debt-financing developed by Ecumenical Housing in Victoria; the model works better where tenants get rent assistance. The South Australian Community Housing Authority is also developing a debt finance model to finance community housing, which is based on market rents and the tenants getting rent assistance. Porter notes that, with financing models based on market rents and/or rent assistance, the use of rent assistance could lead to significantly higher income for the social housing provider without necessarily leaving the tenant worse off (p.11).

A report for the Victorian government's Social Housing Innovations Project (Bisset 2000) also identified new debt financing initiatives in which rents were structured to capture rent assistance, as well as 25% of the tenant's income. Rent assistance enhanced the capacity of nonprofit landlords to service a proportion of debt or leverage finances from other sources. The financing models developed by the Project assumed rents set at 25% of pension/benefit/earned income, plus all eligible rent assistance up to a maximum of market rent (p.33).

This Victorian initiative explicitly tested models based on a separation of the responsibilities of the Commonwealth and state government, with the state responsible for the supply of social housing, by providing capital funds, and Commonwealth responsible for affordability, through the provision of recurrent funds in the form of rent assistance (p.11). This separation was proposed and withdrawn by the Commonwealth in 1996-1997.

Bisset acknowledged that the models being developed in Victoria were exposed to any (hypothetical) policy changes in the Commonwealth sphere to reduce eligibility for and the amount of rent assistance. But he noted, '... this would be against the current trend of Commonwealth policy which, over the last decade, has seen Rent Assistance incorporated into the income security system, been indexed to CPI, extended its coverage, and increased its value in real terms.' (p.35)

Capturing rent assistance through rent formulas has been a feature of rent-setting by community tenancy associations and tenant-managed cooperatives in New South Wales.<sup>67</sup> Fowkes (2001, p.25) notes that under the guidelines of the state government's housing cooperatives program, rents are set at a maximum of 25% of gross household income or market rent, whichever is lowest, and rent assistance payments are considered part of income.

Consideration of rent assistance in rent-setting by community housing providers is uneven, across Australia.<sup>68</sup> It has been most formalized in New South Wales, but it is becoming a standard feature of financing new community housing models Australia-wide. In New South Wales rent assistance is basically regarded as income for determining the gross amount of household income to which a 25% of income threshold will apply, for purpose of rent-setting by community housing providers. In Victoria, and the new Brisbane Housing Company, the provider sets the rent at an amount at 100% of the rent assistance and 25% of the tenant's income.<sup>69</sup> The rationale for this is to structure rent revenue so as to enable the provider to be viable, and, at least implicitly, to give some comparability with public tenants in as much as the rent assistance corresponds to the notional rental rebate of public housing. Community housing providers are in a similar position to public housing providers, where rents are barely covering cost of supply: rents need to be set at a level to protect against insolvency of the provider.

The National Community Housing Forum suggests that social housing needs a rent-setting formula that is not income-related.<sup>70</sup> Income-related rent formulas can create poverty traps in high-rent areas: low-income tenants might be discouraged from getting work and from leaving the social security system if a consequence is a higher rent in their social housing dwelling. This could be happening with affordable housing in Sydney suburbs like Ultimo/Pymont. So there could be an argument for setting rents on alternative bases, like cost-rents or discounted market rents, which would not be affordable for some people but would still be so for many

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<sup>67</sup> It is also used by the NSW Department of Housing to calculate the amount of special assistance subsidy - special (SAS) it pays private landlords on behalf of people with HIV/AIDS and people with disabilities who have been approved for a priority housing allocation. The DoH changed the way it calculated the level of subsidy in 1998. Up till then, 20% of total income, including rent assistance, was calculated as income for purposes of subsidy-setting. However, it appeared that some recipients of the SAS were preferring to stay in the private rental market and some public housing tenants were contemplating leaving public housing, because they would be better off in the private rental market with Centrelink rent assistance. From 14 August 1998 the total amount of Centrelink rent assistance received by a person receiving the special assistance subsidy has been directly applied in reduction of their rent. The DoH then calculates 20% of the remaining income as the customer's direct rental contribution. For example, if a rent for a dwelling has been set at \$250 a week, the customer's contribution, based on their fortnightly income, would be as follows: Centrelink rent assistance received = \$80; 20% of Disability Support Pension (at \$346) = \$69.20; a total contribution \$149.20. The Department of Housing's subsidy would be the difference between \$500 (250x2) and \$149.20, that is, \$350.80 (a fortnight). (Information from Julie Callaghan, ACON, October 2001.)

<sup>68</sup> Interview with Adam Farrar, National Community Housing Forum, Ultimo, 7 November 2001.

<sup>69</sup> The Brisbane Housing Company is a joint venture between the Queensland government and the Brisbane City Council. In its affordable housing, rents will be set at 75% of the market rent for each individual property (which market rent will vary by property type and suburb). Tenants will pay this discounted rent (75% of market rent) less Commonwealth rent assistance.

<sup>70</sup> The comments in the following paragraphs are based on an interview with Adam Farrar.

low-income people, and in any event, allow for more consumer choice. Those alternative bases would be predicated on the tenant being able to get rent assistance.

Community housing providers are responding to the same needs as advocates of 'more public housing' but with a different supply-side response – one that needs the demand-side subsidies of rent assistance. Rent assistance is a key lever for the viability of community housing, which has to tap diverse revenue streams to be sustainable.

The use of rent assistance to sustain and expand community housing is also a feature of public policy in other jurisdictions in Australia and overseas. (See, for example, Apelt 2000, p.3; Winnick 1995, pp.114-116.)

### 3.5 Outcomes for recipients

The outcomes of rent assistance can be considered for recipients and for taxpayers. Do consumers benefit? Is rent assistance an efficient use of limited government resources?

The data on the impact of rent assistance on the proportion of household income spent on housing, before and after rent assistance (see Figure 8 on page 12 of this paper) suggests it is useful for most recipients (two-thirds of them). Even though the maximum amount of weekly subsidy, at some \$45 (for singles without children), is low in the context of high rents, survey and anecdotal data report that consumers value the subsidy and would be unhappy for it to be withdrawn. Welfare Rights Centre staff commented that: 'Every dollar makes a difference.' and 'It is inadequate, but people would not survive without it.'<sup>71</sup>

Rent assistance is flexible. A recipient does not have to lease a dwelling from state-sanctioned suppliers (as voucher recipients do in the USA).<sup>72</sup> They can choose to live in mixed-tenure neighborhoods. They can choose not to 'over-consume'.<sup>73</sup> A recipient can re-deploy an equivalent amount from their budget to other living costs. (See page 15 of this paper.) In this way rent assistance contributes to an overall better standard of living and quality of life. Modeling of the impact of rent assistance, by King (2001), showed that rent assistance had positive labor market

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<sup>71</sup> Discussion with Welfare Rights Centre staff.

<sup>72</sup> One of the perverse effects of the US voucher scheme follows from a program requirement that recipients may only rent from providers whose housing meets certain standards. This is a contributing factor to reduced participation of providers in the program and a reduced supply of housing available to recipients. More than 10% of vouchers issued are not used, for various reasons. (Sard 2001, p.94-95)

<sup>73</sup> Over-consumption refers to a situation where a consumer lives in a residence that is better, in terms of neighborhood amenity, dwelling size, number of bedrooms and condition, than what they would be prepared to pay for on a market basis. However willingness to pay is affected by capacity to pay, and so the choice by low-income consumers of poor quality housing is a poor indicator of housing satisfaction. One, blunt, indicator of over-consumption is under-utilization, which is defined as where there are 1 or more spare bedrooms in a dwelling (Purdon Associates 2000, p.136). There were some 83,500 NSW rent assistance recipients under-utilizing housing (on this basis) in 1998, comprising some 19% of the total number of rent assistance recipients. Some 60% of those 83,500 people were paying more their 30% of income on housing costs (p.141).

and education impacts for recipients, beyond its income support function. The findings from this modeling is supported by findings from a survey of 2,500 young people in receipt of rent assistance, on the role of rent assistance in shaping recipients' perceptions of the accommodation and life choices open to them. Burke and Ewing (2001, p.7) found that:

Rent Assistance is a policy tool for helping those eligible into tertiary education. ... with 70 per cent of recipients saying Rent Assistance had been a factor in their decision to study. It was seen as particularly important by two groups: those from remote or rural centres with 40 per cent reporting it as a major factor; and secondary students in independent living, with over half claiming it was of major significance.

A potentially perverse effect of rent assistance could be a disincentive to re-enter the workforce for those full-time social security recipients who are able to do so. Nicolades, Webb and Hounslow (1998, pp.3-4) state that the provision of rent assistance could increase effective marginal tax rates (EMTRs), thereby increasing poverty traps and workforce disincentives. However, they noted that rent assistance would only be withdrawn if social security payments were withdrawn, so rent assistance itself would not increase the high tax rates faced by low-income people. Moreover, its effect on workforce disincentives would be less severe than a withdrawal of the public rental rent rebate, 'although no specific behavioural data exists to provide certainty on this issue'.

Burke, Aspin and Short (2001, p.18) report on statistical modeling of the EMTRs on sole parents who receive certain levels of additional income, undertaken in early 2000 (Reference Group on Welfare Reform 2000, p.47). This showed that the EMTR was negative (that is, the recipient loses more than they earn) for private renters in some situations. However, Burke and Hulse (2001, p.6) report from a survey of sole parents, that only 14% of rent assistance recipients said they would not take a full-time job if it meant loss of rent assistance. (This compared with 1/3<sup>rd</sup> of sole parents in public housing who said they would not take a full-time job if it meant losing their public housing.)

Likewise, Ong (1998) found that the female sole parent recipients of rental assistance in California had better opportunities for employment, because of the residential choice and mobility enabled by the vouchers, compared with those in public housing.<sup>74</sup>

There is a reasonable body of public policy literature that critiques rent assistance as a program. The three major strands of criticism are that: it does not achieve affordability for all low-income private renters, either because the amount of assistance is not enough or some private renters are not eligible for it; it helps provide an inferior model of housing to that provided through supply-side assistance; and it is less cost-effective than provision of in-kind support (public

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<sup>74</sup> The extent of 'residualization' and stigmatization of public housing in the USA, the location in run-down inner-city suburbs, and the congregation of poor Afro-Americans in it, probably makes for a sharper contrast between public housing programs and other housing assistance in the USA, than Australia.

housing) over the long term. The latter two arguments are used by supporters of what US analysts call ‘project-based’, in contrast to *tenant-based*, assistance.

The relative cost-effectiveness of public housing compared with rent assistance or a ‘universal housing allowance’ has featured in public policy debates and research for at least a decade, for example, Econsult (1989), Industry Commission (1993a, 1993b), McNelis (1997), and King (2001). The work in the early 1990s focused on the cost-effectiveness of subsidies from the perspective of the taxpayer/government.<sup>75</sup> In the early years of the new century the focus was on the cost-effectiveness of subsidies from the perspective of the consumer: King represents subsidies as an ‘investment’ over a consumer’s lifetime from which the indirect benefits are far greater than the cost of providing the subsidy.

The debates around tenant-based versus project-based assistance – or as it is usually put in Australia, demand-side versus supply-side assistance – have been overtaken by research commissioned for the Affordable Housing National Research Consortium in 2000-2001. Hall, Berry and Carter (2001, p.37) concluded that there was *no* optimal cost-effective delivery mechanism for housing assistance. ‘All four models of delivery are the most effective option depending on the state of the economy and, especially, of housing and finance markets.’<sup>76</sup> Berry and Hall (2001, p.73) suggested ‘*expanding rent assistance through the income support system*’, as part of an overall package.

Burke (2001) outlines arguments for and against rent assistance. See Table 7 on page 39.<sup>77</sup>

Just as rent assistance has not been able to achieve affordability for low-income private renters, likewise public housing has not been able to significantly reduce housing stress for the population. Commonwealth grants to the states under the CSHA dropped nearly 25% from 1994-1995 to 1997-1998 (in nominal terms). The number of new applicants for public housing that could be accommodated fell by about 20% over the same period. (Allen Consulting Group 2001, p.31,32)<sup>78</sup> Public housing assists only around 35% of households in need taking into account the receipt of rent assistance by Centrelink customers in the private rental market. The Allen Consulting Group (2001, p.32) concluded: ‘As public housing is only available to assist approximately one-third of those in need, it is difficult to argue that it is effective in having a significant impact on the level of housing stress in Australia.’

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<sup>75</sup> Some of the participants in those debates, for example Econsult (1989, p.14), noted that cost-effectiveness was only one test of efficacy.

<sup>76</sup> The four delivery mechanisms referred to are capital provision of dwellings, subsidized home loan schemes, subsidized share equity schemes, and rent assistance.

<sup>77</sup> Burke (2001, Table 2A, pp.14-15).

<sup>78</sup> The estimated total cost of constructing new dwellings to meet the needs of the 227,480 low-income private-tenant households in *metropolitan* cities who are in housing stress would be around \$27 billion (Berry and Hall 2001, p.55).

Table 7: Arguments for, counter-arguments and the institutional context

Arguments for	Arguments against	Institutional context
<p><u>Choice:</u> Provides clients with choice of dwelling (size, quality, location) and frees tenants from controls of public landlordism. Housing is not a public good, and people have the right to define their own standards.</p>	<p>Choice only exists if the market provides adequate stock of low cost housing and in the right locations. Control issues make certain assumptions about public versus private landlordism which may not hold. Housing is a public good, and a minimum standard must be imposed.</p>	<p>Supply can be affected by the degree to which there are incentives (tax grants) to provide the supply which creates choice. Control comes from the form of landlordism. Private landlords can be oppressive and social landlords not, e.g. tenants participation, and vice-versa. Whether housing is or is not a public good is largely determined by what sort of society residents want to live in and how that politically manifests itself.</p>
<p><u>Responsiveness:</u> Unlike public housing, it is not affected by budget allocations. As an income payment, it is linked to client need.</p>	<p>Can create cost blow-outs for governments as it is not capped.</p>	<p>Depends on form of rent assistance. In Australia it is part of the income security system. In the USA Section 8 are allocated in the HUD budget and only a limited number become available each year.</p>
<p><u>Addresses lack of income:</u> The housing problem now is largely one of low income, not shortage or quality. Rent assistance directly confronts this problem.</p>	<p>Assumes that the housing market is unproblematic and responsive to low income demand. Many argue this is not the case. Assumes narrow objectives for housing assistance. Difficult to address issues of urban form, renewal, discrimination, security and spatial polarization. Less able to address issues of housing linkages.</p>	<p>Depends on the nature of the national and local housing markets and on the incentives or organizational mechanisms that encourage supply and quality. Also depends on the level of income support (rent assistance) and how it fits in the social security system. Rent assistance schemes can be designed to achieve broader objectives by attaching conditions to receipt, e.g. location and housing quality. Security can be achieved through residential tenancy provisions which operate independently of the form of assistance.</p>
<p><u>Coverage:</u> For a given amount of money, more individuals can be housed. It therefore makes more effective use of limited public funds.</p>	<p>This only holds in the short term. Beyond some time period, e.g. fifteen or twenty years, accumulation of social stock from successive years of construction will help more households. No public asset held for all the accumulated outlays.</p>	<p>Depends on the actual levels of rent assistance and public housing assistance. Also sensitive to interest rate regimes and how well the public stock is managed.</p>
<p><u>Flexibility:</u> By being unrelated to actual stock, it is flexible to changing circumstances, e.g. tenants are not trapped in declining areas.</p>	<p>Low cost rental may cluster in the same disadvantaged areas, denying ability to adapt to changing circumstances.</p>	<p>May depend on what supply side policies are in place.</p>

<p><u>Private provision:</u> Private provision underpinned by rent assistance is more efficient and effective than public provision by virtue of the need to be competitive and seek profit.</p>	<p>Makes certain assumptions about the private rental market, how competitive it is and the motivations of landlords. Also assumes certain forms of ownership and of public management. Some argue that, rather than bringing efficiency, rent assistance drives up rents and reduces affordability.</p>	<p>Rent assistance need not be confined to private rental. It can be part of 'tenure neutral' assistance. Ability of social housing system to be efficient depends on scale (there could be many providers).</p>
<p><u>Political feasibility:</u> Rent assistance (housing allowances) is less visible than social housing projects. Social housing can be limited generally and in specific locations by the politics of NIMBYism.</p>	<p>Problems of social housing can be avoided by spot purchase.</p>	<p>Depends on the level of perceived housing crisis, and the degree of governmental support for one form of assistance versus the other.</p>

Most researchers acknowledge the greater unit subsidy to public tenants compared with private renters – a disparity that runs counter to the principle of horizontal equity. The Allen Consulting Group estimated that public tenants got a subsidy 110% more than private renters (2001, p.28).<sup>79</sup> In June 1998, only 288, or less than 0.1%, of public housing tenants in Australia were paying more than 30% of their income in rent (2001, p.28).

While the greater subsidy provided by public housing is desired by many tenants, many low-income private renters do not want public housing, and rent assistance assists in giving consumers choice and access to housing that suits them. Part of the reasons for this is *government failure*. Much of the state-run housing stock was built in fringe suburbs or in concentrations that militate against a socioeconomic mix of residents. Economic and social changes of the last decades of the 20<sup>th</sup> century led to a 'residualization' of the customer profile and to dysfunctionality of neighborhoods (the most notable example being a public housing estate in Villawood/East Fairfield, bulldozing of which began in late 1997).

Two-thirds (67.4%) of the sole parent private renters getting rent assistance, surveyed in an AHURI study, did not try to get into public housing although most (75%) were aware of their potential eligibility. One-third (34%) said they would prefer to stay in private rental housing even if given the choice of a similar condition home at the same rent in public housing. (Burke and Hulse 2001, p.5) Nearly ¾ of sole parent rent assistance recipients expressed satisfaction with their current accommodation and over ¾ expressed satisfaction with its location. Sole parent private renters were less likely than sole parent public tenants to be dissatisfied with their housing on specific features, such as the security of the dwelling, adequacy in terms of space, kitchen facilities, bathroom facilities and security of neighborhood. (Burke and Hulse 2001, p.6)

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<sup>79</sup> Roden (1997, p.18) notes that these unit-based comparisons actually compare different units, individuals in the case of rent assistance and households in the case of public housing rental rebates.

The Bobby Goldsmith Foundation reported that many people with HIV/AIDS getting rent assistance and the SAS preferred to live in the private rental market, notwithstanding its shortcomings (such as insecurity of tenancies), rather than in public housing.<sup>80</sup> This was primarily because they did not want the stigma of being in public housing, and secondly because they preferred to be able to choose where and in what sort of dwelling they live. They noted, however, that the context for those consumer choices was the unique character of their client group, which is mostly young (aged 30-40), single, gay, males in receipt of the DoH SAS, living in inner Sydney. The private rental market was not necessarily preferable for people with HIV with challenging personalities who found it hard to manage the SAS subsidy, which could be difficult. Those people could be more suited to public housing, which gives greater security of tenure and which allows rent payment through direct debit (Centrepay) organized by the Department of Housing.<sup>81</sup>

A 1998 national survey of rent assistance recipients found that, overall, rent assistance recipients had a high level of satisfaction with aspects of their dwelling. There was a very high level of satisfaction with the size of their dwelling and its location in relation to work, education and public transport, and shops and other services (Wulff 2000, pp.36-38). The lowest level of satisfaction was expressed about the condition of the dwelling; 63% were either satisfied or very satisfied (Wulff 2000, p.32). Couples with children were the most dissatisfied with the condition and size of their dwelling; 55% said it was good or very good, 32% said it was average; 12% said it was poor/very poor (Wulff and Rees 1999, p.12). While 9.9% of recipients, overall, described their housing as being in poor condition, 12.2% of recipients renting from real estate agents described their housing as being in poor condition (Wulff 2000, p.33).

These data do not show that mainstream private renting, where 80% of rent recipients live, is 'fabulous'. That tenure does not offer benefits that private renters might also appreciate, such as greater security of tenure, which is available in public housing, for example.<sup>82</sup> But the data suggest that different consumers will have



<sup>80</sup> Interview with Mark Tietjen.

<sup>81</sup> Centrepay is a direct deduction facility offered to Centrelink customers, on a voluntary basis. It allows customers to have their bills paid directly to third parties from their Centrelink payment.

<sup>82</sup> These differences are differences of degree. While private renters in New South Wales are able to evicted with no cause, qualified by the findings of the NSW Court of Appeal and Supreme Court in *Swain and Anor. v Residential Tenancies Tribunal*, most tenancies are ended by tenants for their own reasons (Foster 1996), and so the absence of a legal guarantee of a 'tenancy for life' has no practical adverse consequences for those tenants. Rent assistance recipients in mainstream private rental also differ from other private renters in that they are more likely to have a lease (Wulff 2000, p.24).

Nevertheless, greater legal security than currently provided in law would benefit less mobile tenant households such as parents and frail older people, as well as providing some disincentive to retaliatory evictions and perhaps encouraging low-income tenants to assert their legal rights to have repairs and maintenance done. The de jure security of tenure provide in public housing is qualified as an 'absolute' right, in practice, by the Department of Housing's policies on breaches of tenancy agreements (the Good Neighbor Policy). It will also be qualified for new tenants by the introduction of fixed term leases (Jamal 2002).

Moreover, as Adkins, Guthrie and Summerville (2001) note, there is no empirical data on what low and moderate-income private renters think about regulatory measures proposed to improve tenants' security of tenure in private rental. Adkins, Guthrie and Summerville are researching Queensland tenants' views on this matter.

different needs, and that private renting can meet those needs for low-income Australians, in certain situations, in ways that public housing, as currently constituted, cannot.

### 3.6 Customer service

Centrelink does not do quantitative surveys of rent assistance recipients to gauge customer satisfaction, but it reports 66% satisfaction by all customers with its people, services and information (Steering Committee for the Review of Commonwealth/State Service Provision 2001, p.792).

Nonprofit nongovernment organizations reported varying degrees of customer responsiveness by Centrelink.

ACON reported that some HIV positive people had been denied rent assistance by Centrelink staff because the customer said they were getting a DoH subsidy (referring to the SAS) and the Centrelink staff assumed they were public tenants.<sup>83</sup> ACON advises recipients of the SAS not to tell Centrelink that they are in a subsidized rental situation, so that Centrelink staff will not misinterpret this.

The Bobby Goldsmith Foundation was not aware of its clients having problems getting rent assistance from Centrelink.<sup>84</sup> They thought it was ‘pretty much automatic’ for private renters to be told about it. They thought there was a reasonably high degree of awareness of rent assistance by the Foundation’s clients, but some clients might get confused between rent assistance and the DoH SAS.

The Welfare Rights Centre reported that many Aboriginal students in receipt of Abstudy did not get rent assistance because the application process was complicated and/or Centrelink staff did not proactively help them to apply for it. They speculated that because Abstudy was a DEST program (not a FACS program), Centrelink staff might give less attention to servicing Abstudy recipients as a result of varying degrees of competence with it. They suggested that Abstudy be incorporated into social security legislation, so that it had the status of an ‘entitlement’. Another suggestion was for the various add-on features that went with Abstudy to be amalgamated, to reduce the complexity of the application processes, and for there to be less discretion about whether a student was eligible for an add-on component.

Disability advocacy groups thought that some people with disabilities might not have a diagnosis detected by Centrelink staff. They said that Centrelink process for identifying people with mental health issues was hit-and-miss: customers might stay on Newstart rather than being transferred to the Disability Support Pension.<sup>85</sup> Some people with disabilities who have not had a disability identified, for example, some customers with a mental health issue, might get breached continuously.

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<sup>83</sup> Interview with Julie Callaghan.

<sup>84</sup> Interview with Mark Tietjen.

<sup>85</sup> Meeting with disability advocacy groups.

## 4 Comment

Rent assistance is the major social program promoting housing affordability in Australia, and it is ironic that it does this from within the social security system. There is, nevertheless, some rationale for this location, because the social security system has a number of components that address costs of living that are specific to particular sections of the population. Moreover, the equivalent program in New Zealand is also a social security program.

While rent assistance is a form of ‘housing assistance’, recipients see it as a contribution to their overall standard of living, as observed with sole parents by Burke and Hulse (2001), with students by Burke and Ewing (2001), and people with disabilities by disability advocacy organizations. It has, in addition, positive spillover effects for employment and education, as noted by King (2001) and Burke and Ewing (2001). It works to relieve after-housing-cost poverty (Econsult 1991).

There has been little support for reconfiguring rent assistance as an element of the social security system to a more ‘authentic’ mode of housing assistance, such as by linking it to adequacy standards or by generalizing the benefit to public renters and home purchasers on a *tenure neutral* basis. Proposals for a common housing allowance (that is, common to the two major rental tenures) were developed in the early 1990s, but foundered on the opposition of supply-side advocates and on the costs of raising the level of subsidy to that given to public tenants.

The program has been expanded to cover more situations, in general (though singles in shared housing have been given a lower subsidy than other singles from 1997). Being demand-driven, the cost has grown.

It is difficult to predict whether Australia’s governments would reach a consensus about making rent assistance a more general housing assistance payment, by extending it to mortgage interest and to public housing rents, as was suggested by many stakeholders at consultations undertaken by the AHURI over 2000-2001 (Donald, McGlashan and Leisser 2001). Apart from the operational matter of what level of subsidy the common subsidy would be set at, there remains the Industry Commission objection of 1993 that public tenants should be subsidized at a higher level than private renters because the housing product they consume is better than the product offered by private rental housing providers.

If a re-engineering of the program is not likely, it is possible to imagine incremental reforms (all of which have a fiscal cost), nevertheless.

Some of the inequities and anomalies in eligibility could be tweaked. For example, eligibility could be extended to all income support recipients who live at their parental home, irrespective of their age, and to all Austudy recipients – as recommended by the ACOSS. It could be extended to holders of a Pensioner Concession Card or Health Care Card where holders of those cards are no longer receiving income support (such as on re-entering the workforce). In the same way that Newstart and Youth Allowance recipients who (re-)enter the workforce may retain a Health Care Card for a transitional period, people who lose their social

security status for reasons of breaching compliance conditions could retain rent assistance for 6 months.

These suggestions retain a link between receipt of rent assistance and receipt of income support through the social security system. More radical proposals would see rent assistance extended to people not in receipt of income support, but could be feasible if Centrelink extended its means-testing criteria for this purpose. For example, eligibility for rent assistance could be extended to people without dependent children receiving accident compensation payments who are precluded from getting social security payments.

Question 1: What are the pressing anomalies and inequities in eligibility for rent assistance? How might those anomalies and inequities be rectified?

The role of rent assistance seems not to provide housing affordability, but to lessen the *unaffordability* of housing. It is one of a number of interventions to promote housing affordability or affordable housing, in what has been described as a 'dual system' (McNelis 1997, National Shelter 1997). The others include supply-side initiatives, such as provision of public and community housing, and initiatives to encourage private investment in social housing.

The statistical evidence for the inadequacies of the amount of subsidy is strong. We can infer from the fact the Commonwealth government does not use the standard indicator of housing stress (that is, housing costs as more than 30% of household income) as the basis for determining the amount of subsidy, that rent assistance is intended to assist housing affordability, not necessary achieve it for everyone. The 30% benchmark is used as a monitoring and reporting tool only. If it was to be used as a basis for calculating the level of subsidy, the fiscal cost of the program would blow out. Nevertheless some nongovernment organizations have advocated the use of affordability or adequacy benchmarks to determine the amount of subsidy paid. An alternative approach is to argue for a 'partial gap subsidy model' for setting the amount of subsidy. Another alternative approach is to argue for ad hoc increases in the amount of subsidy, having regard to the calls on government revenues by other social programs and the state of the budget from year to year (which we might infer is ACOSS's current tactical position).

Question 2: Should the 30% indicator of housing stress be used as the basis for setting the amount of rent assistance to be paid, in addition to its current role in monitoring and reporting housing affordability?

Question 3: Should a 'partial gap subsidy model' be used as the basis for setting the amount of rent assistance to be paid?

Question 4: Should advocacy for increases in rent assistance be focused on what might be 'saleable' or feasible in specific budget deliberations by the Commonwealth?

However we answer Question 2 and Question 4, the subsidy would still not address regional or local variations in rent levels. A 1997 proposal by Ecumenical Housing for adequacy benchmarks in 3 different zones across Australia did that. And so did the 2001 ACOSS proposal for increases in the maximum rate of subsidy to (at least)

rent assistance recipients in higher cost regions (such as Sydney, the Australian Capital Territory and the Northern Territory).

Question 5: What are the arguments for and against varying rent assistance subsidies by region, so that residents in high rent regions get a higher amount of payment?

Question 6: If rent assistance payments were to be varied by region, so that residents in high rent regions got a higher amount of payment, what would those regions be?

Research done in the mid 1990s (Foard 1995) showed that private renters' housing choices were relatively inelastic in response to rent assistance. Rents are high, and the amount of subsidy is only a contribution and there are other calls on the household income: so rent assistance goes into a pooled budget that addresses all the demands on it, rather than increasing consumption of housing anything but modestly.

It is therefore (apart from the modest amount of the subsidy) not powerful enough to drive a supply-side response from private investors into low-rent private rental, because supply is largely inelastic to price signals in this submarket.

And it does not contribute to systemic or generalized rent inflation in the mainstream rental market, especially in the 'base rent' submarket. If excessive rents are a problem that normal 'laws' of supply and demand cannot deal with, then the remedies are probably more in the state-based industry regulatory arena than in the social security system. For example, the NSW government could introduce some stronger disincentives to rent increases, through the tenant appeal processes in state residential tenancy law. One suggestion made by members of the Tenancy Legal Working Party was for the particular acknowledgment given to prevailing market rents, in setting processes for a tenant's application to the Residential Tribunal for an order that a rent increase is excessive, be changed. Another was for repeal of the provisions that put the onus on the consumer to prove that a rent increase is excessive.

Rent assistance does appear to be a factor in rent-setting in certain submarkets inhabited by low-income people. The submarkets are those characterized by large congregations of housing units (whether bedrooms or stand-alone dwellings like mobile homes) and large concentrations of social security recipients. The owners of the housing can be private for-profit landlords, as in the case of boarding/lodging houses, residential parks, and residential aged care. They can be nonprofit landlords, as in the case of Indigenous housing, non-Indigenous community housing, housing cooperatives, group homes for people with disabilities, and residential aged care. The viability of those forms of housing can, or might, rest on the certainty of a revenue stream to the provider from their customers' rent assistance. Indeed, rent assistance is a key component of the sustainability and future expansion of (nongovernment) social housing.

Rent assistance has the advantages for consumers of self-activation plus portability (Winnick 1995, p.116).<sup>86</sup> The formal insecurity of the tenure is offset by due processes that must be followed by a landlord, especially in light of the *Swain* case (Bellemore 1997, p.83). Costs in establishing new tenancies can be offset by RentStart. Private rental housing suits many low-income Australians. Research data on sole parents and anecdotal data such as that on people with HIV/AIDS in inner Sydney and people fleeing the public housing estate in Casino show that many low-income Australians renters prefer private rental to public housing, which they recognize as 'residualized'. Private rental is not necessarily a last resort or a holding bay while on a list for public housing.

But the stock of low-rent private housing is diminishing and the amount of subsidy through rent assistance does not achieve housing affordability for a too significant minority of private renters.

Rent assistance is likely to remain as the major mode of housing assistance. But reliance on any one mode of intervention will not address the complexity of the looming housing crisis. Capital provision of subsidized housing – partly financed by rent assistance to community housing tenants – will also be necessary, especially for customers with special housing needs to which for-profit providers will not respond. As Winnick (1995, p.118) noted: 'But whatever housing's future dimensions, the allowance is certain to be in the wider lane ...'

■  
<sup>86</sup> The choice offered by portability is, of course, constrained by the location of low-rent private rental housing stock. Wulff and Evans (1999, pp.106-108) found that private renters in Melbourne lived in a greater range of suburbs than public tenants, but they tended to live in suburbs dominated by low-income households.

## 5 Acronyms

ACON	AIDS Council of New South Wales
ACOSS	Australian Council of Social Service
AHURI	Australian Housing and Urban Research Institute
CPI	Consumer Price Index
CRA	Commonwealth rent assistance
CSHA	Commonwealth-State Housing Agreement
DEST	Department of Education, Science and Training
DETYA	Department of Education, Training and Youth Affairs
DoH	NSW Department of Housing
DSP	Disability Support Pension
DSS	Department of Social Security
DVA	Department of Veterans Affairs
EMTR	effective marginal tax rate
FACS	Family and Community Services, Department of
HCC	Health Care Card
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
NSA	Newstart Allowance
PCC	Pensioner Concession Card
RA	rent assistance
SAS	Special Assistance Subsidy, NSW Department of Housing

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