

BHC Submission to the Reference Group on Welfare Reform: “A New System for Better Employment and Social Outcomes”

Pillar One: Simpler and sustainable income support system

Effective rent assistance

Page 68 to 71 of the Interim Report considers Rent Assistance and suggests a review to determine the appropriate level of assistance and the best mechanism for adjusting assistance levels over time. In shaping the future directions for Rent Assistance the Reference Group would like feedback on:

- How could Rent Assistance be better targeted to meet the needs of people in public or private rental housing?

Background to BHC

BHC is a not-for-profit community housing provider based in Queensland, with a portfolio of over 1,200 affordable housing dwellings under ownership and management. BHC’s affordable housing tenants are solely sourced from the Queensland Government’s Housing Register, with the majority of allocations (over 80% in 2013/14) going to households assessed as having High or Very High Needs. BHC operates a “discount-to-market” rent policy where rents are set at up to 74.9% of market values, with affordability caps at 30% of household income. A central aspect of BHC’s mission is to increase the supply of affordable, high quality housing that is available to low-to-middle income households.

BHC’s response to the Interim Report’s proposals on providing effective rent assistance

1. Rates of payment and indexation of Commonwealth Rent Assistance

Rate of Payment: The rates of payment for Commonwealth Rent Assistance (CRA) should be better aligned to actual rental costs.

- CRA operates on what is effectively a “co-payment” model (i.e. it is designed to subsidise, but not cover, rental costs for low income households), however the rent levels at which the maximum rate of CRA is achieved are very low.
- For many households this means that even with CRA, private rental housing remains unaffordable. For example:
 - The maximum rate of CRA (fortnightly) for a single parent household with one or two children is \$147.98, payable where rent liabilities are above \$344.87 per fortnight.

- However, median weekly rents for a 2 bedroom house in Brisbane are approximately \$380 per week, or \$760 per fortnight, almost double the threshold for maximum CRA payments¹.

An increase in the rate of CRA is clearly required for CRA to have the required impact on affordability for households on low incomes.

Indexation of CRA: In addition to an increased base rate of CRA, indexation of CRA payments should better reflect changes in rental costs for income-support recipients over time.

- The Interim Report highlights that increases to rents have outstripped increases to CRA over the past decade, making it increasingly difficult for low income households to access, and maintain, appropriate housing year on year.
- BHC supports previous suggestions in the Harmer Review (2009) and the Henry Review (2010) that indexation of CRA should be changed to better align rates of CRA with rental costs of income support recipients over time.

With a low base rate of CRA, plus low indexation rates, the efficacy of CRA in contributing to rental affordability is significantly reduced. As noted in the Interim Report this results in a greater proportion of household income being required to be re-distributed towards housing costs, leaving fewer resources then available for non-housing costs such as food, heating and transport. This in turn puts additional pressure on the already stretched social housing sector, as households find it increasingly difficult to sustain their private tenancies and seek out more affordable housing options in public or community housing.

The rates and indexation of CRA payments also have a direct and significant impact on the viability of the community housing sector, with CRA representing approximately a third of the rental income received by community housing providers² (CHPs). Low rates of CRA and low indexation combine to present CHPs with a “real-terms” cut in income year on year, as the costs of providing housing to tenants in receipt of CRA increasingly exceed the revenue generated. Although BHC does not necessarily consider that CRA is the best way to fund the community housing sector- rather it is one of a number of complementary methods- an increase in CRA will assist in ensuring the ongoing viability of the community housing sector.

2. Impact of public housing on income support recipients

BHC supports the proposition in the Interim Report that consideration should be given to moving away from income-based rents towards the use of CRA as the preferred rent subsidy scheme across both public and private tenures.

BHC’s successful discount-to-market rent policy demonstrates that it is possible to move away from income-based rents whilst still maintaining affordability for tenants and continuing to house those in greatest need. A broader move by the social housing sector towards discount-to-market rents (across both public and community housing) would have the following advantages:

- Affordability: By implementing a cap (such as the 30% cap applied by BHC), affordability for tenants can be maintained under a discount-to-market rent model. Increasing the rates of

¹ Residential Tenancies Authority (June 2014) *Median Rents Quarterly Data*

² Community Housing Peaks Policy Network (2014) *The vital subsidy: The importance of Commonwealth Rent Assistance to community housing providers*

CRA – and extending CRA to public housing tenants- would assist in ensuring that households on the lowest incomes were no worse off. To aid the transition, a gradual increase of rents over time could be applied for existing tenants.

- **Fairness:** Under income-based rents, households can pay significantly different rents to access very similar properties. Discount-to-market rents achieve a greater level of equity in terms of rental costs for comparable properties.
- **Simplicity:** Income-based rents require complex calculations and the methodology is often not well understood by either the operators of the system or tenants. Discount-to-market rents are easily calculated and easily understood by all parties. A single rent policy across both public and community housing could be achieved, further simplifying the system for all parties.
- **Incentives:** The Interim Report is consistent with the Harmer and Henry Reviews (among others) in identifying the disincentives to households improving their financial circumstances when income-based rents are applied. The marginal tax rate and loss of benefits for such households is often over 100%. Discount-to-market rents are not increased when tenants' incomes increase, which enables tenants to maximise their incomes (within eligibility limits) without the penalty of higher rental liabilities.
- **Maximise sector income:** Applying discount-to-market rents more broadly across community housing would bring additional income into the housing system by increasing entitlements to CRA. Very low incomes currently equate to very low CRA entitlements in community housing as rents are so low.
- **Viability and growth:** In order for the social housing sector to plan strategically and maximise its capacity for growth, providers need to have a level of confidence in their incomes. If providers continue to have their incomes tied to the incomes of tenants, their ability to set out credible proposals for growth to financiers and other sector partners will continue to be limited.

3. Capital funding to increase the supply of affordable housing

BHC welcomes the Interim Report's recognition that

affordable housing with easy access to jobs and services is essential to allow people to participate socially and economically in society³

Despite the importance of the debate around the levels of CRA and the types of rent policy that should be applied in social housing, the crux of the issue remains the continuing undersupply of affordable housing, particularly affordable housing located in proximity to employment opportunities.

Many of the gains made in the supply of affordable housing through the Nation Building Economic Stimulus Program (Social Housing Initiative) have already been eroded since the program ended in 2012, with a reduction in investment in social housing by the states to below previous levels⁴.

Future Commonwealth investment in supply-side initiatives is uncertain, with the cancellation of the National Rental Affordability Scheme (NRAS) and the recommendations of the Commission of Audit

³ Interim Report p30

⁴ Keane, B (2014) <http://www.crikey.com.au/2014/06/30/mcclure-report-fails-on-key-issue-of-low-income-housing/>, accessed 7 August 2014

(2014) that the Commonwealth limits itself to provision of CRA only. If, as also proposed by the Commission of Audit, a shift towards market-based rents in social housing is achieved and CRA is extended to all social housing, the Commonwealth would be likely to step back from providing all other forms of housing assistance. Funds provided through existing Affordable Housing Agreements with the states would be re-directed to the CRA budget.

BHC advocates for a collaboration between the sector and Government, to jointly design a better system of investment in affordable housing. This approach would identify ways to maximise the value of the Commonwealth's investment in affordable housing, particularly through the capitalisation of a proportion of CRA expenditure and the channelling of this into new supply of affordable housing.

Summary and Conclusion

All responses to these complex issues must ensure affordability for tenants, but also provide a strong foundation for the viability and growth of the social housing sector. BHC welcomes the recognition in the Interim Report that the current system of CRA should be reviewed to ensure that it provides appropriate levels of assistance over time. BHC supports the proposals to move away from income-based rents and advocates a discount-to-market rent approach across all forms of social housing, with caps at 30% of income to ensure affordability. Although these changes would result in an extension to the CRA budget, there is great potential to investigate how best to channel the Commonwealth's investment into both demand and supply-side initiatives, a combination which remains essential to ensure the viability of the overall housing system.

BHC is pleased to have been invited by the Chair of the Reference Group to further engage in discussions to supplement this submission, and we welcome the opportunity to assist in examining the benefits and challenges associated with changes to social housing rent settings.