



# **Response to the Interim Report of the Reference Group on Welfare Reform to the Minister for Social Services**

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## Summary

National Shelter welcomes the opportunity to contribute to the Welfare Review (the Review).

Housing affordability is a nationally important productivity issue that will only grow with an ageing population. Ensuring adequate social support, improving housing affordability and creating greater opportunities for workforce participation are important components of an effective economy and housing system.

Affordable, well located, accessible, safe, secure housing underpins social and economic participation. Without housing, it is impossible to be fully engaged in education or employment and attain good health and wellbeing. Most people in housing stress live in private rental accommodation and adequate social support may be their last protection against homelessness. Commonwealth Rent Assistance and adequate income support are critical to protect vulnerable households from homelessness.

Australia is in a deteriorating housing affordability crisis and measures must be taken to address the issue in the short, medium and long term to reverse the deterioration and see Australia become a nation which houses its citizens safely, securely and affordably.

The most critical issue in housing is inadequate supply, particularly for low income households and until changes to broader measures which constrain supply (Tax treatment, planning measures, capital provision for new supply, reforming social and affordable housing) are implemented, housing affordability, especially for renters, is unlikely to improve.

In this context it is also unclear and appears short-sighted that the Commonwealth Government would curtail the National Rental Affordability Scheme, which was the only program adding new supply to the critically short supplied affordable housing market.

National Shelter supports the intention of the Review, that *“The system should have adequate payments based on need that encourage people to prepare for and seek work where it is reasonable to do so. It should support people who are unable to work. It should feature fair returns from work, individualised requirements for participating in the workforce, and support services that build individual and family capability. Reference Group Interim Report, p6*

National Shelter also supports the objective, *“The social support system should help people build the capacity they need to participate economically and socially, to the extent that they are able.” (p10)*

The principle objective in any approach to tenancy for low income households is achieving an affordability benchmark. A general benchmark for the lowest 40% of household incomes is no more than 30% of income allocated to housing costs, beyond which households suffer housing stress. This means they have insufficient income, after housing costs, to meet other expenditure related to basic necessities.

Higher income households may pay more than 30% of income without being considered in housing stress as they still have sufficient income to meet other household costs.

The social support system and specifically Commonwealth Rent Assistance needs to be raised significantly to address currently unaffordable rents and to improve rental affordability for recipients, but by itself without new supply strategies, risks adding

further inflationary pressure to an already inflated rental market, eroding any improvement in affordability over time.

In addition, as recommended by the Henry Tax Review a higher needs payment to community and social housing providers should be developed to allow them to address additional requirements which may include additional vocational or employment assistance for tenants.

Moving social housing tenants away from income based rent to market based rent, while making them CRA eligible, may misconstrue the current purpose of social housing and impose significantly higher costs on them and the housing support system, without addressing the stated intention to improve employment outcomes to a level commensurate with the speculated changes.

The establishment of CRA and its extension has helped meet the housing costs of low income households but it has failed to match the rate of increase in rents and should be reviewed for adequacy, increased appropriately, and then indexed to movements in rents rather than CPI. In addition the rate of CRA for people who are sharing a rental property needs to be improved and adjusted.

National Shelter supports the development of an index capable of allowing CRA payments to be adjusted for variations in rent between areas. Affordable housing is required in all markets to support the number of low and moderate income jobs, key worker housing and to improve social mix.

A deeper discussion around public tenants and rent setting is required prior to any changes and should involve public tenants themselves. It would require a significant additional lift in Commonwealth Rent Assistance, especially the maximum rate. National Shelter notes the announced housing and homelessness review by Minister Andrews as an additional forum through which to advance this discussion.

In general National Shelter supports the set of principles contained in the recommendations of this submission and as developed through a process convened by the Australian Council of Social Service (ACOSS).

## **About National Shelter**

National Shelter is the peak non-government housing organisation. National Shelter's vision is that all Australians have an affordable, safe and secure place to call home, particularly citizens living on low incomes. National Shelter conducts systems advocacy, policy analysis and development and research. Established in 1976 National Shelter comprises representatives of Shelter bodies across the states and territories, and also includes the national bodies Homelessness Australia, the Community Housing Federation of Australia and the National Association of Tenant Organisations. National Shelter cooperates closely with other national organisations such as the Australian Council of Social Service, and is a member of the National Affordable Housing Summit Group, the Community Organisations Housing Alliance and the campaign group Australians for Affordable Housing.

National Shelter advocates for the development of a national housing policy based around the following principles:

- Housing is affordable. People living on low and moderate incomes should not have to pay more than 30% of their income on housing costs.
- Housing is adequate. Everybody is entitled to housing that meets acceptable community standards of decency and their own needs.

- Housing is secure. People should not live under threat of loss of home and shelter. A secure base enables people to form constructive relationships, grow families and seek employment and community engagement.
- Housing is accessible. People should be informed about available housing options and access to these should be free from discrimination. Most housing should be built to Universal Design principles.
- Housing is in the right place. It should be located close to services and support networks, to job opportunities, to transport networks and to social and leisure activities.
- Housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs.

## Introduction

The National Shelter submission will focus its attention on Commonwealth Rent Assistance (CRA), Social Housing, rent setting and related issues. However issues impacting on the welfare system and those receiving payments within the welfare system require some general commentary.

Australia has a vigorous policy of mutual obligation which is a feature of successful work and welfare programs in the OECD (Sweet 2012)<sup>1</sup>. Whilst the report indicates ways this may be improved through individually tailored approaches, there is a risk Australia will make the obligations on participants so high they may be alienated from the system connecting them to a workforce or at least one in the legitimate economy. Care must be taken on introducing measures which make participation too onerous or which create a disincentive to participate or worse, drive citizens towards black economies or inactivity.

The obligations for the participant in an employment focussed welfare system must also be balanced by the obligations of the government to provide an economy with sufficient employment opportunities and education and other pathways to provide the appropriate incentive for participants and ensure the obligations are mutual.

## National Shelter's interest in welfare reform

Housing is a basic human right and a fundamental requirement for individuals and families to engage in education, employment and to live a healthy life. The absence or inadequacy of housing contributes to the deep and persistent disadvantage identified by the productivity commission<sup>2</sup>.

Australia has a serious shortfall of housing, particularly a shortage of housing that is affordable for those on low to moderate incomes. In 2012 the National Housing Supply Council estimated a shortfall of approximately 228,000 dwellings, with this shortfall projected to increase to 369,000 in 2016-17 if nothing changes in our

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<sup>1</sup> Sweet, Unemployed and Inactive Youth: What Works<sup>1</sup>, Sweet Group Pty Ltd, 2012

<sup>2</sup> McLachlan, R., Gilfillan, G. and Gordon, J. 2013, *Deep and Persistent Disadvantage in Australia*, rev., Productivity Commission Staff Working Paper, Canberra.

<sup>3</sup> National Housing Supply Council, *Housing Supply and Affordability – Key Indicators*, 2012, p22-27

housing market.<sup>3</sup> However for low income households the situation is worse, with a shortfall of 539,000 rental properties affordable and available to low income renters.<sup>4</sup>

The lack of affordable housing means that many low income households have no choice but to pay unaffordable rents. In 2009-10, approximately 513,000 lower income renters (in the lowest 40% of the income scale) were paying over 30% of their income in rent - this represents almost half of all lower income renters. 211,000 of these households were paying over 50% of their income in rent.<sup>5</sup> While the payment of Commonwealth Rent Assistance through the income security system does provide some assistance with this issue, over 40% of CRA recipients still spent more than 30 per cent of their income on rent in 2012-13<sup>6</sup>.

In previous eras households without the financial means to purchase housing were able to look to the public housing sector for long-term affordable housing. However, the reduction in supply, increasing demand for such housing and the financial constraints on State and Territory housing departments have led to lengthening waiting times for public housing and heavily constrained supply. State and Territory governments have responded to this situation by shifting more and more to "needs-based" allocation systems which prioritises households in crisis or experiencing multiple disadvantage.

Housing a high needs client group is costly and State and Territory housing departments are struggling as a result. For example, in June 2012 the Queensland Department of Housing and Public Works estimated it had an underlying deficit of \$54m in 2011-12, projected to increase to \$140m by 2015-16. This underlying deficit is largely the result of the need to subsidise the rents of the low income tenants who make up the vast majority of social housing tenants - in Queensland the average rental subsidy per tenant was over \$7,000 in 2009-10.<sup>7</sup> In 2013 the NSW Auditor-General found an even more difficult situation for the NSW public housing system, with an expected operating deficit of \$490m in 2012-13 and an extra \$100m needing to spent on top of this to maintain housing at an appropriate standard. The extremely low incomes of the majority of NSW public housing tenants meant that the expected rental income for the NSW public housing portfolio was on 42% of its market rental value.<sup>8</sup>

The continuing pressures on both the private and public rental sectors place many of the most disadvantaged households at risk of homelessness. Over 105,000 were

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<sup>4</sup> Ibid, p47. The figure of 539,000 is arrived at as follows. In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households – a shortfall of 539,000.

<sup>5</sup> Ibid, p43

<sup>6</sup> Report on Government Services 2014, Volume G: Housing and Homelessness, p. G6, G7

<sup>7</sup> Queensland figures taken from Queensland Department of Housing and Public Works, *Social Housing: Factors affecting sustainable delivery in Queensland*, June 2012, pp4-5

<sup>8</sup> NSW Figures taken from NSW Auditor-General's Report, *Performance Audit: Making Better Use of Public Housing*, July 2013, pp18-21

counted as homeless on census night in 2011, up from just over 89,000 in 2006.<sup>9</sup> This figure probably underestimates the number of people affected by homelessness by a large margin - the Australian Institute of Health and Welfare reports that 244,000 people sought help from specialist homelessness services in 2012-13.<sup>10</sup> Any proposed reform of Commonwealth Rent Assistance, as part of broader welfare reforms, is critical to the objective of increasing economic and social participation.

Many tenants of affordable and social housing programs have had their income support eroded over the past decade. Specifically recipients of Newstart allowance, sole parents moved away from parenting payments to Newstart and people moved from disability support payments to Newstart have all suffered significant erosions to their income and subsequent ability to pay for rent in the private market. This has further eroded the revenue of State Housing Authorities and community housing providers, contributing to the housing supply crisis for low income households.

## **Commonwealth Rent Assistance, Social Housing and Rent Setting.**

National Shelter welcomes the report's identification of the erosion and inadequacy of CRA for low income private renters but believes the report has inadequately identified the underlying characteristics of inadequate housing supply, tenant profiles in social housing and other factors contributing to an increase in the risk and realisation of homelessness and housing stress for many low income households.

The interaction of the different parts of the housing system requires an in depth understanding of the impacts on segments of recipients of a variety of forms of housing support which this report seems to inadequately appreciate and therefore makes some disturbing observations and potentially reaches erroneous conclusions as a result.

The report identifies an inequity between social housing tenants paying rent as a proportion of income, typically approximately 25%, and those renting in the private market who may be paying 30, 40 or up to 60% of their income to obtain housing. This is an accurate observation but should not lead to the conclusion that all housing assistance recipients should pay market rents and receive CRA. This would erode the housing affordability of social (public and community) housing tenants and increase the number and proportion of households in housing stress.

The report says that there are two "perverse" outcomes from public housing policy using income based rents (typically 25%) firstly, that it means tenants prefer public housing and secondly that it creates a disincentive to "improve their circumstances through work"<sup>11</sup>

In the first instance public housing is designed to be preferred by those who use it, so it is odd this should be seen as a perverse outcome and whilst there is evidence that income based rent creates some disincentive it ignores the fact that most public tenants are not in the workforce and require the affordability provided by social housing precisely because they are likely to be long term and often permanent tenants of social housing.

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<sup>9</sup> Australian Bureau of Statistics, *Estimating Homelessness 2011*, p5

<sup>10</sup> Australian Institute of Health and Welfare, *Specialist Homelessness Services 2012-13*, pvii

<sup>11</sup>A New System for Better Employment and Social Outcomes. Full Report, p 73 word version.

Data from the Australian Institute of Health and Welfare reported in their Social Housing Surveys demonstrates that the targeting policies of social housing mean a tenant profile of people unlikely to ever be housed in the private rental market.

In the second instance the perverse outcome is the work disincentive created by the perception of tenants of a poor income improvement in taking up work.

## **Work Disincentives**

Much research has been devoted to the subject of work disincentives for social housing tenants. National Shelter recently looked at the issue in relation to young people and its literature review concluded:

*The tenant profile of social housing in general is a significant issue in determining if a social housing tenant is less likely to participate in the workforce. Much of the higher unemployment rate may be explained by an examination of the makeup (AIHW 2006, 2012), which has changed significantly over the past 25 years, of the social housing population which reflects the rationed allocation of social housing to high and multiple need applicants.*

*A range of material indicates that it is more likely to be the actual reasons that lead to a person becoming a social housing applicant in the first place (and then being allocated a social housing property), rather than their tenancy type that will impact on their workforce participation (Wood 2009, Whelan 2004, Michael, Feeny, Hulse, Ong, Saugeres, Spong, Whelan and Wood 2008).*

*Social housing has increasingly narrowed its allocations and has concentrated households with high need characteristics who are less likely to be ready or able to find work in an increasingly competitive employment market (Michael et al 2008). Social housing has not been specifically tasked with improving workforce participation as its main focus is property and tenancy management.*

*There are significant issues to consider for tenants in social housing entering the workforce, and also for households on waiting lists, specifically around income based rent. The interaction of income based rents, welfare tapers<sup>12</sup> and policies determining whose income is captured within rent calculations, all play a part in creating "welfare blocks" and "work disincentives" (Dockery, Feeny, Hulse, Ong, Saugeres, Spong, Whelan and Wood, 2008). This is often described as the effective marginal tax rate experienced by social housing tenants taking up work, especially casual or part-time work as a proportion of their income.*

*Hulse and Randolph (2004) also show that while different in impact, low income private rental households face similar disincentives as public tenants due to location, transport costs, low employment opportunities near to low cost private rental, poor health, education and length of time out of the workforce, indicating that these factors, rather than tenure, are significant in examining workforce participation.*

*Workforce disincentives contribute to commonly held theories that social housing is part of or contributes to "welfare dependency" and "passive welfare"<sup>13</sup> (Atkinson 2008, Pearson) especially in relation to concentrations of social housing and or in relation to State Owned and Managed Indigenous Housing (SOMIH).*

*However other research cautions against assuming that lower rents and greater security of tenure contribute to welfare dependency but can have positive effects on human capital development by reducing household costs, providing security and*

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<sup>12</sup> The rate at which welfare payments are withdrawn based on levels of earning.

<sup>13</sup> <http://www.theaustralian.com.au/national-affairs/noel-pearson-slams-public-housing-obsession/story-fn59niix-1226112021359>

improved amenity (Bridge, Flatau, Whelan, Wood and Yates 2003). The (lack of) availability of jobs, the stigma associated with location, especially in concentrated estates, the absence of mentoring, role modelling and/ or the rundown of personal ambition as characteristics observed in some social housing tenants may also be alleviated by social mix (Atkinson 2008) or specific responses and are not inherent qualities of social housing.

Social housing tenants cite many reasons for lower employment participation. The four most cited barriers were mental and physical health problems, caring for children and family responsibilities, place /location and transport, and housing issues (AHURI, NRV1 2008).

There are also gender distinctions which exist in general where disincentives operate differently for male and female social housing tenants and due to allocation policies the impacts are greater and the disincentives blunter for females (Wood, Ong and Dockery 2007).

Some research argues the positive impact of additional security and lower household cost on a household, or individual household member's, recovery and ability to stabilise lives disrupted at the point of entry into the social housing system (Van Ryzin, Kaestner and Main, 2003).

In a 2005 report Whelan, Hulse and Randolph state "In general, work ready housing assistance recipients (ie both public rental and CRA recipients) are 6% less likely to be in employment than a comparison group of income support recipients not receiving housing assistance, controlling for all other factors."<sup>14</sup>

It is unclear whether that comparison from 2005 remains valid given the level of high needs allocations over the past ten years but the comparison includes a control for other factors which is the relevant point.

A conclusion, which may be drawn, is that the major reason for the low workforce participation of tenants in social housing is related to the makeup or the tenancy profile of social housing. That is, that people who are allocated social housing will already be less likely to be engaged in the workforce and/or ready, willing and able to participate in labour market programs.

A particular characteristic of tenants in social housing is the very high rate of allocation from homelessness, from which it takes significant time to stabilise, but for which stable housing is a key basis for overcoming."<sup>15</sup>

## Rent Setting

Calculation method	Description	Advantages	Disadvantages
Market-based rent	Based on the amount of rent that would be paid for the property if it were rented in the private rental market.	<ul style="list-style-type: none"> <li>Administratively simple overall</li> <li>Provides fair competition with private sector</li> <li>Easy to explain and justify</li> </ul>	<ul style="list-style-type: none"> <li>May not reflect full cost of provision, especially in depressed rental markets and remote areas</li> <li>Hard to calculate in areas where there is no effective market e.g. large public housing estates, remote communities</li> </ul>

<sup>14</sup> Whelan, S., Hulse, K and Randolph B, AHURI, 2005 Policy and Research Bulletin ISSUE 63 September

<sup>15</sup> National Shelter, Pisanski, A. Dwells Like Teen Spirit, Unpublished 2014.

Historic cost method	Factors in the cost of acquiring the housing at the time of its acquisition along with current management costs.	<ul style="list-style-type: none"> <li>Reflects actual costs of provision</li> </ul>	<ul style="list-style-type: none"> <li>Administratively complex and difficult to explain</li> <li>Difficult to allow for replacement costs</li> <li>May result in low maximum rents comparative to market, reducing incentives for better off tenants to move on</li> </ul>
Current cost method	Based on the cost of acquisition and management at current values	<ul style="list-style-type: none"> <li>Reflects the actual cost of provision in today's terms and hence can include a replacement cost</li> <li>Will move with inflation, avoiding artificially low rents</li> </ul>	<ul style="list-style-type: none"> <li>Administratively complex and difficult to explain</li> <li>Can potentially result in maximum rents above market level, particularly in remote areas where costs are high</li> </ul>

A range of methods are utilised to calculate rent levels in social and affordable housing programs. A fuller list of rent setting methodologies may be found in the CHFA report, Allocation, eligibility, and rent setting in the Australian community housing sector, 2014.<sup>16</sup>

Rents are then charged to tenants by a variety of methods, including income based, market and discounted market, a household rent accounting for the number of household members, a cost based rent which recovers the cost of providing the property and a banded approach (WA) where rents are charged to households accounting for household composition and either at a proportion of income (Band A) or at a discount to market (Band B).

Rent in Social housing, or Band A housing in WA, which includes public housing and community housing for high needs households, is generally charged at a proportion of income, typically 25%. However in State owned and managed social housing, rents are generally calculated at market and may be charged up to market rents if income increases beyond certain thresholds. Community Housing providers can only charge rents at up to 74.9% of market (excepting for NRAS rents which have different thresholds and tax treatments) to remain below a GST threshold price, to retain charitable status.<sup>17</sup>

It is the possibility that rents change with improved income which creates a so called work disincentive because tenants calculate additional income alongside reduced benefits and increased rent to arrive at a net household income.

In most jurisdictions rent holidays or prolonged periods between assessments of circumstances have been introduced to counter the disincentive effect by providing longer certainty about rent assessment.

Other anomalies also exist within income based rent calculation including the level of amenity, location, number of bedrooms in a given property and others, none of which have a bearing on the level of rent.

The core issue is not that rents are calculated based on income but is one of uncertainty about the level of rent which a household may be liable for. This could be

<sup>16</sup> Available on request from the Community Housing Federation of Australia.

<sup>17</sup> GST rules prohibit charities trading in markets at a price above 75% of the market price.

addressed by the introduction of renewable leases at set costs for set periods regardless of the method of calculation.

However the overriding consideration for National Shelter is ensuring an affordability benchmark is maintained. Income based rents guarantee an affordable rent to tenants in social housing which is not eroded by indexation methodology, although many jurisdictions are currently including items like Family Tax Benefit B and other allowance in assessments of income and which flow on to rent levels.

The Commission of Audit, quoting on the Henry Tax review recommendation, suggested the Commonwealth withdraw funding from the National Affordable Housing Agreement and instead pay CRA to public housing tenants. A calculation of impact shows that doing this without raising the level of CRA would leave; a public tenant sole parent with two children under 6 some \$6,500 worse off and a single pensioner more than \$5,000 worse off.

It indicates that CRA would need to be raised by \$100-150 per week to maintain the affordable rental provided by the current income based calculation.

Henry and Harmer both recommend an increase in the maximum rate of CRA but also recommended another payment which Henry called a higher needs payment which would provide additional support to social housing providers housing low income, high needs tenants, to recognise the additional costs associated with their high needs.

## **CRA**

National Shelter welcomes the acknowledgement of the Review regarding the inadequacy of CRA in maintaining rental affordability for low income households at figure 6.

Most tenants in housing stress exist in the private rental market and the situation for them has been deteriorating due to the level of rent rising much faster than incomes and CRA.

As the Review recognises, CRA is paid, depending on household circumstances, at a flat rate regardless of the rent cost for particular places even though rents vary massively throughout Australia, regions and within cities and suburbs.

National Shelter supports the development of an index which might vary the level of rent assistance based on the prevailing market rents in any given area. This approach is used in calculating the housing benefit in the U.K., which while now capped at a maximum (generous by Australian standards) rate provides high housing support payments which meet the housing costs of low income renters.

CRA has always had a principle of co-payment embedded and has only ever met a proportion of housing costs but has the objective of meeting and affordability benchmark for low income households.

The underlying problem for tenants is a lack of affordability of housing particularly in the private rental market where rents have grown at a higher rate than CPI, by which CRA is adjusted, undermining the effectiveness of CRA as a housing assistance response to address affordability.

The National Welfare Rights report into CRA found:<sup>18</sup>

1) At June 2013 Rent Assistance was provided to 1,267,979 Australian households. More than 157,000 households within Australia are paying more than 50% of their income in rent;

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<sup>18</sup> A home on the range or a home out of range?

- 2) In the absence of Rent Assistance 810,000 households within Australia would be experiencing rental stress;
- 3) 410,000 or 2 in 5 households are in 'housing stress', paying over 30% of income in rent;
- 4) During 2012-13 approximately \$3.6 billion was expended nationwide on RA;
- 5) 13.2% of Rent Assistance recipients pay over half of their income in rent, with over 58,000 people in NSW paying a high price to keep a roof over their head. 34% of Rent Assistance recipients reside in NSW;
- 6) Almost 75% of households eligible for Rent Assistance receive the maximum rate of Rent Assistance;
- 7) The gap that exists between the maximum rate of Rent Assistance and average rent has grown since the collection of data by the ABS. In the three years to 2009, rents rose by an average of 10% per year while the maximum rates of Rent Assistance increased by only 2.7%;
- 8) Renters currently comprise 24% of all households within Australia as against 18% 15 years ago;
- 9) 61% of all single Rent Assistance recipients are women;
- 10) Over the past decade, the percentage of NSA recipients in rental stress has increased by 15%, from 47% in 2002 to 62% in 2012.

## **Previous Reviews**

The Review refers to both the Harmer review of pensions and the Henry review of tax and transfers. It is important to examine the detail of these reviews to understand the intent of their recommendations especially in relation to the treatment of CRA, social housing tenants and a higher needs payment.

### **Harmer**

Dr. Harmer has looked specifically at housing costs for pensioners in his review of pensioners finding:

Finding 7: The Review finds that there is strong evidence that many pensioners in private rental housing face particularly high costs and have poor outcomes. Rent Assistance and social housing have complementary roles to play in addressing the financial security of these pensioners. The Review notes that the government has proposed an increased investment in social housing and considers that reforms to Rent Assistance would complement this.

Finding 17: The Review finds that there would be merit in restructuring rent thresholds to target Rent Assistance to those who pay higher rents and addressing inequities that have arisen with the sharers rate of Rent Assistance.

### **Henry and Harmer**

In the Review of Taxation Henry and Harmer made the following recommendations:

Recommendation 102: The maximum rate of Rent Assistance should be increased to assist renters to afford an adequate standard of dwelling. To ensure that Rent Assistance can be maintained at an adequate level over time, the rent maximum should be indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients.

Recommendation 103: To better target an increase in the maximum rate, Rent Assistance should be part of the income support system, with eligibility based on rent

paid and the income support means test, rather than on eligibility for another payment (for example, Family Assistance).

Recommendation 104: Mechanisms should be developed to extend Rent Assistance equitably to public housing tenants along with removing income-linked rent setting in public housing.

Recommendation 105: A high-need housing payment should be paid to social housing providers for their tenants who have high or special housing needs or who may face discrimination in the private market. This payment should be funded by the Australian government. The Commonwealth and the States should retain the option of providing capital for social housing construction.

Recommendation 106: Income-linked rents should be phased out in social housing, with providers charging their tenants rents linked to the market rate, with existing rent-setting for current tenants phased out using grandfathering or other transitional arrangements.

However, continued use of income-limited rents is appropriate in some circumstances, such as in remote Indigenous communities.

Within these it is important to note that both Henry and Harmer find a place for income related rents and roles for social housing as complementary to the provision of CRA. In recommending a more equitable arrangement between social housing rents and those in the private rental market they call for “market linked” rents rather than market rates and the protection of existing tenants from change through ‘grandfathering’ or other phasing treatments.

## **Approaches to housing assistance**

Government has two broad approaches to housing assistance, the provision of social housing through capital funding to states to provide and increase supply and the provision of CRA to tenants on income support payments and low income working households who qualify.

Social Housing since the 1999 Commonwealth State Housing Agreement (CSHA), now incorporated into the National Affordable Housing Agreement (NAHA) has specifically been targeted at “those whose needs for appropriate housing cannot be met by the private rental market”<sup>19</sup>

There has been renewed discussion of providing CRA to public tenants since the 1990s. Rent Assistance was previously available to both private and public tenants when first introduced as a supplement to single age, widow and invalid pensioners who were unable to share rental costs compared to married pensioners who could share their costs. Public Housing tenants were made ineligible in the 1980s when CRA was made available only to private tenants.<sup>20</sup>

The most important principle within this discussion is about affordability. The provision of either public housing or CRA must meet an affordability benchmark and CRA provision has increasingly fallen short of meeting it. If public tenants were again made eligible for CRA, but only if as recommended by the Commission of Audit and pointed at by McClure, chafed market rents they would bear crippling additional costs. If public housing tenants were again made eligible for CRA, as recommended by both the Commission of Audit and McClure, affordability for tenants must be ensured.

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<sup>19</sup> CSHA 1999 Guiding principles

<sup>20</sup> Hulse, Swinburne 2002, Time for a Policy Review.

The current affordability benchmark for the lowest 40% income households is 30% of gross income. This roughly equates to the 25% typical rent in public housing. A significant increase in CRA would be required to meet the 30% benchmark for market rents.

A feature of CRA is its payment at a flat rate regardless of the area and despite wide variations in median rents between states, regions, capital cities and within capital cities. The McClure report considers Harmer's 2009 recommendation of the development of a rental affordability index sufficiently important to note it and it would be essential for changes in CRA to reflect real rents for households in different areas whilst maintaining a minimum to ensure affordability thresholds were met and maintained. Indexation of CRA could then proceed based on an appropriate index of movements in market rents rather than CPI.

### **Mutual Obligation<sup>21</sup>**

***"When rigorous analysis is undertaken, the surface plausibility of the idea of mutual obligation disappears"***

**(Kinnear, 2000)**

National Shelter advocates for evidence-based policy as an essential element of effecting change to the housing system to improve housing affordability for people living on low incomes and reducing homelessness. This section of the submission questions the Federal Government's vision for reform based on mutual obligation – if this is glossed over the underlying assumptions are ignored. Mutual obligation has "popular appeal" but it is "neither simple nor compelling", only built on very shaky philosophical foundations and perpetuates "misconceptions about the nature of unemployment and poverty"<sup>22</sup>. The concept of mutual obligation is only supported by superficial assumptions with which to underpin a major public policy, without a simultaneous, systematic investment in equitable and accessible education and employment opportunities. National Shelter argues that without a systems approach and an investment in improving chances for our most disadvantaged citizens to participate, the Federal Government will invite policy failure, especially in the context of housing and homelessness as detailed in latter sections of this submission. The proposed changes to the welfare system in Australia will further disadvantage individuals living on low incomes, especially people with disabilities, other minority groups, including Aboriginal people, and those who are unemployed or homeless.

In Australia, Federal and State Governments support the idea that each person can and should contribute to their own well-being, become economically self-reliant, and contribute to the well-being of others in their family and community. Implicit within the concept of mutual obligation is the assumption that self-reliance will be achieved through social and economic participation, a key aspect of which is employment in the paid workforce. Welfare reform based on these premises is a key priority for the Federal Government, with past welfare policies labelled "passive" and blamed for

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<sup>21</sup>\*Adapted from Clark, A. (2008) Communities & Participation, Postdoctoral Thesis, University of South Australia, Adelaide, South Australia, with permission. Dr Clark is the Treasurer of National Shelter.

<sup>22</sup> Kinnear, P.L. Mutual Obligation: A Reasonable Policy? The Australian Institute (2002).

creating helplessness, dependence and a disincentive to take up paid employment<sup>23,24</sup>. As a remedy for social problems, current social policies embrace the concept of mutual obligation underpinned by "social obligation", which is a "contract" between governments, businesses, communities and individuals<sup>2</sup>. The basis of this contract is that people cannot and should not have rights unless they are prepared to fulfil their responsibilities. Thus, receiving welfare is not the passive right of all citizens, it entails meeting obligations designated and enforced by governments. Citizens are required to engage in activities related to finding employment and becoming self-sufficient, with governments proposing that this will produce "substantial benefits" for individuals and other minority groups<sup>2</sup>.

The concept of mutual obligation is highly contested from both moral and political viewpoints<sup>3</sup>. Under such arrangements, governments are responsible for providing resources that support participation, and employers and communities are responsible for providing opportunities and support to individuals for participation. Individuals reliant on welfare are responsible for taking up "opportunities" for participation and in most cases this is compulsory<sup>2</sup>. However, it is questionable to what extent all people have the capacity to participate and how social contracts are equal considering the unequal circumstances and obvious power imbalances that exist between governments and individuals. Extra demands made on citizens who are already living with disadvantage and who have access to low levels of resources have the potential to compound disadvantage. Is it moral to target the least powerful and "force" them to perform certain duties in return for what the state should arguably be providing for them anyway<sup>3</sup>? The concept of mutual obligation also makes assumptions about the effects of growing individualism on a supposed decline in social capital, making links between the two concepts without adequate evidence they are related. Current Federal social policy based on mutual obligation does not address the causes or effects of inequality and poverty.

Definitions and measurements of poverty are debated in the academic literature and by those responsible for developing and analysing social policy. Many definitions rely on measures of income in order to place a dollar value and cut-off line to delineate between those who are living in poverty and those who are not. While such a measure may be necessary for administering welfare payments, Peter Saunders<sup>25</sup> (2005) has argued that even minor alterations to this arbitrary line can result in thousands of people on a low income being assessed as not living in poverty, and that this does not truly reflect the current situation of individuals and families. Apart from a low income, living in poverty results in a lack of other resources and affects aspects of life that many people take for granted. In addition to their inability to afford the basics of life, the struggle to survive day after day weighs heavily on people living in poverty.

This submission will not enter into debate about definitions and measurements of poverty, but to acknowledge that the causes and effects of poverty are pervasive and that they adversely affect the capacity of individuals and families to participate in traditionally defined social and economic ways. It is argued that social policies based on mutual obligation place added pressure on those living in poverty to participate in prescribed ways. For example, the majority of people living with disabilities would like

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<sup>23</sup> McClure, P. (2000) Participation Support for a More Equitable Society, Final Report of the Reference Group on Welfare Reform, Commonwealth Department of Family and Community Services, Canberra, Australian Capital Territory, Australia.

<sup>24</sup> McCausland, R., Levy, M. (2006) Indigenous Policy and Mutual Obligation: Shared or Shifting Responsibility Agreements? Australian Journal of Social Issues, vol. 41, no. 3, pp 277-294.

<sup>25</sup> Saunders, P. (1992) Poverty, Inequality and Recession, Economic Papers, vol. 11, pp 1-22.

to work however, they face significant barriers to attaining and retaining employment. It is acknowledged that the interaction between demographic, economic, educational, training and personal influences can adversely affect employment opportunities and outcomes for people with disabilities<sup>26</sup>.

One of the great difficulties people with disabilities face in being considered for suitable jobs is that employers are still reluctant to hire someone with a disability<sup>27</sup>. Discrimination in the workplace and in the community in general still affects people with a disability, who also face higher costs than people without disabilities in seeking and keeping employment. These may include transport costs, the availability of suitable transport and the extra support that is required to undertake training for work, looking for work and maintaining employment. Instead of assisting people with disabilities, changes to eligibility and assessments for Disability Support Pension (DSP) will increase disadvantage in looking for work, training for work, keeping work and in everyday life. Eligibility criteria for DSP should accurately reflect individual circumstances and recognise the much greater barriers to employment that people with disabilities face generally, being recognised as a condition for entitlement rather than assuming an inability to work. Framing disability in terms of capacity to work reinforces the message that people with disabilities cannot work.

A range of human services is required to support the concept of mutual obligation. This in turn can adversely affect individuals. Employment services in particular focus on individual problems, locating these personally rather than in the context of wider structural, family and societal pressures. They focus on short-term employment outcomes and cannot always refer clients to further education or training. This focus continues despite evidence that holistic human services are more effective in supporting individuals<sup>28</sup>.

As long ago as 1960, community development project workers in both America and Britain argued that social and individual problems could be affected by fundamental inequalities in the political and economic system, and should not simply be treated as a failure on the individual's part<sup>29</sup>. Others have recommended services that do not focus on particular problems but better reflect people's lived experiences, and address the multiple and interwoven issues that affect health and well-being<sup>7</sup>. Many current employment services are at odds with this idea.

An OECD<sup>30</sup> report about labour under-utilisation in the Australian workforce shows us the link between not having a job and being socially excluded - the groups most at risk are lone parents, people with a disability and Aboriginal Australians - the very people who will be affected if the Federal Government's proposed 'earn or learn' scheme is supported by the Commonwealth Parliament. Better integration of these groups into the labour market would enhance their inclusion but the same report recommends that education and training are only one aspect of how to increase

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<sup>26</sup> Shaddock, A.J., Kilham, C., Spinks, A.T. and Williams, M. (2005) *Getting and Keeping a Job when you Have a Disability*, University of Canberra, Australian Capital Territory, Australia.

<sup>27</sup> Australian Council of Social Service (2003) *The Bare Necessities: Poverty and Deprivation in Australia Today*, Submission into the Senate Inquiry into Poverty and Financial Hardship, Australian Council of Social Service, Strawberry Hills, New South Wales, Australia.

<sup>28</sup> Slee, P. (2006) *Families at Risk: The Effects of Chronic and Multiple Disadvantage*, Shannon Research Press, South Australia, Australia.

<sup>29</sup> Hart, E. and Bond, M. (1995) *Action Research for Health and Social Care: A Guide to Practice*, St. Edmundsbury Press Ltd., U.K.

<sup>30</sup> Koutsogeorgopoulou (2011) *Enhancing Labour Utilisation in a Socially Inclusive Society in Australia*, Economics Department Working Papers No. 852.

labour utilisation. A strategy is needed that includes the following elements: improving the functioning of labour market institutions, reforming the tax and transfer system and maintaining labour market flexibility. The critical ingredient though is an education system that better promotes equity and integrated services that assist people with disabilities and those who are homeless. National Shelter calls upon the Federal Government to implement an evidence-based labour market strategy if it pursues a mutual obligation agenda.

## **Conclusion**

In conclusion it is important to maintain both supply and demand side subsidies to improve housing affordability for low and moderate income households in Australia. Providing CRA to public tenants at higher levels whilst charging market rents has attraction for simplicity and transparency but would not guarantee the affordability benchmark of income based rents, particularly as most of those paying rents based on income are unlikely to find housing in the private market.

Some housing organisations like Brisbane Housing Company utilise a two pronged rent policy of tenants paying no more than 74.9% of market rent to maintain their GST exemption eligibility as a charity and company, whilst keeping rent paid by tenants below 30% of their income. This approach creates both an affordability benchmark and a relation to market rent.

The establishment of CRA and its extension has helped meet the housing costs of low income households but it has failed to match the rate of increase and should be reviewed for adequacy, increased appropriately, and then indexed to movements in rents rather than CPI.

CRA provision has however meant an absence of focus on supply of affordable rental housing. Markets have failed to use any demand incentive to create additional supply and arguably the demand side policy focus has exacerbated the supply shortfall.

It is imperative Australia retains strategies to increase supply via additional investment, the maintenance and extension of supply side incentives like the National Rental Affordability Scheme simultaneously with improvements in demand subsidies to improve affordable housing outcomes.

To achieve improvement in workforce participation certainty of rent for fixed periods would remove disincentives and allowing people to retain housing even if their income rose above thresholds for social housing would provide greater certainty. Many tenants may improve income but have no employment security creating a hob son's choice between housing security and improved income.

Housing policy, however structured may help, but cannot overcome the ratio of unemployed to available jobs (estimated by the BSL at 10:1) and until we have governments and economies which meet their obligation to produce employment and improved economic circumstances we should not demonise those whose choices between housing and employment are finely balanced.

Moving towards a market-based rent setting system may have many advantages, and is not something that National Shelter opposes in principle, however this is something that would need to be very carefully thought through in order to offer the right mix of transparency, financial sustainability, employment incentives, and most importantly, affordability for tenants. Simply moving social housing tenants to market rents (even with increased CRA) in an effort to create equality between social housing tenants and those in similar circumstances in the private rental market sets up a false dichotomy, will leave more people worse off, and will not address the fundamental problem, which is a lack of affordable and available rental dwellings that people on low incomes can access.

## **Principles for reform**

In general National Shelter endorses the principles for reform which have been developed by ACOSS in conjunction with a range of peak bodies and welfare agencies. Specifically around the following:

### **Conduct of the Review**

1. The social security and related support systems for people of working age should be reformed in partnership with people receiving income support, and relevant peak and community organisations. To achieve this, the Government and Review Panel should:
  - (1) extend the discussion period for the Review to at least three months before recommendations are finalised;
  - (2) hold national meetings with relevant peak and consumer bodies and independent experts;
  - (3) undertake facilitated consultations with people receiving relevant social security payments, ensuring that these meetings and information on the Review are accessible to people with disabilities as well as people with limited literacy skills;
  - (4) undertake discussion with stakeholders of detailed options for reform informed by modelling of the their likely impacts, which is made publicly available.
2. The Government should promptly publish the Panel's Final Report, its responses to the recommendations, and the next steps it proposes to take.
3. Throughout the Review, the Government should:
  - (1) ensure that people relying on income support, including people with disabilities, sole parents, carers, and people who are unemployed, are treated respectfully in its public commentary and media management strategies; [refer to the attached deeply concerning media headlines]
  - (2) undertake a public education effort to inform people of the facts about the social security system and those who rely on it, and to challenge prejudice and stigmatisation of social security recipients.

### **Future directions for reform of social security for people of working age**

It is too early in the process to advocate a detailed blueprint for reform. However a reformed social security system for people of working age should have the following features.

## **Adequacy:**

1. (1) The base rates of payment for singles and couples should be adequate to meet common socially accepted essential living costs; that is, to prevent poverty.  
(2) Social security payment levels generally should be based on people's current financial needs rather than their work capacity or future employment prospects.  
(3) People facing broadly similar living costs should receive the same levels of income support, and people whose living costs remain the same (or increase) should not be moved from higher to lower payments.
2. The base rates of payment for singles and couples should be benchmarked to broader community living standards by linking them to a common measure of wages:
  - (1) A measure of gross (before tax) fulltime median wages would be appropriate for this purpose.
  - (2) The development of this benchmark should be informed by a public inquiry into minimum socially acceptable living costs conducted by an independent Commission of experts appointed by Government for that purpose. The Commission should take into account measures of the living standards of social security recipients (including poverty, deprivation and budget standards) relative to broader community standards and also between different groups of social security recipients (including appropriate payment relativities between singles and couples, and those on pensions and allowances).
  - (3) Once the benchmark is set, base rates of payment should be indexed every six months to movements in the benchmark wage as well as the ABS Pensioner and Beneficiary Living Costs Index, whichever results in the higher payment.
  - (4) The independent Commission should report to the Parliament on the adequacy of base rates of payment and supplements on a regular basis, at least every five years.
  - (5) Budget proposals to index social security payments to the CPI only should be abandoned.
3. Supplements should be paid to meet additional major non-discretionary costs, including but not limited to:
  - (1) housing rents;
  - (2) costs of disability (as a complement, not a substitute, for the National Disability Insurance Scheme)
  - (3) extra costs of raising a child alone
  - (4) costs of caring for a person with a disability (as a complement, not a substitute, for the National Disability Insurance Scheme)
  - (5) the costs of job search and training
  - (6) retention of a separate system of Family Tax Benefits.
4. Comprehensive action should be taken to improve the affordability of housing for people on income support, especially in areas with substantial job vacancies:
  - (1) Rent Assistance payments should be adequate to prevent housing stress and indexed to movements in rents;
  - (2) Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.

5. In setting future base rates of payment and supplements, the Government should ensure that no group is financially worse off and that those facing the greatest hardship are better off. This includes future applicants for social security.
6. Base rates and supplements should be available to people when they are needed, for as long as they are needed:
  - (1) Any waiting periods should be designed to avoid financial hardship. Budget proposals to increase the current one-week waiting period for young unemployed people should be abandoned.
  - (2) No time limits should apply. Budget proposals to limit payments for young unemployed people to six months at a time should be abandoned.

**Targeting to need:**

7. Base rates of payment should be targeted to people in financial need through means tests which:
  - (1) ignore modest levels of private income and assets;
  - (2) ensure a fair return to paid work;
  - (3) supplement part time employment in cases where people are expected to seek fulltime employment;
  - (4) supplement low paid full time employment as well in cases where work capacity is limited by disabilities or caring responsibilities.
8. (1) Supplements should be targeted less strictly than base rates of payment, in accordance with the purpose of the supplement (for example the costs of disability or housing do not diminish once a person secures employment):
  - (2) Supplements should generally extend at least to low-paid fulltime wage earners and in some cases should also extend to middle income-earners.
9. (1) Income tests should be simpler and easier to understand and comply with.
  - (2) They should be more flexible in the timing of their application, including through the use of a simple and consistent set of 'income banks', and take account of earnings at the time when people can reasonably expect to receive them.

***Mutual obligations of social security recipients, Governments, employers, and service providers***

- 10.(1) Any participation requirements for social security recipients should be balanced by responsibilities of Governments, employers and service providers to ensure that suitable paid work is available, that recruitment practices are fair, and that individualised help is available to people to secure a job (as proposed below).
  - (2) Where suitable jobs and supports are limited or not available, participation requirements should be adjusted accordingly. Any participation requirements should be reasonable, predictable, individually tailored and negotiated, and designed to directly improve each person's paid employment prospects:
    - (1) No requirements should apply for people whose disabilities or caring responsibilities preclude employment for the foreseeable future;
    - (2) Requirements should be adjusted, and appropriate services and supports offered, for people whose disabilities or caring responsibilities significantly reduce their employment capacity, so that they can realistically combine care and workforce participation;
    - (3) Compliance systems should be based on re-engagement not punishment and penalties should be designed to avoid placing people in severe financial hardship. The maximum eight-week suspension of income support should be reduced.

11. Participation requirements should not extend beyond activities that directly improve employment prospects, and should not include the regulation of social behaviour, care of children, or requirements to undertake medical treatment.

***Legislative basis, form of payment, and administration:***

13. Social security payments should continue to be paid as legislated entitlements, administered by a public body, and subject to a fair, accessible and quick external appeal system.
14. (1) Social security should be paid as cash benefits without restriction on their use, unless the recipient or local community elects to receive social security in a different form (for example, to pool payments to provide employment in a remote community).  
(2) 'Income Management' should not be compulsory and should not apply automatically to categories of people based on benefit type, location, or race.

***Financing:***

15. (1) Social security payments should continue to be financed from general Commonwealth revenue and reform should not be arbitrarily constrained by a cost neutrality requirement.  
(2) Instead, the future fiscal, economic and social benefits of investment in reform should be assessed and where possible quantified.

***Individually-responsive employment services and supports:***

16. The employment services system should be reformed to:
  - (1) give people greater choice and control in their pathway to employment and the services they receive;
  - (2) increase and better target resources (including Employment Pathway Fund and service fees) to support lower caseloads and individualised investment in people unemployed long-term
  - (3) reduce administrative oversight, control and reporting requirements while ensuring that jobseekers receive a quality service.
17. (1) Investment in effective stand-alone employment programs such as wage subsidies, which offer paid employment experience in regular employment with or without associated training, should be expanded in preference to unpaid 'make work' schemes such as Work for the Dole.  
(2) To ensure cost effectiveness, they should be targeted towards people unemployed long-term rather than demographic groups such as mature age jobseekers.
18. Employers and employment services should be actively engaged, supported and expected to partner to support recruitment from groups facing labour market disadvantage, including people unemployed for over two years, people with disabilities and Aboriginal and Torres Strait Islander people who are assessed as facing significant labour market disadvantage, by:
  - (1) re-engineering mainstream employment services programs and the vocational education and training system so that providers have more resources and incentives to partner with employers to assist them into secure jobs [more detail is provided in our joint statement with the BCA and ACTU on employment partnerships at:  
[http://acoss.org.au/images/uploads/Partnerships\\_to\\_secure\\_jobs\\_FINAL.pdf](http://acoss.org.au/images/uploads/Partnerships_to_secure_jobs_FINAL.pdf)];
  - (2) introducing requirements to recruit from these target groups by Governments and their contractors.

(3) To prevent duplication and bring such employment partnerships up to scale, they should be integrated with mainstream employment services rather than funded separately.

(4) To ensure cost effectiveness, they should be targeted to the most disadvantaged jobseekers rather than a demographic group as a whole.

19. Employment, and health, social housing and social support services should be encouraged and funded to form 'Local Employment Support Panels' in which relevant services work in partnership to provide a seamless pathway to employment services for people who face multiple economic and social disadvantage, including people with mental illness.

### **Immediate priorities for reform of social security for people of working age**

20. To reduce the most severe poverty and gaps between pension and allowance payments, maximum single rates of Newstart and other Allowance payments, including student payments and payments for young people living independently of their parents, should be increased by \$50 per week, so that they receive the same increases granted to pensioners in 2009.

21. Social security payments for sole parents with school age children should be increased to prevent the overall income support package for these families from falling as children grow older:

(1) In addition to the above \$50 per week increase in Newstart Allowance for sole parents with school age children, Family Tax Benefit Part B for sole parents with school age children should be increased by \$22 per week, to the same level that applies to those with younger children.

(2) These two measures would restore maximum payment levels for those sole parents affected by recent decisions to transfer them from Parenting Payment to the lower Newstart Allowance.

Student payments for single adults over 24 years of age (Austudy and Abstudy Payment) should be increased by \$44 per week, to reach the same level as other Allowance payments such as Newstart Allowance.

22. Rent Assistance for those paying the highest rents should be increased by 30% (\$20 per week for a single person living alone) and indexed to national movements in median rents.

23. A Taskforce should be established to undertake a comprehensive simplification review of eligibility requirements for existing income support and supplementary payments over the next 12 months, in consultation with community stakeholders.