

Final Report

Demand subsidies for private renters: a comparative review

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EXECUTIVE SUMMARY

Commonwealth Rent Assistance (RA) is the most significant type of housing assistance for low income households in Australia, and was paid to almost a million recipients in June 2001 at an annual (2000-01) cost in excess of \$1.7 billion. RA is a type of *demand subsidy* and is paid directly to low income households to improve their capacity to pay for housing in the private rental market and for some types of community housing. Increasing reliance on demand subsidies for housing in Australia mirrors the experience of many advanced industrialised countries that rely increasingly on this type of assistance rather than *supply subsidy* programs that subsidise housing providers and in which subsidies are attached to specific dwellings, such as public housing units.

RA has been the subject of intermittent policy debate in Australia since the late 1980s, and in the mid-1990s plans to integrate it with other types of housing assistance provided under the Commonwealth-State Housing Agreement (CSHA) were hotly debated and then shelved. Consideration of RA and the linkages between different types of housing assistance are back on the public policy agenda in the context of negotiations for a new CSHA from July 2003.

The purpose of the research, as reported in this paper, is to inform the current debate about RA and housing assistance in Australia. The research examined and reviewed demand subsidy models for private renters in Australia compared to New Zealand, Canada and the US. These three countries were chosen because they are most similar to Australia in terms of housing systems. The research examined and compared the objectives, design, implementation and outcomes of demand subsidy models for private renters in the four countries. Each country has its own terminology and, for convenience, this report uses the generic term 'housing allowances' to refer to this type of housing assistance.

This is the Final Report of the research project and follows a Positioning Paper <http://www.ahuri.edu.au/pubs/positioning/pp_demandsubsidies.pdf> that presents the conceptual framework for the research, the research questions and an extensive review of the literature on housing allowances in the four countries. This Final Report presents detailed findings about housing allowance models for private renters in the four countries, a brief summary of which follows.

Most of the models are embedded in income support systems rather than housing assistance programs, with the exception of the housing choice voucher program in the US and some small-scale and highly targeted provincial programs in Canada. The objectives and design of housing allowances thus depend substantially on how income support programs deal with housing costs since these vary substantially by type and size of household, location and tenure, to a greater extent than other types of household expenditures. They also vary significantly in terms of eligibility, ranging from broad entitlement to assistance to a high level of targeting and selectivity.

Three basic models of housing allowances were found:

- *Income deficit models* which provide assistance to people of workforce age in receipt of income support who have insufficient income to meet actual household expenditures. Housing is considered to be such a significant item of expenditure, and varies so much, that it is often calculated separately in determining the rate of basic income support payments;
- *Income supplement models* which provide additional income to some households with high housing costs over and above general income support payments that include some provision for housing costs. This is a hybrid model between income support and housing assistance; the additional income is intended to improve housing affordability. RA in Australia is an example of an income supplement model; and
- *Housing assistance models* in which housing allowances are implemented separately from income support systems. Housing allowances are seen as a housing program and have specific objectives in terms of housing outcomes such as affordability, adequacy and appropriateness.

Details of the outcomes of programs within the different models are outlined in this report. Overall, whilst program design varies considerably, the main recipients of housing allowances are single people and sole parents, the majority female. They are largely dependent on one income and find it difficult to afford housing without sharing costs with another adult, as reflected in the number of sharers and boarders. The majority of recipients depend, at least in part, on income support payments, and most are private renters.

In none of the countries in the study is there evidence that housing allowances have stimulated an increase in the supply of affordable rental housing; instead, there is widespread concern in all four countries about contraction in the supply of rental housing that would be affordable to households in receipt of housing allowances. Governments have adopted different strategies to address these concerns: consideration of financing strategies to develop public/private partnerships to produce affordable rental housing in Australia and New Zealand, new federal funding for increasing the supply of affordable housing in Canada, and an emphasis on stimulating supply through housing tax credits in the US.

Governments have generally assumed that housing allowances do not contribute to inflationary pressure on rents, based on econometric modelling and some empirical research emanating from the US which supports the contention that housing allowances do not impact on rent levels generally but may have an effect on specific sub-markets. It is not clear that these findings translate to Australia or New Zealand where housing allowances are based on entitlement and recipients comprise more than 40% and 50% respectively of the unassisted rental market, rather than less than 5% for housing choice voucher recipients in the US. This issue has been particularly controversial in New Zealand. Further work is required on a methodology that would enable an empirical study, in the Australasian context, of the impact of this type of assistance on private rent levels.

The main policy driver for housing allowances has been welfare reform rather than housing policy. There have been two main elements to welfare reform that impact on housing allowances. Firstly, strategies to move households from income support and into paid work have raised issues of whether housing allowances contribute to an unemployment trap for income support recipients or whether they facilitate movement into work. Secondly, strategies to supplement incomes via tax credits/benefits to families with dependent children and low income working people raise issues about whether this 'income' approach is preferable to widespread use of targeted allowances, such as RA, to compensate low income households for the housing costs associated with households of different type and size.

There appear to be three broad policy options for RA in Australia:

- Wrap up RA into general income support;
- Redefine RA as a specific housing assistance program; or
- Continue with RA under the income supplement model with modifications.

One option is a general income support model in which specific provision for variations in housing costs is included in the calculation of income support payments. This could explicitly recognise not only that some types/sizes of households are likely to have higher housing costs than others, as at present, but also that actual housing costs vary by area, tenure and type of accommodation. Such a system might be applicable to those not expected to be in the workforce, particularly the elderly, whose housing arrangements would be unlikely to change frequently.

Another option is to implement housing allowances as a separate housing assistance program alongside initiatives to increase the supply of affordable housing and housing programs for specific groups. Access would be based on housing need and not restricted to income support recipients. This option provides the opportunity for housing allowances to be implemented in conjunction with other types of housing assistance for private renters, such as bond and rent in advance and relocation assistance schemes. It could be considered for households who are in receipt of low wages and have no contact with Centrelink.

A third option is to retain the income supplement model but to introduce changes in design or targeting. This may be applicable for households of workforce age who are likely to receive income support in the short to medium term. Some of the possibilities are: development of rent thresholds and RA maxima based on region as well as household type/size; increase of rent thresholds and RA maxima to target payments at those with higher housing costs; extension of the payment to home owners in some circumstances, such as sole parents wishing to remain in the family home; and extending eligibility to Austudy recipients.

In summary, the policy implications of the research suggest consideration of moving from a 'one size fits all' model of RA. A combination of welfare reform and changes to the labour market means that there is no longer a clear distinction between those in receipt of income support and working households. Many households will receive income through a combination of part income support, part wages and tax credits/benefits, and their employment status may fluctuate. Others may be in receipt of wages but still face problems of housing affordability, particularly if there is only one income earner. Different types of housing allowances may be required to address these different sets of circumstances.

1. INTRODUCTION: AIMS AND OBJECTIVES

This paper reports on a research project that reviewed and compared demand subsidies for private renters in Australia, New Zealand, Canada and the US. Housing assistance policies in these four countries rely increasingly on demand subsidies to assist low income households to participate in private rental markets, rather than on traditional approaches that provide subsidies to housing providers. The research examined the objectives, design, implementation and outcomes of demand subsidies for private renters in the four countries.

The research was stimulated by policy debate in Australia about the role and effectiveness of a demand subsidy for private renters, called rent assistance (RA), and its link with other forms of housing assistance. RA has become the most significant form of housing assistance in Australia, although it is administered as part of the income support system and separately from other types of housing assistance, in particular, public and community housing funded under the Commonwealth-State Housing Agreement (CSHA). In the mid-1990s, proposals to integrate RA with other types of housing assistance, and to change elements of its design, were vigorously debated but subsequently withdrawn. Since then there has been sporadic policy debate and some research around RA, but many of the design, implementation and coordination issues raised in the mid-1990s remain unresolved. The role of RA is again on the public policy agenda, in the context of negotiations for a new CSHA from July 2003. In this context, the broad aim of the research was to inform debate by a comparative analysis of demand subsidies for private renters in the countries most similar to Australia in terms of housing systems.

The research has a number of conceptual layers. Firstly, it is based on a consideration of the features of demand subsidies for households in contrast to other types of housing assistance programs that provide subsidies to housing providers. Secondly, the research explores demand subsidies for private renters as a hybrid form of assistance cutting across both housing assistance and income support. Thirdly, it examines the way in which demand subsidies interact with private rental markets.

Specifically, the research aims to:

- Review the various shelter and non-shelter objectives of housing demand subsidy schemes;
- Compare the design, administration and cost of demand subsidy schemes;
- Document and assess evidence on the shelter outcomes of demand subsidy schemes, including affordability, adequacy, appropriateness and security of housing;
- Review evidence on the non-shelter outcomes of demand subsidy schemes, including personal and family wellbeing, housing-related poverty, workforce participation and welfare dependency;
- Evaluate available evidence on the impact of housing allowances on communities and private rental markets, including the supply and location of affordable housing; and
- Review evidence from the four countries on the cost-effectiveness of housing allowances relative to social housing and other supply strategies.

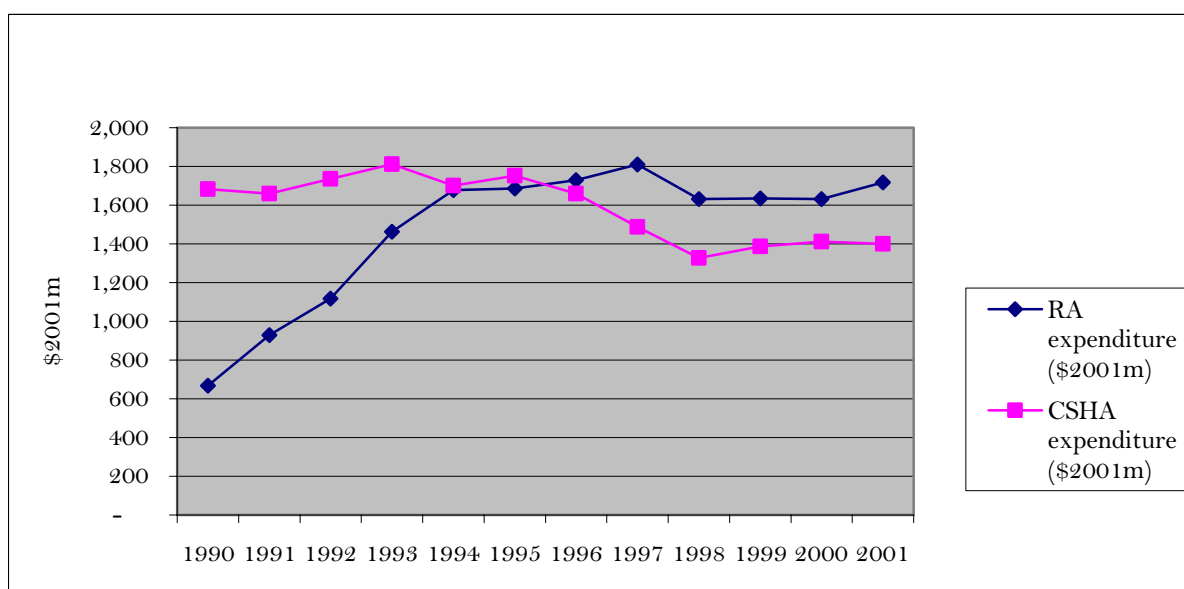
This is the final report of the project. A Positioning Paper <http://www.ahuri.edu.au/pubs/positioning/pp_demandsubsidies.pdf> is also available which discusses the concept of demand subsidies for private renters, identifies key policy issues and provides a detailed review of relevant literature.

2. POLICY RELEVANCE OF THE RESEARCH

RA is the most significant type of housing assistance for low income households in Australia in terms of both coverage and cost. In June 2001 almost a million 'income units'¹ were in receipt of RA and the annual costs of the program were in excess of \$1.7 billion (FaCS 2001: 111-12). In contrast, also in June 2001, about 371,900 households lived in public and community housing funded under the CSHA, and annual gross expenditure by all governments on the CSHA in 2000-01 was \$1.4 billion (SCRCSSP 2002: 865, 869-70).²

The starting point for most of the comparisons between RA and CSHA assistance has been their relative costs, with substantial real increases in Commonwealth expenditure on RA since the late 1980s contrasting with a gradual and sustained real decrease in gross expenditures by Commonwealth and state/territory governments on CSHA programs, as shown in Figure 1. In the decade 1991-92 to 2000-01, expenditure on RA increased by 62% in real terms, but there was a real decline of about 15% on CSHA expenditure (SCRCSSP 2002: 866). Expenditure on RA exceeded gross expenditure on the CSHA in 1995-96 and has remained higher ever since.

Figure 1
Expenditure on RA and CSHA programs, 1990-2001, in constant (2001) dollars



Source: Department of Social Security and Department of Family and Community Services Annual Reports, various years.

The number of income units in receipt of RA increased substantially over the last twenty years, with the highest rate of increase occurring in the early 1990s, as shown in Table 1. More than 300,000 more income units were in receipt of RA in June 2001 compared to June 1991, a 50% increase. In contrast, approximately 25,000 more households lived in public and community housing in 2001 compared to 1991, an increase of about 7%.³

¹ 'Income unit' is a term used by the Commonwealth Department of Family and Community Services and refers to a single or couple and any dependent children. Dependent children are defined as being under 16 or under 18 if in full-time schooling.

² This figure refers to gross expenditure and does not net out repayments made by the states/territories to the Commonwealth under the terms of previous CSHAs, nor any specific arrangements which states/territories make to retire debt. Although most CSHA funds are directed towards public and community housing, there is also some expenditure on other programs such as assistance to some private tenants.

³ The number of households living in public and community housing was calculated from Department of Social Security, *Housing Assistance Act 1989: Annual Report 1995-96* (Table A1.05) for 1991 and 1996, and SCRCSSP (2002: 869-70) for 2001. The number of households living in public and community housing at any one time is a snapshot and does not take into account reallocation of housing units over a period. In 1999-2000, 41,400 new households were allocated public housing (SCRCSSP 2001: Table 16A.1), whilst reliable figures on community housing are not available.

Table 1
Income units in receipt of RA, Australia, 1981-2001

Year	Income units in receipt of RA	Change in income units (numbers)	Change in income units (%)
1981	443,118		
1986	582,869	+139,751	+31.5%
1991	645,626	+62,757	+10.8%
1996	893,946	+248,320	+38.5%
2001	967,333	+73,387	+8.2%
1981-2001		+384,464	+66.0%

Source: Annual Reports of the Departments of Social Security and Family and Community Services, various years

Comparison of the cost and coverage of RA and CSHA programs over the past decade or so indicates a significant shift between what are widely regarded as alternative types of housing assistance. Despite this change in emphasis, periodic renegotiations of the CSHA continue to be – as they have been for more than sixty years – the centrepiece for housing policy debate. In contrast, RA developed incrementally and through a series of largely administrative changes. It was introduced in 1958 as a small additional payment to some pensioners (mainly age pensioners) who rented their housing (Kewley 1973) but by the early 1990s became, through successive changes to eligibility over four decades, a payment to most income support recipients renting privately (Prosser & Leeper 1994). There were also a series of incremental changes to the design of RA to try and tailor assistance to households of differing sizes and composition – in particular, to families with children – and, to a limited extent, to address the circumstances of those renting privately in high cost markets (McNelis 1997).

From 1992 to 1997, successive Labor and Coalition Commonwealth governments proposed to integrate RA with CSHA assistance and to introduce further design changes, for example, to take more account of regional variations in private rentals. Whilst the detail of the proposals differed, heated policy debate in the mid-1990s centred on their impact on capital funding for public and community housing and on rents payable by existing (and incoming) public housing tenants, rather than on the effectiveness of RA for the much larger number of private tenants. In 1997, these plans were withdrawn (Caulfield 2000). The Commonwealth and states/territories did, however, agree to target CSHA assistance and RA to different groups. RA was to address the needs of income support recipients whose main issue was the affordability of private rental housing. CSHA assistance has been increasingly targeted to households with additional needs beyond affordability, such as domestic violence, medical conditions, disability and homelessness (Purdon Associates 2000).

The mid-1990s debate elicited, for the first time, some public information on RA and its effectiveness⁴ (Industry Commission 1993a, 1993b; DSS 1993, 1997; Senate Community Affairs References Committee 1997), and also highlighted problems with available data (e.g. Karmel et al. 1998). Since then there have been attempts to improve the reliability and accessibility of RA data, and the Commonwealth has commissioned research into the living arrangements and housing circumstances of RA recipients (Wulff 2000). AHURI funded research into RA's impact on specific groups (e.g. Burke, Pinkney & Ewing 2002; Burke & Hulse 2002), and the Affordable Housing National Research Consortium also reviewed its effectiveness (Berry & Hall 2001).

As indicated above, changes to RA in Australia have been largely incremental, with limited consideration of alternative models. There were exceptions in the mid-1990s debate with active consideration of the model of demand subsidies for housing adopted in New Zealand

⁴ In 1995-96, for the first time, RA was separately identified as a sub-program by the Department of Social Security (*DSS Annual Report 1995-96*). Previously, reporting on RA had been as an allowance attached to major income support payment types, such as the age, invalid or disability pension, rather than as a means of housing assistance.

earlier in the decade (e.g. Pender 1996) and of alternative subsidy models (e.g. Yates 1996). It is timely, in the context of the current CSHA negotiations, to undertake a more detailed review of why, how and to what effect similar countries provide demand subsidies for private renters. Recent comparative studies have indicated that the move to demand subsidies mirrors the experience of many developed countries in Europe, North America and Australasia (Kemp 1997; Ditch, Lewis & Wilcox 2001).

The purpose of the research project was to compare and evaluate different demand subsidy models for private renters to enable a more informed debate about the future of RA. This is not to suggest that policies or practices from other countries can, or should be, transferred to Australia without due consideration of the context in which they were developed.

3. A METHODOLOGY

The project used a comparative analysis – an approach that has been increasingly popular in housing research. Comparative analysis can challenge existing perceptions and ‘taken for granted’ assumptions, particularly where change has been gradual and incremental, as in the case of RA. It can also throw up different ideas and approaches for consideration (Ditch & Chilvers 1995). Comparative analysis can highlight both the common factors and specific cultural, historical and institutional differences that may account for differences in approach. Importantly, it can sharpen perceptions of policy and practice in one’s own country; (Castles 1991: 3-4) has likened comparative analysis to providing scales of distance to read a map.

Comparative analysis also presents many challenges, even when, as in the present case, language is not an issue.⁵ Policies and programs cannot be seen in isolation but in the institutional context of a country, for example, income support and housing. Researchers must have an appreciation of the history and politics that underpin the development of demand subsidy models for private renters. They are also faced with differences in terminology that may point to underlying conceptual differences, such as ‘social housing’ or ‘private rental housing’. There are also problems with the currency of data, comparability of data sets, and different data definitions between countries. In federal systems, there are difficulties in obtaining national data, particularly where housing allowance programs are administered at a state/provincial level.

Despite the growth in importance of housing allowances in many countries, there have been few comparative studies; the most comprehensive are by Howenstine (1986), Kemp (1997) and Ditch, Lewis & Wilcox (2001). Such studies usually rely on information provided by one or more national informants. The lack of comparative analysis has been variously attributed to:

- The location of housing allowances within both income security and housing programs (Fallis 1993);
- The complexity of many housing allowance schemes and their frequent changes (Bolderson & Mabbett 1991; Eardley et al. 1996);
- The interaction between housing allowances and social assistance programs, which are themselves often very complex (Ditch, Lewis & Wilcox 2001); and
- The difficulty in comparing housing markets, housing costs and types of housing provision across countries (Kemp 1997).

The research adopted a ‘most similar’ method of comparative analysis, usually selected in order to understand patterns of diversity between countries (Przeworski & Teune 1970). There have been a number of attempts to classify clusters of similar countries; with perhaps the most widely accepted being the schema of welfare regimes developed by Esping-Andersen. This asserts that there is a distinct ‘*liberal* welfare regime’, characterised by a narrow definition of what is a ‘social risk’, a tendency to individualise social risks and to promote private market solutions (Esping-Andersen 1999: 74-6). The countries that cluster around the liberal welfare regime type are the English-speaking countries of Australia, New Zealand, Canada, the United Kingdom and the US. Other writers have also confirmed key economic, social, political and cultural similarities between these countries (e.g. Castles 1998; O’Connor, Shaver & Orloff 1999).

After a preliminary review of housing systems in these five liberal welfare regimes, it was decided to focus on Australia in comparison with New Zealand, Canada and the US. The four countries are similar in terms of housing systems, having large ownership sectors, relatively large private rental sectors and small social housing sectors, as indicated in Table 2.

⁵ See, for example, *The Methodological Challenge to Comparative Research*, a recent special issue of the *Journal of Housing and the Built Environment*, 2001, 16 (1).

Table 2
Households by tenure, Australia, New Zealand, Canada and the US, circa 2000

	Australia (2001)	New Zealand (2001)	Canada (2000)	US (2000)
Population	19.0m	3.8m	30.0m (2001)	281.4m
Households in occupied private dwellings	7.1m	1.3m	11.7m	105.5m
% of households owning				
without mortgage	39.7%	32.3%	30.9%	28.5%
with mortgage	26.5%	34.6%	33.3%	37.7%
Total owners	66.2%	66.9%	64.2%	66.2%
% of households renting				
privately*	23.7%	26.6%	30.0%	30.8%
social housing**	5.4%	5.6%	5.8%	3.0%
Total renters	29.1%	32.2%	35.8%	33.8%

Sources:

Australian data is from the 2001 Census of Population and Housing (ABS 2002: Table B19) and totals exclude 4.7% of households in occupied private dwellings where tenure was not stated. Households in social housing data were calculated from administrative data derived from AIHW 2001: Figure 3.1.

New Zealand data is from Statistics New Zealand, 2001 Census of Population and Dwellings, Snapshot 12: Housing. Data on social housing are Census data and refer to households renting from the public sector only (the number of community managed dwellings in New Zealand is very small).

Canadian data is from Statistics Canada, 2001, Income Statistics Division, Selected dwelling characteristics and household equipment, except for population data, which are from the 2001 Census of Canada. 2001 Census data on occupied private dwellings and tenure had not been released as of July 2002. Data on social housing is administrative data from the Canada Mortgage and Housing Corporation, Annual Report 2001: 25.

US data is from United States 2000 Census of Population and Housing, Profile of General Demographic Characteristics, Table DP1. Data on ownership with and without mortgages was calculated from US Census Bureau, American Housing Survey 1999, Table 2-13. Social housing data is administrative data from the US Department of Housing and Urban Development (HUD 2000a) and refer to public housing and assisted private housing and excludes households with housing vouchers and units funded with housing tax credits.

Notes:

* Private rental is taken broadly to include rent-free and other arrangements.

** Social housing Data refer to households living in units regarded as part of the social housing stock in that country, and the definition and configuration of that stock varies between countries.

The UK was not included in the study due to its historically different housing system that has resulted in a much smaller private rental sector and significantly larger social housing sector than in the other four countries. For example, in England in 1997-98, about 10% of households rented privately and 22% rented social housing (Ditch, Lewis & Wilcox 2001: 113). Additionally, demand subsidies for housing in the UK (called housing benefit) are directed primarily at households renting social rather than private housing (Kemp 1997), unlike in the other four countries. There is also a considerable amount of material already available on housing benefit in the UK, as indicated in the literature review for this research. Finally, in the UK there is likelihood of significant changes being made to housing benefit for private tenants, in the first instance, and in the longer term for social housing tenants. Depending on the timetable for change, a supplementary study may be justified to include impending changes affecting private tenants in the UK.

The methodology for the comparative analysis had a number of levels:

Literature review

Both at the beginning of the project, and throughout the research, relevant literature was identified and reviewed. This was undertaken through a search of international and national journals in housing and income security. It also included a review of relevant government reports, which are the main sources of information on demand subsidies for private renters, such as commissioned research studies and internal research carried out by government agencies.

Document and data search, and contacts with key informants

The few comparative studies in this field usually rely on two national informants per country, one academic and one government official (e.g. Kemp 1997; Ditch, Lewis & Wilcox 2001). For this research, a broader approach was adopted. A good deal of material was accessed via the Internet and followed up by email. Contacts included government income security and housing agencies at a national or regional level, non-government organisations and service providers, policy and advocacy groups, research and policy institutions and statistical agencies. There are no definitive accounts of demand subsidies for private renters in the four countries, and this approach was akin to piecing together a jigsaw.

Field trip

A researcher visited New Zealand in April 2002 to assemble up-to-date data on, and views about, the accommodation supplement. This field visit was considered necessary in view of the limited amount of material on the accommodation supplement that was either published or available electronically, and to discuss with key informants the impact of the accommodation supplement model in place during the 1990s and the reasons for recent policy and program changes.

Data analysis and review

The literature review, document and data search, key informant contacts and the field trip were used to locate a range of primary and secondary data. These were analysed in terms of the objectives of the research, with a particular focus on comparison, centring on issues of policy debate about RA in Australia.

This methodology enabled an overview of demand subsidy models for private renters in each country, and considerable detail about the implementation of relevant programs. There were, however, some limitations:

- Much of the available literature emanates from the US and is specific to the form of housing vouchers developed in that country. These programs are rationed, not an entitlement, and there is considerable diversity in local implementation, features which do not apply to Australia, New Zealand or to a lesser extent to Canada;
- The literature review, and document and data search process, also found that, whilst there is a good deal of relevant material, most is single country rather than comparative, and much of it has been prepared or funded by governments, rather than by academic researchers or other independent organisations, with the partial exception of the US. Most of the data is collected and collated by government agencies administering relevant programs, and cannot be cross-checked against Census or other data;
- There were often gaps in data about demand subsidies for private renters located within income support programs. This applied particularly to shelter allowances within social assistance programs in Canada and the US. In general, across the four countries, it was difficult to locate data on the housing outcomes of such programs;
- The timing of the research meant that current national data on housing was available from the US Census 2000 and preliminary results were available from the New Zealand 2001 Population and Census and Dwellings. Although national censuses had also been conducted in both Australia and Canada in 2001, at the time of writing (May

2002), specific data on housing had not yet been released. The research had to use data from 1996 national censuses that was already six years old, supplemented by sample survey data and administrative data, as available; and

- There were particular problems in obtaining national data for Canada since responsibility for both housing assistance and social assistance have been substantially devolved since the 1990s to the provinces/territories and, in some cases, further devolved to local municipalities. With the exception of a limited national data set maintained by Human Resource Development Canada, information had to be sought separately from provinces and territories. As it was impossible to give adequate coverage to nine provinces and three territories, the research focused on four provinces: British Columbia, Nova Scotia, Ontario and Quebec. These provinces were chosen to provide a representative mix in terms of population size, cultural diversity, geographic size and location and political cultures.

4. CONCEPTUAL AND POLICY FRAMEWORK

4.1 Housing Allowances as a Type of Demand Subsidy

In the lexicon of public policy analysis, demand subsidies (also known as personal or consumer subsidies) are paid to households to boost their effective purchasing power in housing markets. They are contrasted with supply subsidies (also known as ‘bricks and mortar’ or producer subsidies) that are paid to the financiers, developers or providers of housing, either non-profit or profit, to lower the cost of producing and providing housing units (Haffner & Oxley 1999: 146-7).

Demand and supply subsidies differ in three main respects:

- *Objective:* Demand subsidies aim to increase households’ capacity to pay for housing, while supply subsidies aim to lower the cost of supplying housing;
- *Recipient of subsidy:* Demand subsidies are paid to households, while supply subsidies are paid to the financiers, developers and providers of housing; and
- *Portability:* Demand subsidies are attached to households and are portable between housing suppliers, while supply subsidies are tied to specific housing units.

Both demand and supply subsidies may be made either directly (accounted for as government expenditure) or indirectly (mainly through the tax system), and may be paid once-only or be ongoing (Kemp 2000: 44). Various types of subsidies for housing are possible, as illustrated in Table 3.

Table 3
Australian examples of demand and supply subsidies for housing

Subsidy type	Demand subsidies	Supply subsidies
Direct		
Capital (once only)	First home owners’ grant Payment of initial costs associated with rental (bond/relocation)	Capital grants to public or community housing
Operating (ongoing)	RA Mortgage relief schemes	Operational subsidies to enable public, non-profit and for-profit housing providers to charge ‘below market’ rents
Indirect		
Capital (once-only)	Capital gains tax exemption on owner occupied housing Stamp duty concessions	Once-only depreciation allowances
Operating (ongoing)	Tax relief on mortgage interest Tax credits for renters	Tax measures such as negative gearing

RA is a type of direct and ongoing housing demand subsidy. Such subsidies are usually called ‘housing allowances’ in the literature, although each country has its own particular name. The term ‘housing allowance’ will be used in this report to denote such subsidies, unless there is a particular reason to refer to the local name. In practice, the distinction between demand and supply subsidies may not always be as clear as suggested in Table 3, as the following examples show:

- Public housing tenants and some community housing tenants in all four countries pay rents based on a percentage of income, which implies direct and ongoing assistance to such households. Unlike housing allowances, however, subsidies are attached to specific housing units and are not portable (or only in terms of internal transfers within the social housing stock). Income related rents can be regarded as a hybrid form of assistance – neither pure demand nor supply subsidies.

- ‘Rent supplement’ programs in Canada and the US allow for rents to be calculated on the basis of individual household income and set according to an affordability benchmark, but the subsidy is paid to the landlord rather than the household, and is only available in specified units. If the household moves out, they lose the subsidy.
- The US housing voucher program is regarded as a form of demand subsidy and has most of the characteristics of a housing allowance, including portability, but payment is made to the landlord rather than to the household.

Thus, whilst the conceptual distinction between demand and supply subsidies is a useful analytical tool, some forms of housing assistance cannot be classified clearly in this way.

4.2 Housing Allowances as a Hybrid Between Income Support and Housing Assistance

Housing allowances are located within both income support and housing assistance programs, and typically have both income support and housing assistance objectives, although usually one is dominant (Kemp 1997: 56). In many respects, they can be seen as a hybrid between these two types of assistance: housing allowances provide additional income, but that income is tied in some way to housing expenditure (Fallis 1993) (see Table 4).

Table 4
Comparison of features of income support, housing allowances and housing supply subsidies

A Features	B General income support	C Housing allowances (demand subsidies)	D Housing supply subsidies
Perceived problem	Lack of income	Lack of income relative to cost of housing	Lack of housing
Rationale for assistance	Basic income is required to live in a civilised society	Income should be sufficient to ensure access to housing which meets community standards	Decent housing is a basic requirement in a civilised society
Focus of government involvement	Income support	Income support and housing consumption	Housing consumption, housing supply and housing management
Objective	Provide untied income through income support to meet basic living expenses, including housing	Provide income tied to one or more housing outcomes: Affordability; Adequacy; Appropriateness; and Tenancy management	Provide housing which meets standards in terms of: Affordability; Adequacy; Appropriateness; and Tenancy management
Treatment of expenditures on housing	Housing expenditures are no different from other types of expenditures	Housing expenditures differ from other types of expenditures	Housing expenditures are one element to be considered, together with the size, type, quality, location and management of housing

Historically, much of the policy debate in the four countries has focused on housing allowances as an alternative to housing supply subsidies (columns C and D in Table 4). Governments in many developed countries have moved away from the direct provision of housing, and supply subsidies more generally, towards housing allowances as a preferable alternative (Kemp 1997; Ditch, Lewis & Wilcox 2001). There are many reasons for this. Governments see private markets as inherently more efficient, consider that housing allowances provide better choice of housing for low income households, and regard housing allowances as a more flexible policy instrument that can be better targeted than supply subsidies. Increasingly, governments have viewed the problem as one of some households

having insufficient income to afford housing in private markets, rather than lack of housing (Kemp 2000: 46).

This focus on lack of income as the major issue is precipitating an emerging policy debate on a second alternative: a general income support model to cover all basic costs, rather than treating housing expenditure as a 'special case' by providing housing allowances (columns B and C in Table 2). The argument in favour is that housing is not intrinsically different to any other form of expenditure, and that households should be left to make their own choices about housing consumption relative to other goods and services (Olsen 2001).

4.3 Housing Allowances and Rental Housing Markets

The final conceptual layer of this research is the way in which housing allowances work in the context of rental housing markets. Whilst governments design housing allowances and implement programs to deliver them, the way in which these programs work and their outcomes are shaped substantially by the operations of private rental markets, as the following examples illustrate:

- One of the advantages of housing allowances is often promoted as consumer choice of housing. This choice is determined in practice largely by the size and type of housing available for rental and its price, which may vary substantially between geographic areas. One of the sticking points in the mid-1990s debate in Australia about RA was how to deal with substantial differences in the supply of private rental housing and rent levels around the country, an issue that has also been a source of ongoing debate in New Zealand;
- Housing allowance payment formulae often include the level of rent paid by a household. Since there are no rent controls in Australia and New Zealand, and rent controls in a limited number of housing markets in Canada and the US, rent levels are predominantly set by private markets. At times of inflation in rent levels, the choice of rental housing available to households with housing allowances may be reduced, and the costs of housing allowance programs to governments can increase substantially, where there is an entitlement to assistance; and
- Housing allowance programs rely on the supply of 'affordable' housing for low income households, but the supply of such accommodation in the four countries is typically determined by the decisions of many small investors, which may be affected only in part by the activities of governments, for example, by tax policies. Households may find it difficult to find somewhere to rent, even with the assistance of housing allowances.

The Positioning Paper for this project reported that the findings of the Experimental Housing Allowance Program (EHAP) in the US in the 1970s have had an enduring influence on governments and others in terms of the impact of housing allowances on private rental markets. In particular, three of the EHAP findings have assumed 'taken for granted' status, both in the literature and by policy makers:

- Whilst housing allowances did improve affordability (percentage of income spent on rent), many households did not make substantial changes to their housing consumption and spent most of the money on items other than housing;
- Housing allowances had only a minor effect on improving the quality of existing rental housing and a negligible effect on increasing the supply of additional rental housing; and
- There was a negligible inflationary impact on private rent levels.

However, there have been few systematic attempts to evaluate whether these findings, derived from a time-limited experiment in one country more than twenty years ago, have more general applicability to the other three countries in this study where housing allowances operate in a different institutional and market context. The research examined the extent to which housing allowance programs were based on these assumptions, whether more recent

research was available on their market effects, and the degree to which they were implemented in conjunction with other measures to increase the supply of affordable housing.

One of the key objectives of housing allowances in EHAP was to change households' housing consumption; for example, participants were required to use their housing allowance towards the rent of premises which met prescribed quality standards, either by persuading the landlord to upgrade the current premises in return for a rent increase, or by moving to alternative accommodation. The housing voucher program that subsequently developed in the US retains objectives relating to housing consumption. Not all housing allowance programs have such explicit housing objectives; rather, the purpose may be to reduce the portion of income devoted to housing costs (making current housing more affordable), thereby increasing income available for other items.

This research project looked in detail at the objectives and design of housing allowance programs in the four countries to determine whether they included housing objectives beyond affordability, such as quality, appropriateness, location and tenancy conditions, and how the housing outcomes of the programs are monitored and assessed.

5. HOUSING ALLOWANCE MODELS FOR PRIVATE RENTERS

5.1 Objectives

Housing allowances can be found within income support systems, within housing programs, and as a hybrid between the two, and all the countries in the study have more than one type of housing allowance, as illustrated in Table 5.

Table 5
Housing allowances for private renters in income support and housing programs, four countries

Type of assistance	Australia	New Zealand	Canada	US
Housing allowances wholly regarded as a component of income support		Components of special benefit (national)	Shelter allowances within provincial social assistance programs (provincial/local)	Cash assistance within social assistance programs (state/local)
Housing allowances administered within income support systems, but also seen as part of housing policy (hybrids)	RA (federal)	Accommodation supplement (national)	Specific shelter allowance programs (some provinces, particularly Quebec)	
Housing allowances in housing programs	Residual private rental assistance programs (some states)		British Columbia provincial shelter allowance program	Housing choice vouchers – Section 8 (federal policy and funding with local management)

Note: A handful of states in the US also run state-funded voucher systems modelled on the federal system (Twombly et al. 2001).

In the four countries, most housing allowances are embedded in income support systems. In Canada and the US, these are explicit two tier income support systems: upper tier insurance systems, particularly for those retired from the workforce; and lower tier social assistance programs for people of workforce age such as sole parents and job seekers without entitlement to insurance. Upper tier insurance programs pay at levels that include provision for housing costs. In contrast, lower tier (state/provincial/local) social assistance programs pay at significantly lower levels, have many conditions attached, and often include de facto housing allowances to make specific provision for housing costs (Myles & Pierson 1997; Myles 1998).

In contrast, housing allowances in Australia and New Zealand are located within what have been conventionally regarded as single tier income support systems,⁶ run by federal/national governments, funded from taxation, selective and means-tested (Reference Group on Welfare Reform 2000b). Housing allowances within single tier income support systems are paid to people not in the workforce, such as older people and those with long-term disabilities, as well as to people of workforce age who may not currently be working for reasons such as unemployment, child rearing or short-term incapacity. RA in Australia and the accommodation supplement in New Zealand are part of national income support programs, without some of the conditions attached to payment found in lower tier social assistance programs, as will be seen below. Importantly, these housing allowance programs, as well as the Quebec shelter allowance scheme, whilst administered as part of income

⁶ Whilst normally categorised as single tier systems, there are some differences in payment levels according to reason for assistance, for example, payments to retired people are typically set at higher rates than payments to job seekers or young people, and increasingly there are conditions attached.

support, are seen by governments as an important component of housing policy and can thus be regarded as hybrids.

There are only three examples in the four countries in which housing agencies administer housing allowances as specific housing programs. Two of these are small-scale: some Australian states use part of their CSHA funds to provide ongoing subsidies to private renters, as does British Columbia's provincial housing allowance program (Shelter Allowance Program for Elderly Renters or SAFER). For the most part, these schemes are designed to address the needs of households not eligible for assistance under other programs. In the US, in contrast, housing allowances (known as housing choice vouchers or Section 8 tenant-based assistance) are seen as a mainstream housing program, administered by housing agencies, and as an alternative to housing supply subsidy programs.

There appear to be three basic models of housing allowances for private renters in the four countries (as detailed in Section 5.2 below):

- Income deficit models: Housing allowances located within state/provincial and local social assistance programs in Canada and the US, and special benefit in New Zealand, aim to address part of the deficit of household expenditure over household income on an individualised basis, taking into account housing costs. In the US and New Zealand, these payments are highly discretionary, whilst in Canadian provincial/local social assistance programs there is specific and separate provision for addressing shortfalls in housing costs (called shelter allowances or shelter supplements);
- Income supplement models: RA in Australia, the accommodation supplement in New Zealand and specific shelter allowance programs in four Canadian provinces provide income supplements to 'assist with' housing costs for particular groups that are additional to income support payments or other sources of income. The Quebec program has a slightly stronger version, targeting at low income households who 'spend too much' on housing costs, implying a benchmark of affordability; and
- Housing assistance models: The US housing choice voucher program has objectives that go beyond affordability to include appropriateness and adequacy (decent, safe and sanitary housing). There are also a number of sub-programs that have additional specific objectives, such as welfare to work vouchers and family reunification vouchers. British Columbia also provides housing allowances on a very small scale for specific groups, such as those living with HIV/AIDS, to assist them in securing affordable, adequate and appropriate accommodation.

Whilst the major client group for all housing allowance programs is private renters, only the Australian and some Canadian provincial shelter allowance programs are restricted to private renters; all other systems also make some provision for the housing costs associated with home ownership and, in some cases, for the costs of social housing. Box 1 indicates the objectives of housing allowances under each of the three models outlined above.

Box 1 Objectives of housing allowance programs, four countries

Income deficit models

Ontario, Canada: Shelter Allowances within Ontario Works program

This is a mandatory item of financial assistance and may be issued to cover the costs of rent, loan and mortgage payments (City of Toronto, *Basic Needs and Shelter Allowance Policy, prescribed by Ontario Works Act 1997* <<http://www.city.toronto.on.ca/socialservices/Policy/BasicNeeds.htm>>).

Nova Scotia, Canada: Nova Scotia Employment Support and Income Assistance program

An applicant or recipient who owns his/her home or is renting will be allowed actual expenses for rent, mortgage payments, up to the maximum shelter rates noted in Schedule A in the calculation of budget deficit (Department of Community Services, Nova Scotia, 2001, *Employment Support and Income Assistance Manual*, ch. 5 (Basic Needs)).

Income supplement models

Australia: RA

'A non-taxable income supplement payment to income support recipients who rent in the private market. It is payable to pensioners, allowees, and people who receive more than the base rate of Family Tax Benefit Part A to assist with the additional costs of private rental' (FaCS, *Annual Report 2000-01*: 105).

New Zealand: accommodation supplement

'An accommodation supplement is a non-taxable benefit that provides assistance towards a client's accommodation costs' (Work and Income New Zealand, 2002, *Benefit Information, Extra Help* <http://www.winz.govt.nz/get_financial_assistance/benefits/index.htm>).

British Columbia, Canada: Shelter Aid for Elderly Renters Program

'The SAFER program provides direct cash assistance to eligible residents of British Columbia who are age 60 or over and who pay rent for their homes' (BC Housing, 2001, *Shelter Aid for Elderly Renters*).

Quebec, Canada: shelter allowance program

'The shelter allowance program provides financial assistance to low income households who spend too much of their budget on rent or other housing costs' (Société d'habitation du Québec, 2002, *Shelter Allowance Program* <<http://www.shq.gouv.qc.ca/en/pg/ls/pgaloh00.html>>).

Housing assistance models

US: Housing Choice Voucher Program

HUD pays rental subsidies so eligible families can afford decent, safe and sanitary housing (Code of Federal Regulations, 24 (4), 564, Part 982 1 (a) (1)).

5.2 Design, Administration and Funding

5.2.1 Income Deficit Models

Income deficit models of housing allowances are found in lower tier social assistance programs for people of workforce age, with assessment of housing costs on an individualised basis as an integral part of the calculation of basic income support.

In the US, the states design and operate social assistance programs using a mixture of federal and state funding. Federal funding is provided via a block grant to the states called Temporary Assistance to Needy Families (TANF), authorised under the *Personal Responsibility and Work Opportunity Reconciliation Act 1996*. This legislation has strict requirements: funds must be used to assist families with children,⁷ households must work after no more than two years, there are time limits (no more than five cumulative years), and some groups such as recent migrants are ineligible. The federal Department of Health and Human Services (Office of Family Assistance) sets policy, establishes regulations and provides detailed guidelines on the use of funds (Department of Health and Human Services 2002). The 1996 legislation further specifies a minimum level of state financial commitment to TANF programs, called Maintenance of Effort (MOE). TANF funds total about US\$27b a year

⁷ In addition, some states still provide general assistance cash grants to single people and childless couples.

(federal US\$16.5b and state MOE funds US\$10.5b). Each state adds its own requirements in designing social assistance, and program names reflect the state's specific emphasis, for example, CALWORKS (California), Texas Works (Texas), Family Assistance Program (New York), Family Investment Program (Maryland), WAGES (Work and Gain Economic Self-Sufficiency) (Florida) and Beyond Welfare (Missouri).

States assess eligibility for cash assistance based on a test of income and assets, and payment is calculated on the difference between the household's countable income from all sources (usually after deduction of childcare costs and disregard of some earnings) and the maximum welfare benefit, which varies by family size in almost all states, and by region in a number of states (State Policy Documentation Project 2001a). Treatment of housing costs also varies, with many states including a set level of assistance in calculating the maximum welfare benefit (called shelter allowance or welfare rent). This assumes that households rent privately, and is reduced where households live in subsidised housing, have low housing costs or share with others. These shelter allowances are not indexed and may bear little relation to actual housing costs. In only three states are TANF benefits high enough for families to obtain modest housing with less than their entire grant (Sard 2002).

There are no specific objectives for such payments, and it is not known how much TANF cash assistance is in the form of payments for housing. Under previous federal/state funding arrangements for social assistance, it was estimated that about 30% of funds were used for rent payments (Newman & Schnare 1994).

In Canada, the federal government provides a mega block grant to the provinces – the Canada Health and Social Transfer (CHST) – to fund health, post-secondary education, social assistance and other social services. Provinces design their own social assistance programs for people of workforce age, using a mix of federal and provincial funds but, unlike the US, there is only one federal requirement, that is, a prohibition of minimum residency requirements⁸ (Prince 1998). Programs are typically designed by provincial Departments of Community Services and, in some cases, administered by local municipalities. There is an increasing emphasis on cash assistance as transitional assistance whilst workforce age people find work, as reflected in the names of the programs: Employment and Assistance Program (British Columbia), Employment Support and Income Assistance Program (Nova Scotia), Ontario Works (Ontario) and Employment Assistance Program (Quebec).

Cash assistance under these programs is calculated by a 'needs test' in which the monthly budget requirements of the 'benefit unit' are calculated based on a component for basic needs (food, clothing, transport and personal needs), an amount for shelter, and additional amounts where there are special needs, as specified in provincial legislation. This amount is then reduced by any income of the benefit unit (from insurance payments, wages etc.) although some income is exempt, such as the basic federal Child Benefit Tax (National Council of Welfare 2000). The details of the calculation vary from province to province. The resulting net benefit amount is calculated as an allowance for basic needs and a separately identified shelter allowance that is intended to cover actual net housing costs up to maxima, which are set according to the number of people in the benefit unit, but not by location. No province indexes its social assistance rates, including the shelter allowance component (Battle 2001). Where the maximum shelter allowance does not cover the actual rent, the household has to divert some of its allowance for basic needs towards rent payment.

There is no accurate figure on the costs of shelter allowances within provincial social assistance programs. Prior to the introduction of the CHST, it was estimated that more than one-third of all expenditure on social assistance (35% or C\$5.2 billion) could be attributed to shelter allowances (Pomeroy 1996). By 1999-2000, total expenditure on social assistance had declined to C\$10.4 billion (Human Resources Development Canada 2001: Table 438), and shelter allowances are typically half of the total welfare benefit, or approximately C\$5.2 billion (Federation of Canadian Municipalities 2000: Appendix C).

⁸ Under the Canada Assistance Plan that preceded the CHST, co-funded provincially administered social assistance schemes had to meet certain federal standards: entitlement based on need, no minimum residency requirement, right to appeal, common data reporting and sharing, and federal transfers to go only to non-profit provision of social services.

In New Zealand, the highly discretionary special benefit scheme, administered as part of the national income security system, also addresses circumstances where acceptable basic costs of living, including housing, exceed income (Ministry of Social Policy 2000). Assessment of household income deficit is made as part of intensive case management in which temporary special benefit may be paid while households make arrangements to cover their basic costs from income support payments or other income. One of the major reasons for payment of special benefit has been housing costs that are too high to be met from usual income sources. In 1996 it was estimated that about 80% of special benefit payments were due mainly to housing costs (New Zealand Institute of Economic Research 1999: 45).

In summary, income deficit models of housing allowances are a component of lower tier social assistance programs that provide a safety net income to people of workforce age considered able to work, who either are not in paid employment or earn insufficient from wages to cover their basic costs. They are available to owners as well as renters, including those living in subsidised housing. In effect, they are implicit housing allowances and are not identified as separate programs. Little information is available on their recipients, costs or outcomes.

5.2.2 *Income Supplement Models*

The income supplement model of housing allowances provides *additional* income to specific groups of people to help pay for housing, and is not restricted to those of workforce age. Unlike the Canadian and US social assistance systems described above, payment levels in the income support systems of Australia and New Zealand are intended to include provision for housing costs, but it is recognised that some households still have difficulties in affording their housing. Thus the objective of housing allowance programs is to provide some additional income to particular groups of households to assist with housing affordability.

In Australia, RA is a supplementary allowance attached to income support payments for households who rent privately and in some types of community housing, since these are considered to have significantly higher costs than other income support recipients. Households cannot claim RA on its own; eligible households are those who receive an income support payment or who have dependent children and receive fortnightly Family Tax Benefit (Part A) payments at more than the base rate (Centrelink 2002). Family Tax Benefit (Part A) recipients who choose to receive their payment annually through the tax system are not eligible (Office of Family Assistance 2002). Further, RA is only available to eligible private and community tenants who pay more than a threshold (minimum) rent, set according to household type and size, excluding those who pay low rents. There is no additional income and assets test. The payment formula applies uniformly across Australia with no state or regional variations, and is calculated at 75% of the difference between the threshold rent and actual rent, up to a maximum rent set by type and size of recipient household but not by location. The payment formula does not include an affordability benchmark, although the Commonwealth Department of Family and Community Services (FaCS) reports on the payment in terms of households paying more than 30% and 50% of income before and after receipt of RA.

RA is paid directly to households; those in receipt of income support receive their RA attached to their major payment from Centrelink, a statutory authority that administers a range of Commonwealth income support payments; families with dependent children not in receipt of income support receive their RA attached to their Family Tax Benefit payment from the Commonwealth Family Assistance Office.

FaCS is responsible for policy on income support, and shares responsibility with the State and Territories for policy on housing assistance. Although RA is a program, there is no separate budget item, and it is treated as an allowance added to major payment types, and paid under the *Social Security Act* for households with no children and the *Family Assistance Act* for households with children (RA is also paid to veterans under the *Veterans' Entitlements Act*). RA is funded from Commonwealth taxation revenues, with expenditure in 2000-01 exceeding A\$1.7 billion (FaCS 2001: 11). Since RA is an entitlement, subject to the

conditions outlined above, expenditure is demand-driven, depending largely on the number of eligible households, and payments are indexed.

In New Zealand, housing allowances provide additional income to assist with high housing costs. Over the last decade, there have been significant changes in their role and extent. Between 1973 and 1993, income support recipients and low income earners in the private rental sector spending more than 25% or more of their income in rent and income support recipients spending more than 30% of income on home purchase commitments had been eligible for an accommodation benefit (Ferguson 1994: 282), but state (public) housing tenants and purchasers with government loans were ineligible even if they were not receiving any rent or interest subsidy (Ministry of Housing 1997: 4). In 1991, the National Party government announced that a new accommodation supplement (AS) would be the centrepiece of housing assistance in New Zealand, replacing the accommodation benefit and other benefits, income related rents in public housing and housing supply strategies (Luxton 1991). The subsequent *Social Welfare Reform Act (no. 3)* established the accommodation supplement to assist all low income households with their housing costs, irrespective of tenure, type of landlord or source of income (Ministry of Social Policy 1999). For public tenants, this meant paying market rents set by a new commercialised housing provider, Housing New Zealand, with the assistance of the AS, rather than 25% of income in rent under the previous system.

These changes generated considerable controversy about the role and effectiveness of housing allowances, including the impact on affordability for public tenants, and effects on private rental markets, discussed later in this report. The incoming Labour/Alliance government in 1999 pledged to move away from total reliance on housing allowances, restoring income related rents for public tenants in December 2000 and re-emphasising social housing through the new Housing New Zealand Corporation (HNZC). Under the revamped system, the AS remains as part of the nation's income support system for income support recipients and low income earners, other than public (state) tenants. The Ministry of Social Development is responsible for policy on income support and the administration of the AS (through service centres trading as Work and Income New Zealand). The HNZC is responsible for housing policy, and there is a protocol by which the Ministry of Social Development must consult with it on policy and design of the AS. HNZC also monitors the AS in terms of housing policy.

As in Australia, the AS is a supplementary payment attached to major income support payment types to take into account higher costs faced by some households. Unlike in Australia, low income households not in receipt of any other type of income support (non-beneficiaries) can also apply for the payment, and there is a separate income and assets test, with asset limits that vary by household type only and income eligibility limits that vary by household type/size and by three geographic areas on the basis of differential housing costs, Auckland, Wellington and other major centres, and the rest of New Zealand. Payment of the AS starts when households pay more than 25% of their income on rent or more than 30% on home purchase costs. It is calculated at 70% of the difference between these benchmarks and actual rent paid, subject to maxima set according to the size of households and by the three geographic areas. For those in boarding arrangements, the AS is assessed on 62% of their payment that is deemed to be for housing costs.

There is no separate budget item for the AS, which is funded from general taxation voted to income support. By 1998-99 the AS had risen to NZ \$0.84 billion, or over 7% of expenditure on pensions and benefits in that year (Ministry of Social Policy 1999: 87). In 2000-01, with the exclusion of public tenants, expenditure on the AS remained at NZ\$0.8 billion. As in Australia, since the AS is an entitlement subject to eligibility, expenditure is largely demand driven.

Quebec is the only Canadian province to have an integrated housing allowance program (Programme Allocation-logement), which was introduced in October 1997, following the recommendations of a review of income support and intended to consolidate and simplify housing assistance in the province (Société d'habitation du Québec 1997). The program combined an existing provincial shelter allowance program for the elderly (Logirente) with

shelter allowances for families with dependent children in receipt of income support payments (Prestation spéciale d'allocation-logement).

The integrated housing allowance program is designed to provide additional assistance to those paying 'too much' for their housing, defined as households paying more than 30% of their income in rent or specified home purchase costs. The scheme applies to singles aged 55 and over, couples with one or both partners aged 55 and over, and families with at least one dependent child. Both income support recipients and low wage earners are eligible, subject to household income limits (Vaillancourt & Ducharme 2001). Households living in a range of housing arrangements are eligible, except for those in subsidised social housing or institutional care.

The payment is calculated at 66.7% of the difference between 30% of household monthly income (subject to a minimum rent) and household rent, and is subject to a cap adjusted for household type/size, but not by location. The shelter allowance program is financed entirely by the province, and costs are estimated at about C\$112 million per annum (Société d'habitation du Québec 1997).

The Société d'habitation du Québec (Quebec Housing Commission) develops policy on housing allowances, and the program is jointly administered by the Société and the Ministère du Revenu du Québec Shelter Allowance Program <<http://www.shq.gouv.qc.ca/en/pg/lr/pgaloh00.html>>. The program is regarded as an integral part of housing policy in Quebec, but is supplemented by a housing benefit available to workforce age households who apply for employment assistance (cash assistance) from the Quebec Ministère de l'Emploi et de la Solidarité sociale (Employment and Social Security) and who either do not get the maximum amount under the provincial housing allowance program, or are ineligible for that program because they are under 55 and do not have dependent children. In effect, this type of housing allowance is similar to the income deficit model in other Canadian provinces. Assistance is calculated according to basic needs, as prescribed by regulation, minus any resources. For this purpose, payments received under the provincial housing allowance program are counted as income. The costs of this special housing benefit are unknown.

In summary, income supplement models of housing allowances recognise that income support payments and wages may not enable some households to afford housing costs without some additional income. Thus they are not restricted to people of workforce age, as in the Canadian and US social assistance schemes, and, with the exception of RA in Australia, apply to both home owners and renters. In all cases, households living in public housing and in receipt of income related rents are ineligible. This type of housing allowance is an entitlement, subject to eligibility, and funded from general revenue. The costs of the programs are made explicit. Whilst housing allowances are administered by income support agencies, they are regarded by governments also as a form of housing assistance, with different administrative arrangements to reflect this hybrid status. The basic payment formula is the same: payment of a percentage of the gap between a minimum and household expenditure on housing, subject to a maximum payment. In the case of New Zealand and Quebec, the minimum is set according to an affordability benchmark. All systems take account of household type/size in their formula, but only New Zealand includes provision for differences in incomes and housing costs by geographic area.

5.2.3 *Housing Assistance Models*

Housing vouchers in the US differ substantially from the other housing allowances in the research. The current housing choice voucher program was authorised by the *Quality Housing and Work Responsibility Act* of 1998 that merged two prior programs, rent certificates implemented in 1974, and rental vouchers introduced in 1984. The rationale for the merged program was:

consolidating the voucher and certificate programs for rental assistance under Section 8 of the US Housing Act of 1937 (the 'USH Act' (42 U.S.C. 1437f)) into a single market-driven program that will assist in making tenant-based rental assistance under such section more successful at helping low income families obtain affordable housing and will increase housing choice for low income families (Federal Register 64(93), 26632, 14 May 1999).

The federal Department of Housing and Urban Development (HUD) develops policy and designs housing choice vouchers. It sets out regulations and provides very detailed notices and guidelines to local program managers which were used in developing the following summary of the program. Local program managers are mainly, although not exclusively, public housing agencies (PHAs) originally authorised by the *US Housing Act* of 1937 to own and manage public housing and which, from 1974 onwards, subsequently added to their responsibilities the administration of housing certificates/vouchers for households in private rental housing (Quadel Consulting Corporation 2001: ch. 1). Local program managers have some discretion within federal guidelines (Devine et al. 2000) and receive an administration fee from HUD for their role.

Low income families, the elderly, people with disabilities and households dislocated through government actions, such as the demolition or redevelopment of public housing, are eligible for housing choice vouchers. The program is targeted at households on very low incomes, irrespective of whether this derives from income support, low wages or a combination of both. They must be earning less than 50% of median income for the area, as calculated by HUD, with some discretion to go to under 80%. HUD requires, however, that three-quarters of assisted households have incomes at or below 30% of area median income, effectively targeting the program at those with extremely low incomes. There are also federal eligibility requirements in terms of citizenship and immigration status and for those evicted from federally assisted housing for drug-related criminal activity. Local program managers can develop their own policies within these guidelines.

Unlike the income supplement model of housing allowance programs, there is no entitlement to assistance by eligible households. Housing choice vouchers are rationed according to the availability of funds. This comprises funding for existing vouchers and additional vouchers funded from the annual Congressional appropriation of funds to HUD. Approval for additional vouchers varies considerably from year to year, and Congress may opt not to approve any funds for new housing vouchers, as it did for four financial years prior to fiscal year 1999. In 2002, US\$104 million was approved for 18,000 additional vouchers (HUD 2002). Total expenditure was estimated at US\$11.4 billion in fiscal year 2001.⁹ Where Congress approves funds for additional vouchers, HUD calls for submissions through a Notice of Funding Availability (NOFA). PHAs and other local program managers apply for these funds on a competitive basis. In some cases, Congress has tied an additional allocation of funds to a specific purpose, such as 'welfare to work' housing vouchers in fiscal year 1999.

Local program managers operate a waiting list for vouchers which may be kept open or opened for short periods. Where demand far outstrips supply, it is increasingly common to advertise and then select applications for the waiting list through a lottery process. Once a waiting list is established, local program managers can select applicants based on date of application or random selection, or may use its own, publicly available, local selection criteria, such as giving preference to homeless people, people with disability or working households. Assistance may also be denied for a number of reasons including rental and maintenance arrears to the PHA, drug-related activity and violent criminal activity. Local program managers also determine the size of accommodation that they will assist with a housing choice voucher.

Selected households are given a briefing about housing vouchers and the housing search process before a voucher is issued. HUD requires that they are issued for at least sixty days, but PHAs may choose to extend this period. During this period, the households must find private rental accommodation; not all will succeed, and the voucher may lapse, and local program managers usually over-issue vouchers to take this into account (Maney & Crowley 1999). Where households are successful in finding accommodation with a private landlord, the PHA must give its approval. This is contingent on inspection to ensure that it meets HUD's 'quality standards' for decent, safe and sanitary accommodation, the rent must be subject to a test of 'rent reasonableness', and the lease must include an addendum issued by

⁹ Catalogue of Federal Domestic Assistance, 14.871, Section 8 Housing Choice Vouchers <<http://aspe.os.dhhs.gov/cfda/p14871.htm>>.

HUD, which specifies inter alia that the PHA must approve of the composition of the household.

Where approval is given, the tenant signs a lease agreement with the landlord, and the PHA and the landlord sign a Housing Assistance Payments (HAP) contract which specifies the details of the arrangements, including the details of monthly payments from the PHA to the landlord on behalf of the household.

The household must pay any minimum rent¹⁰ set by the PHA, and their contribution is based on 30% of adjusted monthly income (as prescribed by HUD) in rent and utility payments or, where states have shelter allowances within their social assistance programs, the amount of this payment (called the 'welfare rent'). The PHA pays directly to the landlord the difference between this amount and either the rent or the 'payment standard' for the type/size of accommodation in that location, whichever is the lower. The payment standard is set at between 90% and 110% of HUD's published 'fair market rent' for that area, usually set at the 40th percentile of rents for standard housing. Where the rent is above the payment standard, the household pays 100% of any excess, although HUD's program guidelines require that households pay no more than 40% of income on rent. The household pays the landlord directly their share of the rent, and the PHA forwards the HUD contribution. Housing choice vouchers are portable and, if the household continues to be eligible, they can transfer their voucher to another property, subject to an approval process with another landlord as described above.

Local program managers must produce an administrative plan that details its policies and procedures for the housing choice voucher program, including allocation of vouchers between sub-programs. A PHA may have received specific funds on a competitive basis, such as for 'welfare to work' or family reunification vouchers that have additional conditions attached. It can also use some of its general allocation for home ownership, but is not obliged to do so. Similarly, the PHA can attach up to 20% of its vouchers to specific housing units if the owner agrees to rehabilitate or construct units or set aside a portion of existing units in a development.

In summary, the main differences between the US housing choice voucher program and the other housing allowances in the research are: lack of entitlement to assistance, inclusion of specific housing objectives in the program, payment to the landlord rather than to the household, the level of detail of federal requirements, local program management, and household payments based on an affordability benchmark. In all these respects, the program exhibits many of the characteristics of housing assistance programs such as social housing, rather than income support. Detailed comparisons of the design and administration of housing allowance programs are given in the Technical Appendices to this report.

5.3 Housing Allowances and Welfare Reform

All of the housing allowance programs detailed above have been, or are being, affected by changes to income support, under the banner of welfare reform. This applies particularly to the income deficit model of housing allowances in the US and Canada where there has been fundamental reform of lower tier social assistance programs from the mid-1990s. Programs to provide assistance with basic living costs (including housing) for households of workforce age have been reconceptualised as employment programs that include a transitional cash assistance component.

In the US, the 1996 federal legislation that established TANF was intended to 'end welfare as we know it' but went further than employment assistance in trying to change certain social behaviours, specifying that federal funds could be used for any of four purposes:

- To provide assistance for needy families (defined in terms of financial need);
- To end the dependence of needy parents on government benefits;

¹⁰ Minimum rents are a requirement of the federal *Public Housing Reform Act 1998* and may be set anywhere between \$0 and \$50 by the public housing agency.

- To prevent and discourage the incidence of out-of-wedlock pregnancies; and
- To encourage the formation and maintenance of two-parent families.

The legislation specifically states that there is no entitlement by individuals and households to cash assistance (including shelter allowances) under state programs (*Personal Responsibility and Work Opportunity Reconciliation Act 1996*, Section 401(b)). States can create such an entitlement if they wish, and most states (thirty-three) have legislation or regulations stating that cash assistance is provided to all eligible households, whilst seventeen have legislation or statutory rules explicitly saying that there is no entitlement to cash assistance (State Documentation Policy Project 2000b).

The states have turned increasingly to in-kind services – particularly childcare, skills training and transportation – to assist households into work. In 2000, services accounted for the majority of TANF federal/state expenditure, whilst cash assistance had reduced to 43% or \$11.6 billion (Coven 2002). In applying for cash assistance, applicants normally also apply for in-kind benefits such as food stamps and Medicaid. TANF recipients are mainly sole parents who are typically only exempted from work requirements if their youngest child is under 12 months.¹¹

Despite the efforts of housing advocates to stress the importance of housing to welfare reform, there is little emphasis on housing in the TANF program. Eleven states have used TANF or MOE funds to provide short-term housing vouchers to households moving from welfare benefits on to work, but numbers are very limited (Sard & Harrison 2002). Housing assistance is seen as the role of HUD; about one in three households in receipt of TANF cash assistance also receive some form of housing assistance (social housing, assisted private housing or housing choice vouchers) (Zedlewski 2002: 2).

There is, however, entitlement across the US to food stamps, and a 'food stamp shelter deduction' is used extensively to assist both working and non-working households, and renters and home owners, on low incomes. Under national rules, eligible households can deduct from their assessable income for food stamps an amount equal to any housing costs in excess of 50% of their net income. The effect of this measure is to give low income households with high housing costs more food stamps, releasing cash income for payment of housing costs. An estimated 3.8 million households in the US (or just over half of food stamp recipients) received an additional \$2.2 billion in food stamps in 2000 through the food stamp shelter deduction (Rosenbaum, Tenny & Elkin 2002).

There has been a stronger tradition of entitlement to assistance in Canada, where some provinces explicitly retain a safety net in terms of income to meet basic needs, such as shelter.¹² With dwindling federal funds under the CHST, however, the provinces have reconceptualised social assistance as transitional assistance in the move to work, although without the strict time limits which apply to TANF in the US. Cash assistance for people of workforce age, including shelter allowances, is conditional on agreement to participate in employment assistance activities and there is an increasing emphasis on services related to employment, such as job training. Provinces have moved to define most people of workforce age as job seekers, rather than as out of the workforce due to parenting responsibilities or disability (National Council of Welfare 1998). For example, sole parents are classified as 'employable' in Canada when their youngest child is six months (in Alberta), ranging up to seven years in some other provinces (Gorlick & Brethour 1999). Provinces have also introduced employment assistance requirements for people with disabilities. For example, Ontario, which transformed its social assistance program into an employment program called Ontario Works in 1997, introduced in parallel the Ontario Disability Support Program, which is

¹¹ Department of Health and Human Services, Report to Congress 1999, Table 9.1a, Selected provisions of state TANF plans – Part I – as of 25 June 1998 <<http://www.acf.dhhs.gov/programs/ofa/tanft91a.htm>> (accessed 20 June 2001).

¹² For example, the Employment Support and Income Assistance (ESIA) program in Nova Scotia clearly states: 'the ESIA program will strive to provide the residents of Nova Scotia who are in need with a level of income assistance adequate to meet their basic needs to shelter, food, clothing and personal care' (*Nova Scotia Employment Support and Income Assistance Manual*, Aug. 2001, ch. 3).

an employment and assistance program tailored to the circumstances of people with disabilities.

These changes to social assistance programs in Canada and the US have implications for the housing allowances implicit within them. Typically there is a shortfall between housing allowances and housing costs; whilst this is not a new phenomenon, it has been exacerbated by reductions in cash assistance levels in many jurisdictions in both countries (National Council of Welfare 2000). Further, non-compliance with employment conditions entails loss of some or all cash assistance, including the component to meet housing costs. Failure to meet housing costs may result in temporary and unsatisfactory housing arrangements that restrict ability to search for work, leading to a 'chicken and egg' situation. These changes to cash assistance should, however, be seen in the context of tax and other changes. Both countries have moved to boost low incomes for families with children through child tax credits and, in the US, through a federal Earned Income Tax Credit that provides cash supplements for low wage workers, in an effort to 'make work pay'. The costs of this tax credit for low wage earners (over US\$30 billion in 2000) exceed the total costs of the TANF program (Sawhill & Haskins 2002: 3). In effect, Canada and the US have moved closer to a 'pure income' model, using the tax system as a lever, and with little regard to variations in housing costs.

Income supplement models of housing allowances have, to date, been less radically affected by welfare reform. In Australia, income support is being broadened into participation support, defined as supporting people to become actively engaged both economically and socially, and including the provision of income support when necessary (Reference Group on Welfare Reform 2000a: 5). A recent report suggested simplification of income support for workforce age people into a single payment, with add-ons for factors such as disability and childcare. It was envisaged that there would still need to be some type of add-on supplement for one-adult households who cannot share their living costs, particularly housing, and those with housing costs above a specified level (Reference Group on Welfare Reform 2000a: 23).

The Commonwealth's subsequent 'Australians Working Together' welfare reforms, being introduced gradually from July 2002, mean that all workforce age income support recipients – not just job seekers in receipt of Newstart and Youth Allowance – will have to agree to participate in one or more of job search, training and skills development, community work or part-time work as a condition of receipt of cash assistance (Commonwealth of Australia 2002). The largest single group in receipt of RA – job seekers without disabilities and without parenting responsibilities – will have the most specific conditions attached to their cash payments. Sole parents, people with disabilities and those over 50 will have activity requirements for the first time in conjunction with employment assistance of various types. These requirements are much more limited than in Canada and the US. For example, sole parents whose youngest child is six or over will be required to attend an interview once a year to help plan a return to work, whilst those whose youngest child is thirteen will have to do 150 hours of part-time activity over a six month period (Commonwealth of Australia 2002).

Whilst no changes to RA are included in these arrangements, assistance with private rental costs for all workforce age households will be increasingly conditional on participation in employment assistance. Where there is non-compliance with activity requirements, households risk losing their housing allowance as well as other income. This is already an issue for job seekers with activity agreements (Johnston 2002), raising important issues about the implications of tying housing assistance to income support payments. Only 16% of RA recipients – those in receipt of the age pension and above workforce age – will be unaffected by these changes and will continue to receive the payment on an entitlement basis, if eligible. In effect, these changes will mark a move to an explicit two tier system of income/employment support in Australia, raising the possibility of RA for those above workforce age either becoming a separate scheme, tailored to the needs of the elderly, or becoming absorbed within the age pension itself, with pension payment rates reflecting different housing circumstances.

In New Zealand, the introduction of the AS in 1993 occurred in the context of cuts in basic rates of income support by 10% to 25%, aimed at reducing the disincentive to work (Murphy 1997). The AS in this sense can be seen a part of a move towards greater targeting of

income support, in this case to those with the highest housing costs, and of part of a package of measures to reduce the disincentive to work, the disincentive to moving out of public housing due to loss of income related rents, and the disincentive to purchase rather than rent, since the AS was available to working and non-working households, and to renters and purchasers.

Notwithstanding the move away from the AS for public tenants, the New Zealand government is currently considering a 'universal benefit' for people of workforce age, although with supplements for particular purposes, including an accommodation allowance, as part of its 'Pathways to Opportunity' welfare reform strategy (Ministry of Social Policy 2001b: 6). From July 2001, although not all payments to people of workforce age will be work-tested, where this is the case, as in payments to unemployed people, applicants have to agree to a Job Seeker agreement that sets out the responsibilities of both the client and Work and Income NZ. The government is still considering issues around work tests for sole parents and mature age people (Ministry of Social Policy 2001b: 15). These conditions do not apply to those above workforce age, NZ Superannuants, who comprised 6% of AS recipients in June 2001 (Work and Income NZ 2001: 90). Welfare reform in New Zealand also seems to be leading to a more explicit two tier system of employment/income support, raising similar questions as in Australia about the future of the AS to non-workforce age people.

In both Australia and New Zealand, the other element in these changes that may impact on housing allowances is increasing reliance on child/family tax credits, paid outside of the main income support system, and available to both people in paid work and those who are not. For example, the New Zealand government is reviewing the family tax credit system to better meet the needs of low income families and to improve the financial returns from work (Ministry of Social Policy 2001b: 15). Moves towards a pure income model for families with children using the tax system may result in simpler housing allowance formulae which need pay less regard to the number of children to be supported.

Although the housing assistance model of housing allowances in the US has been traditionally quite separate from social assistance, welfare reform (as described earlier in this section) has had a significant impact on the voucher program. Firstly, in terms of the political environment, HUD has struggled to gain Congressional approval for funding of additional vouchers without tying this type of assistance to welfare reform. HUD was only successful in getting approval for 50,000 additional housing allowances in the 1999 fiscal year (after four years of no approvals for additional vouchers) because they were targeted 'welfare to work' vouchers. These vouchers have extra conditions attached, including being targeted at families who have a critical need for housing in order to obtain or remain in employment. The voucher must be provided in conjunction with job training, childcare and other employment support services (HUD 2002a).

Secondly, there are a number of sub-programs and demonstration programs within the main voucher program aimed at promoting 'self-sufficiency', that is, moving off social assistance and ultimately off government housing assistance, such as the Family Self-Sufficiency Program.

Example: Family Self-Sufficiency Program (FSS)

FSS entails an intensive case management approach in which the PHA and the voucher recipient sign a five year FSS contract. Household members are able to access services such as childcare, transportation, education, job training, employment counselling, financial management, parenting training and home ownership counselling.¹³ In return, the household must comply with its lease conditions, all family members must become independent of income support benefits (welfare), and the household head must find and retain suitable employment. Where participants do not comply with the conditions of their contract, there are a number of possible sanctions including termination of assistance through the housing choice voucher.

¹³ HUD does not fund these services directly, but provides some funding on a competitive basis to PHAs for the employment of FSS coordinators to develop and operate these programs.

One important component of the contract is the establishment of an *escrow account*¹⁴ for participating families. The PHA credits to this account the increases in rent that families pay as their earnings from paid work increase. The household may draw on the funds during the contract period for approved activities such as education. At the completion of the FSS contract, if no member of the family is receiving welfare, funds in the escrow account are paid to the family. Where families do not maintain their obligation under the FSS contract, the funds may be forfeited.

Source: HUD 2000b.

Thirdly, housing choice vouchers have been widely promoted as an effective means of encouraging choice and mobility, of assisting households to move out of areas with high poverty rates and no jobs and into lower poverty areas with better access to employment and other services (e.g. Newman & Schnare 1997; Turner 1998; HUD 2000). PHAs are required to provide information to voucher holders about areas of lower poverty or minority concentration in terms of job opportunities, schools, transportation and other services (Quadel Consulting Corporation 2001: ch. 2). This aspect of the program has generated considerable controversy, with opposition from some local communities (Turner et al. 2000).

In summary, there have been concerted efforts to promote the advantages of housing choice vouchers in contributing to welfare reform in the US, through program-wide requirements, special sub-programs and various demonstration projects. This has been possible because of a combination of lack of entitlement to assistance, local program management, and a strong federal role in policy development, research and evaluation. Unlike the large-scale 'one size fits all' housing allowance programs in Australia and New Zealand, the US program has been able to innovate and trial welfare reform initiatives without any necessary implications for the program as a whole. The housing assistance model of housing allowances, like other housing programs, poses issues in terms of horizontal equity and access; its advantages are improved diversity and flexibility.

¹⁴ The FSS program adopted a model of escrow accounts that is already familiar to many Americans. About 40 million Americans have escrow accounts held by a third party who collects, holds and disburses funds based on a contract between two parties. These accounts are usually set up in conjunction with a home mortgage and are held by the party that services the mortgage. The borrower pays money into the account and the mortgage servicer makes payments, such as local real estate taxes and mortgage insurance (Mills 1994).

6. OUTCOMES OF HOUSING ALLOWANCE PROGRAMS

6.1 Who Gets Housing Allowances?

The main recipients of housing allowances overall are sole parents and single people, that is, households dependent on the income of one adult. In all the programs in the research for which data is available, families with children are eligible for housing allowances, with the exception of four small-scale provincial housing allowance programs for the aged in Canada. Sole parents outnumber couples with children, often quite substantially, as indicated in Table 6. In all cases, sole parent recipients are predominantly (over 90%) female.

Table 6
Recipients of housing allowances, by household type, four countries

	Single (%)	Couple (%)	Sole parent and children (%)	Couple and children (%)
TANF (US)*			65	5
Canadian social assistance programs	55	5	29	11
RA in Australia	58	8	21	15
AS in New Zealand	50	6	36	9
Shelter allowance program, Quebec	54**		46**	
Housing choice voucher program, US	29	7	56	7

Source: Administrative data from agencies administering housing allowance programs.

Notes:

* The other 30% of recipients of the TANF program are 'child only' households, either with no adult present or where the adult is ineligible for payment.

** As data from Quebec does not distinguish between singles and couples, the figures given under 'singles' refer to both singles and couples combined.

The other major group of recipients, single persons, varies according to program design:

- Singles, all workforce age: Canadian social assistance programs;
- Singles, predominantly workforce age: RA in Australia and AS recipients in New Zealand,¹⁵ and
- Singles, all above workforce age: Quebec shelter allowance program, British Columbia shelter allowance program, and three other small-scale provincial shelter allowance programs in Canada.

There is no specific data available on single recipients of housing choice vouchers in the US, but almost half of single and couple households without children were aged 62 and over.¹⁶

In most cases, about two-thirds of single recipients above workforce age are female, whilst singles of working age without children comprise both female and male recipients. Overall, in most jurisdictions, the majority of housing allowance recipients are female.

There is little available data on the indigenous status or ethnicity of housing allowance recipients. For example, interviews in New Zealand indicated that a significant percentage of AS recipients were of Maori, Pacific Islander or Asian descent, but there is little publicly available data. The most comprehensive information on ethnicity is from the US, indicating

¹⁵ 16% of RA recipients are in receipt of the age pension (FaCS 2001: 112), and 6% of AS recipients receive their payment in conjunction with New Zealand Superannuation (Work and Income New Zealand 2001: 90). These figures include couples as well as single persons.

¹⁶ HUD, Multifamily Tenant Characteristic System, Resident Characteristics data <<http://www.hud.gov:80/mtcs/rcr.cfm>> (accessed 10 May 2001).

that two-thirds of TANF recipients are from minority groups (as understood in the US: black 38%, Hispanic 25% and Asian 4%) (Department of Health and Human Services 2000: 5-6). Almost 60% of housing choice voucher recipients are also from minority groups (58%).¹⁷ In the US, the typical housing allowance recipient is a female sole parent from a minority group.

Finally, most households in recipients of housing allowances depend, at least in part, on income support payments. In the US and Canada, housing allowances are a part of social assistance programs, whilst in the income supplement model of Australia and New Zealand there is some provision for households not in receipt of major income support payments to access housing allowances, although non-income support recipients comprise only a small percentage of all recipients. In Australia, 91% of RA recipients are income support recipients; 9% are working and do not receive income support, but are able to access RA because they receive more than the base rate of Family Tax Benefit Part A (FaCS 2001: 112). Low wage singles and couples without children are ineligible for RA, unlike in New Zealand. Despite this, the percentage of AS recipients in New Zealand who are not in receipt of income support (called non-beneficiaries) is about the same as in Australia, that is, 9% (Work and Income New Zealand 2001: 90). In the US voucher program, in contrast, a third of households derived their main income from wages in 1998, and this is likely to have increased due to the policies described above, and over 20% relied mainly on social assistance¹⁸.

In summary, although there are differences as outlined above, housing allowance recipients are typically single people or sole parents, the majority female, who are of workforce age but depend substantially on income support programs. In the US, most are also from a minority group. These are the households who are the focus of welfare reform in the four countries.

6.2 Housing Type and Tenure

There is no consolidated national information on tenure and housing type associated with the income deficit model of housing allowances in the US. The limited information available assumes that most TANF recipients rent apartments in the private market, although about 30% of families in receipt of TANF benefits also having federal housing subsidies (public housing, assisted private housing or housing vouchers used in private rental housing) and pay income related rents (Sard & Waller 2002).

In Canada, there is also little national data other than the National Council of Welfare's irregular collation and analysis of data supplied by the provinces and territories. Their latest report uses data from 1997, and does not reflect the most recent changes in social assistance, discussed above. The 1997 data indicates that most social assistance recipients, particularly job seekers and sole parents, rent privately, and that relatively few (7%) use their shelter allowances to offset the cost of home ownership, as shown in Table 7; 15% did not live independently, but in 'room and board' arrangements or with relatives, including one in five recipients with a disability. There is no data on type of housing of people assisted by shelter allowances within social assistance programs, although there is a strong connection between private rental and apartment dwelling in Canada.

¹⁷ See HUD, Picture of Subsidised Households 1998 data base <<http://www.huduser.org/datasets/assthsg/statedata98/HUD4US3.TXT>>.

¹⁸ Note that updated information will be available from HUD, Multifamily Tenant Characteristic System, Resident Characteristics Report. This site is currently (June 2002) unavailable but should be accessible shortly.

Table 7
Canadian recipients of social assistance, by reason for assistance and housing type

	Job seeker (%)	Disability (%)	Sole parent (%)	All recipients
Own home	6	9	6	7
Rent (privately)	75	55	74	68
Rent (subsidised housing)	3	9	16	7
Room and board	8	15	2	9
Living with relatives	6	7	1	6
Residential centres	0	3	0	1
Other and unknown	1	2	0	3
Total	100	100	100	100

Source: Calculated from National Council of Welfare (1998: Table 13).

Note: Data is from a 95% sample of 'welfare cases' taken in March 1997. Data may not add up to 100% due to rounding.

In Australia, RA is restricted to private rental arrangements, broadly defined, and there is no regular reporting on specific rental arrangements and types of housing. The 1998 national survey of RA recipients indicates that about 78% rented from a non-resident private landlord, 15% from a resident landlord (boarders, lodgers and sub-tenants, including young people living in the parental home) and 4% were in non-private dwellings such as boarding houses and retirement villages. Most RA recipients lived in a separate house (69%) rather than a flat, unit or apartment (Wulff 2000), which is not surprising in view of the predominance of this type of dwelling in Australia, where four in five private dwellings are single detached houses.

In New Zealand, although the AS is a tenure-neutral policy instrument, in June 2001, 57% of recipients rented privately, 24% were boarders and fewer than 20% were home purchasers, as indicated in Table 8. After a decade of policy changes, the biggest increase in AS recipients was among private renters, up from 68,000 in 1993 to 151,244 by 2001, an increase of over 120%. The number of boarders had remained relatively constant. The number of purchasers with private mortgages had increased by over 25,000 or over 130%, although starting from a low base.

Table 8
Recipients of AS by tenure, New Zealand, 1993, 2000, 2001

Tenure	June 1993		June 2000		June 2001	
	No of recipients	%	No. of recipients	%	No. of recipients	%
Government renters	0	0	49,337	15	3761	1
Private renters	68,000	46	153,140	48	151,244	57
All renters	68,000	46	202,477	63	155005	58
Boarders	62,000	42	68,836	22	63,755	24
Government mortgagees		0	7,291	2	2696	1
Private mortgagees	19,000	13	41,152	13	44,418	17
All mortgagees	19,000	13	48,443	15	47,114	18
Total recipients	149,000	100	319,756	100	265,874	100

Sources: 1993 data is from Ministry of Housing, New Zealand Housing Policy 1991 to 1997, Discussion Document, Table 1. 2000 data is from Ministry of Social Policy, 2000, Social Services Statistical Report

for the year ending 2000, Table 72. 2002 data is from Work and Income New Zealand, Accommodation Supplement Time Series data base.

Table 8 shows AS recipients by tenure in 1993 just before the original reforms, in 2000 whilst public tenants were still eligible, and in 2001 after the deletion of public tenants due to the reintroduction of income related rents. No specific information is available on the housing type occupied by recipients, but a survey of low income households in rental accommodation in 1999 found that 54% lived in a separate house, 31% in a block of two to five units or flats, and 12% in higher density housing comprising six or more flats of units (Colmar Brunton Research 1999a: 24).

The US housing choice voucher program has traditionally been restricted to private rental housing of various types. Since 2000, PHAs have been able to provide assistance to first home buyers from their existing allocation of vouchers. This is not mandatory and many PHAs have chosen not to take up this option, although they must do so when requested by a family with a disabled person (HUD 2002f). Despite this change, the vast majority of households assisted with housing choice vouchers are private renters. They can choose a range of accommodation types – including single detached houses, row houses, manufactured homes and apartments – provided that these do not already receive federal housing subsidies. PHAs may also permit voucher holders to live in single rooms, small group houses for the elderly or people with disabilities, shared housing and cooperative housing (Quadel Consulting Corporation 2001: ch. 17), but no consolidated information is available on the type of housing selected by voucher holders.

In summary, data on outcomes of housing allowance recipients by tenure and housing type is quite limited. The available data suggests that they are used primarily for private rental, even when other tenure arrangements are possible. There is usually a broad definition of private rental and, in most of the programs, a significant percentage of households are assisted to live in 'board and lodging' or shared housing arrangements. The type of housing occupied appears to vary according with the stock profile, with more housing allowance recipients renting apartments in Canada and the US than in Australia and New Zealand.

6.3 Affordability, Adequacy and Appropriateness

In the US, about 30% of families in receipt of TANF benefits also have federal housing subsidies to assist in housing affordability (Sard & Waller 2002) and pay 30% of household income on rent and utilities. The other 70%, almost all private renters, are not included in housing program data. The only data source is a report by HUD every two years on 'worst case' housing need, defined narrowly as households earning under half of the median income for their area who are paying more than 50% of their income in rent or who live in severely substandard housing. In 1999, the last year for which data is available, 4.9 million US households had 'worst case' housing needs (14% of all renters and 5% of all households). In 94% of cases, this was because they paid more than half of household income in rent, and 11% because they lived in severely substandard housing. There are no separate figures for those in receipt of social assistance but, taking households earning less than 20% of area median income as a proxy, 76% of all renter households in this group had 'worst case' needs, due almost entirely to paying more than 50% of income in rent (HUD 2001: 3-4).

There is no Canadian social assistance data on affordability or on adequacy and appropriateness. The only proxy is renter households in 'core housing need', defined as those with one or more of: shelter costs of 30% or more gross income; dwelling requiring major repairs or unsuitable dwelling (insufficient bedrooms according to a National Occupancy Standard); and who would have to spend 30% of income or more to afford alternative housing that meets all three standards (CMHC 2000a). The Canadian Mortgage and Housing Corporation provides data for those in receipt of government transfer payments, derived from Census data, although it should be noted that this is a broader group than social assistance recipients and includes those in receipt of upper tier benefits such as older people. In 1996, 58% of all renter households whose major income source was government transfer payments were in core housing need, compared to only 16% of other renter households. Renter households of workforce age whose main source of income was government transfer

payments had particularly high rates (75% of sole parents and 70% of singles) (CMHC 1998: Table 1).

The main reason for being in core housing need was affordability; 94% of renters did not meet the Canadian affordability benchmark of housing costs less than 30% of household income. The average shelter cost to household income ratio for renters in core need was 47%. In contrast, 13% of renters in core housing need were living in inadequate units, and the same percentage in crowded dwellings (CMHC 1998: 3). These figures suggest that recipients of shelter allowances within provincial social assistance programs are predominantly private renters who fall far below the affordability benchmark, with approximately one in eight having unsatisfactory outcomes in terms of adequacy and appropriateness. Local studies in major cities such as Toronto confirm these findings (e.g. City of Toronto 1999).

In Australia, information on the housing outcomes of housing allowances is largely limited to affordability. FaCS reports on the ratio of housing costs to income without RA compared to this ratio after receipt of RA, using income benchmarks of both 30% and 50%. The most recent figures for 2000-01 indicate that 69% of income units would pay more than 30% of income in rent before RA, reducing to 33% taking into account receipt of RA. Similarly, RA reduces the percentage of income units paying more than 50% of income in rent from 28% to 9% (FaCS 2001: Table 21). This calculation of affordability treats RA as a housing allowance (rent minus RA as a percentage of income) rather than as an income supplement (rent as a percentage of income plus RA), assuming that all RA is offset against rent and gives better affordability rates than the alternative treatment (Burke & Hulse 2002). Treating RA as a housing allowance, the data indicates that RA does improve affordability for income support recipients in private rental but that a third of recipients do not meet the 30% of income benchmark after receipt of RA. It should also be noted that these figures cannot be directly compared with Canadian and US affordability data that include utility payments with rent (rent plus utility costs as a percentage of household income).

The design of RA reflects the principles of horizontal equity inherent in the national income support system; households of similar type/size paying the same rent receive the same RA payment wherever they live in Australia. As a result, there is a difference of only \$3.60 per week between the highest average weekly payment (A\$35.40 in Sydney) and the lowest (A\$31.80 in non-capital city Victoria) (SCRCSSP 2002: Table 16A.48). This can largely be attributed to the effect of RA maxima, with 57% of recipients receiving the maximum rate (SCRCSSP 2002: 873). Those in receipt of the full rate of RA (and affected by the maxima) have worse affordability outcomes than those receiving less than the maximum (DSS 1997: 15-20). In practice, private rent levels around Australia vary considerably, and similar levels of payment mean quite different affordability outcomes in high rent areas, such as Sydney and major metropolitan centres, compared to smaller capitals, regional centres and rural Australia.

As well as regional differences in affordability outcomes, the current structure of RA results in different affordability outcomes for different types of household. There is no regular reporting on outcome by type of households, but data for 1996 indicated that:

- Recipients with children generally had better affordability outcomes than singles and couples without children;
- Couples had better affordability outcomes than sole parents with the same number of children; and
- For those without children, pensioners (either retired from the workforce or not in the workforce due to disability) had better affordability outcomes than allowees (job seekers and others of workforce age), particularly single people (DSS 1997: 15-20).

These differences in affordability are due to a combination of differences in income (such as higher rates for pensioners and additional payments for those with children), differences in rent thresholds that benefit households with children, and households with one adult who are unable to share their housing costs with another adult. The affordability problems faced by

low income private tenants generally have been highlighted in recent analysis for the Affordable Housing National Research Consortium. This found that in 1996 almost three out of four low income private tenants in the main metropolitan areas (excluding Canberra), and four out of five in Sydney, were suffering 'housing stress' when measured by the 30% of household income benchmark, and that the situation has worsened due to rising property prices and rents from the late 1990s (Berry & Hall 2001: 12-13).

FaCS does not routinely monitor the adequacy or appropriateness of housing for RA recipients, and there are no official measures of housing quality or overcrowding in Australia. The only recent specific data is from a national survey of RA recipients in 1998 that provides some information on these other housing outcomes, although not on affordability (Wulff 2000: 22). 63% of RA recipients rated the condition of their housing as good or very good, with 8% seeing it as poor and 28% as average (Wulff 2000: Figure 3.1), although it should be noted that these are self-assessments and cannot be compared with the Canadian or US data which is based on specific indicators of housing quality. Similarly, over 85% of recipients reported satisfaction with their dwelling size, and 10% dissatisfaction (Wulff 2000: Figure 3.3). Again, these are self-assessments, unlike Canadian data which is based on a national occupancy standard. These results mirror other work that finds high rates of satisfaction amongst private renters generally (ABS 1995). A more recent survey of sole parents in receipt of RA, however, found that while the main problem with current housing was nominated as high rents (41% of respondents), others pointed to the smallness of dwelling (27%), the unwillingness of landlord to undertake repairs (25%) and the security of the dwelling (25%) (Burke & Hulse 2002: Table 13). These results suggest that further and more detailed research could be conducted in terms of the adequacy and appropriateness outcomes of RA recipients.

In New Zealand, as in Australia, monitoring of the accommodation supplement has focused on affordability, as measured by an outgoings to income ratio (OTI) defined as accommodation outgoings minus the accommodation supplement over net income (income minus AS). This measure also treats the AS as a housing allowance rather than an income supplement, which has generated some controversy.¹⁹ The affordability outcomes of the AS are measured by calculating the OTI for households both before and after receipt. In 1998, for example, 80% of recipients would have paid more than 30% of their income in housing costs before the AS, reducing to 22% above this benchmark after receipt. Similarly, 58% of recipients would have paid more than 50% of income before the AS, reducing to 10% after receipt (Ministry of Social Policy 1999: Figure 1). As in Australia, the AS improves affordability for recipients, but some households still face significant affordability problems after receipt of the payment, in particular, the approximately one in ten recipients paying more than half their incomes in housing costs. The proportion with OTIs of more than 50% was highest amongst private mortgagors (18%) and private tenants (14%) (Waldegrave 2000: Table 1).

Concerns with housing quality and overcrowding in New Zealand predate the introduction of the AS in 1993, centring on poor quality accommodation, predominantly in rural areas, and overcrowding (Thorns 1988). There was considerable controversy in the mid- to late 1990s about whether policy reliance on the AS, rather than the mixture of supply and demand subsidies that applied prior to 1993, contributed to a worsening of outcomes in these two areas (Robinson 1998).

Analysis of 1996 Census data indicated that, whilst overcrowding²⁰ levels had generally declined over the previous decade, overcrowding was concentrated among poorer households, those of Maori and Pacific Islander descent, and in the Auckland region. More than half of those living in overcrowded conditions had been in receipt of social assistance payments during the previous year, and overcrowding was more prevalent amongst renter households (Statistics New Zealand 1998: 51-62). These findings are indicative of some difficulties amongst particular groups of AS recipients, although there is no specific data. Anecdotal evidence and data from local surveys during this period suggested AS recipients

¹⁹ This method was chosen to allow comparisons with the situation prior to 1993 when OTIs were calculated for public tenants using this formula (Ministry of Housing 1997: 32)

²⁰ Called 'crowding' in New Zealand.

had problems of poor quality accommodation, for example, a study of income support beneficiaries in the Wellington region reported that 17% of households admitted to living in overcrowded housing and 25% reported problems with basic facilities, such as hot water, plumbing or leaks (Roberts & Robinson 1996). By the change of government in 1999, there was some qualified official acknowledgement that, despite the availability of the AS, issues of housing standards and overcrowding remained that contributed to adverse health and other outcomes (Ministry of Social Policy 1999: 90).

Finally, the US housing choice voucher program is unique in having an affordability benchmark built into the payment such that recipients pay 30% of their income in rent and utility payments. This benchmark may be exceeded where the recipient has received approval to rent a unit that has a rent in excess of the relevant 'payment standard' and pays 100% of any excess, although no household can pay more than 40% of income in rent under the program guidelines. These guidelines also stipulate that income includes that portion of 'welfare income' to which a household would normally be entitled but which has been withheld because the household failed to meet its work activity requirements or engaged in fraud (Quadel Consulting 2001: ch. 5). Thus households in this situation may be paying more than 30% of income actually received.

Housing occupied by voucher holders must be inspected by PHAs and must meet HUD's quality standards before approval is given to the tenancy, and at later annual inspections (Quadel Consulting 2001: ch. 5). HUD's concern with such standards has been evident since EHAP in the 1970s (Hulse 2002). The PHA must also approve the composition of the family to be housed in the accommodation, which in theory should ensure that there is no overcrowding. HUD monitors PHA performance in these two areas through its Section 8 Management Assessment (HUD 2002c). Landlords participating in the program contract in writing (Housing Assistance Payments Contract) to maintain the unit according to these housing quality standards and to lease the unit to the households as specified.

Very little is known about the other housing outcomes of housing allowances, such as the nature and type of arrangements with landlords, conditions of tenancy, tenancy management or length of tenure. Housing allowance programs do not consider or report on outcomes in these areas. The notable exception is again the US housing choice voucher program that includes features such as fair housing requirements (anti-discrimination), a written lease in standard form that meets local requirements, a standard HUD tenancy addendum to the lease, and a requirement that the initial lease term must be for at least one year (Quadel Consulting 2001: ch. 8). Section 7 of this report examines evidence on the ways in which these program requirements affect voucher holders in accessing accommodation, and owners in offering accommodation in the context of private rental markets.

In summary, data from the four countries, although limited, indicates that the main issue facing housing allowance recipients is problems with affordability, although there are issues of adequacy and overcrowding amongst specific groups. With the exception of housing choice vouchers in the US, the design of housing allowance programs does not include affordability outcomes. Instead, particularly for the income supplement model, affordability outcomes are monitored before and after assistance, with the payment treated as a housing allowance rather than an income supplement. Using this measure, housing allowances improve affordability, although about one in ten recipients in both Australia and New Zealand are still paying more than half of their incomes on housing. Further issues about whether percentage of income paid in rent is the appropriate measure of affordability are further considered in Section 7.

6.4 Disposable Income After Paying for Housing

In most jurisdictions, as seen in the previous section, the affordability outcomes of housing allowances are measured primarily in terms of percentage of income paid in rent. Other measures of affordability may also be relevant, depending on the design of the housing allowance program. For example, in Canada, it has been argued that the correct measure of adequate shelter allowances within social assistance programs is a comparison of these allowances against market rent levels. If the shelter allowance falls short of rent levels,

income for non-housing purposes has to be used for rent, leaving less disposable income for food, clothing and other necessities. Conversely, if shelter allowances cover rent payment, there is no adverse effect on disposable income, even though shelter allowances typically are about half of social assistance income, resulting in a rent to income ratio of 50% or more (Federation of Canadian Municipalities 2000: Appendix C).

The impact of housing costs on after-housing disposable income has been on the policy agenda in Australia since the Commission of Inquiry into Poverty in the mid-1970s, with the most commonly used measure of housing affordability being the Henderson after-housing poverty line (see discussion in Landt & Bray 1997). There have been many attempts to measure poverty after housing costs, with one of the most recent studies (Harding & Szukalska 2000: 12, 15) finding that 54% of Australians living in poverty in 1999 had government transfers as their main income source, with the highest rates of poverty amongst households with one adult, namely, lone people of working age (particularly young singles) and sole parents.²¹ When housing costs are taken into account, poverty rates increase for working age households, particularly sole parents and singles, with 34% of all sole parents and 22% of working age single people being in poverty after paying for their housing. These rates increase for private renters relative to other tenure types, thus poverty rates after housing costs are highest for sole parents and singles in receipt of government transfers, the two main groups in receipt of RA.

Whilst measurement of poverty lines has been controversial in Australia, as in the other countries in this study, these findings suggest that more research is needed to determine whether, after paying rent, RA recipients have sufficient income to pay for other necessities like food. A recent AHURI survey of sole parents in receipt of RA (Burke & Hulse 2002: 46) examined this issue, finding that more than half of sole parents had insufficient income after paying their rent to lift them above the relevant after-housing poverty line calculated by the Melbourne Institute of Applied Economic and Social Research, except for those in paid work with one or two children. The more children a sole parent had to support, the higher the rate of after-housing poverty, as manifested in going without food or adequate heating, inability to afford school excursions and other costs associated with children, and falling into rent arrears.

In New Zealand, two measures of affordability of housing are used: the outgoings to income ratio, discussed in the previous section, and a measure of residual income (income left after paying for housing). The formula for residual income is as follows:

$$\text{Residual income} = (\text{net income 1} - (\text{housing costs} - \text{accommodation supplement})) / \text{net income 2}$$

Net income 1 is total net income excluding family support payments

Net income 2 is the relevant benefit rate + family support for beneficiaries, or the basic unemployment benefit rate relevant to a particular family configuration + family support for non-beneficiaries (Krishnan 2001: 111-12).

Work in New Zealand suggests that those with residual incomes below 30% are unable to meet other living costs, such as food, clothing and medical care, on an ongoing basis. Indeed, residual income of 30% or less is used as an important part of the assessment for special benefit, discussed earlier in this report. Research into AS recipients, using this formula, provides the following findings about those with low residual income ratios, defined as 30% or less of total income:

- Just over 7% of AS recipients had low residual income ratios, a rate quite consistent over the period 1995-2000;
- The incidence of low residual income ratios varied by region, with higher rates in the high cost markets of Auckland (12%) compared to Wellington (6%) or the rest of New Zealand (4%);
- The incidence of low residual income ratios also varied by tenure and type of assistance, with higher percentages of private mortgagors (14.4%) and private renters

²¹ This study used the 'half average income' measure of poverty as adjusted for family size and composition.

(8.6%) having residual incomes of less than 30% of income in 2000 compared to public tenants, boarders and those with government mortgages;

- Some groups had higher than average rates of low residual incomes, including non-beneficiaries (14%), widow beneficiaries (13%) and sole parent beneficiaries (10%)
- More than two-thirds of those with low residual incomes were women (69%) whereas women comprised 58% of all AS recipients; and
- Pacific Islander and non-European ethnic groups had higher rates of low residual incomes than either Maori or European New Zealanders (Krishnan 2001).

There are a number of issues about this work. The formula for residual income treats the AS as a housing allowance fully offset against housing costs, rather than as an income supplement, an issue of some controversy. Residual income ratios of less than 30% enable measurement of changes over time; they are not in themselves a measure of adequate disposable income, as acknowledged by the researcher. Other work in New Zealand using alternative methodologies is not as optimistic about the outcomes for AS recipients in terms of after-housing disposable income. One study that treated the AS as an income supplement, rather than a deduction from housing costs, calculated mean equivalent disposable incomes net of housing costs as a percentage of same incomes before housing costs. The research found that incomes available for non-housing purposes had declined substantially during the decade to 1998, particularly amongst those with a Pacific Islander adult, a sole parent or a beneficiary (Mowbray 2001: 39-40). Another piece of research, using a different methodology, found that in 1998, despite the availability of the AS, over 70% of public tenants (before the return to income related rents) and 32% of private tenants were in poverty after paying for their housing. The work concluded that many on low incomes, particularly sole parents, have insufficient income left after housing to meet daily needs (Stephens & Waldegrave 2001: 102-3).

One of the advantages of the US housing choice voucher program has been promoted as giving recipients more disposable income (or residual income) for other necessities of life such as food, clothing, transportation and childcare, particularly as they move into paid work. Table 9 shows the effect on disposable income for housing voucher recipients in full-time work at minimum wage rates compared to households without vouchers. Whilst there is a difference in percentage of income paid in rent, for households themselves the difference in disposable income is most critical. Since housing vouchers are quite separate from income support, there is little pressure on housing programs to assess the adequacy of disposable income after paying for housing, provided that the 30% of income benchmark is met. The key issue in the US is horizontal equity, with about one in four eligible households in receipt of federal housing assistance having improved outcomes in terms of disposable income, and three in four eligible households missing out (Carr 1998: 252; HUD 2001: 11).

Table 9
Households in full-time work at minimum wages with and without housing vouchers, US, 1999

Household circumstance	Household with housing voucher	Household without housing voucher
Income (full-time at minimum wage of \$7 per hour)	\$1,200 per month	\$1,200 per month
Average fair market rent US 1999	\$579 per month	\$579 per month
Rent paid	\$363 per month (30% of household income)	\$579 per month (market rent)
Percentage of income in rent	30%	48%
Income available for other necessities	\$837 per month	\$621 per month

Source: Calculated from Zedlewski (2002: 1).

In all four countries, assessment of whether housing allowance recipients have enough disposable income after paying for their housing runs into the controversy associated with measuring poverty.²² Even in Canada where the national statistics agency calculates 'low income cut-offs' annually, a measure of the gross level of income at which households would have to spend all their money on food, shelter and clothing (calculated by household type/size and size of community), and which are widely regarded as poverty lines, there is no official government recognition of the measure (NCW 2000: 22). The US is the only one of the four countries with an officially sanctioned measure of poverty, although problems with this are recognised and other measures are being tested.

In summary, for those housing allowances within income support systems, one of the key outcomes is whether households have enough income for other basic necessities after paying for their housing; this is not a significant issue for housing allowances that are part of housing programs. Whilst there has been some useful work, much remains to be achieved in the four countries in measuring the adequacy of disposable income after housing costs.

6.5 Workforce Participation

This section looks briefly at what role, if any, housing allowances play in encouraging or discouraging workforce participation. Local commentators have expressed concern that there has been relatively little attention to the role of housing in the reforms to provincial social assistance programs in Canada and the US (e.g. Newman 2001).

In Australia, as households increase their income from paid employment, income support payments reduce, with RA being the last part of the payment to reduce and eventually phase out. This gives recipients some assistance with their housing, as they make the transition into paid work. At the point when income support payments stop, the treatment of households varies: those with children can continue to receive RA if they receive more than the base rate of Family Tax Benefit Part A (paid fortnightly) and rent privately, but singles and couples without children are no longer eligible for RA, nor are families with dependent children who choose to receive their Family Tax Benefit Part A through the tax system. Income limits for determining eligibility for Family Tax Benefit are much more generous than for income support payments, so working families with children who rent privately are able to receive RA to assist with the costs of larger and more expensive rental housing. This has impacted on the overall costs of RA since the new tax system was introduced in July 2000 (FaCS 2001: 112).

In June 2001, just over 84,000 (9%) of RA recipients were in paid work and not receiving any income support, but received RA in conjunction with Family Tax Benefit Part A. It is unclear whether these are mainly ex income support recipients who have maintained their RA payment or others outside of that system who have applied separately. This raises the issue of the take-up rate for housing allowances by those who have had no previous contact with income support agencies and, under the new arrangements, receive payment through the Family Assistance Office. There is no available data on take-up rates, and further work is needed on the take-up rate for families who are eligible for RA under the new arrangements but have had no previous contact with Centrelink and may be unaware of the payment.

The other issue is the outcomes for singles and couples without children who lose their RA when they lose their income support payment. It is assumed that the level of wages will be sufficient to cover housing costs. In other words, singles, unless they choose to share, have one income from which to pay their rent but, unlike sole parent families with one adult wage earner, are unable to access RA. It is worth noting that the original reason for the introduction of RA in the 1950s was recognition that single persons (pensioners) faced a disadvantage in not being able to share their housing costs (Kewley 1973). Whilst detailed analysis of wage levels is beyond the scope of this research, there is considerable evidence of an increase in casual, part-time, irregular and low-paid jobs, and of increasing poverty and housing stress amongst low wage earners and their dependents (e.g. Eardley 1998; King 1998).

²² See, for example, Australian Bureau of Statistics (1998), Statistics Canada (1998) and Dalaker & Procter (2000).

One of the difficulties of the current system in Australia is that housing for working singles and couples without children does not fit within the Commonwealth's income support and family support responsibilities. Neither do they accord with the traditional responsibilities of the states/territories for the elderly and families with children. It is suggested that AHURI take the initiative by funding research to examine the housing outcomes of working age singles (and couples) without children on low to moderate wages, to test the assumption that income from paid employment negates the need for assistance with housing costs.

New Zealand experience with the AS provides some insight into the way in which housing allowances treat households moving into work and those fully dependent on wage income, as it is available to those in receipt of income support and in low paid employment. As a result, eligibility is assessed separately from that of other income support payments, unlike in Australia, with a test of both assets and income and an abatement regime for assets. Applicants must have cash or readily realisable assets of less than \$8,100 for singles and \$16,200 for sole parents and couples. Assets between lower (\$2,700 for singles and \$5,400 for couples) and upper limits are deemed to add \$1 a week extra income for each \$100 of cash and realisable assets. Total income, including income deemed to come from these assets, must fall under before-tax income limits that vary by household type and size and by three areas. Thus, for example, a sole parent with one child must earn less than \$40,835 a year if living in Auckland, \$32,515 a year in Wellington or eight other urban centres,²³ and \$28,355 a year in the rest of New Zealand. There has been criticism of the asset abatement provision on the grounds that it penalises saving and trying to get ahead, for example, for those who may be saving for the deposit for a house.

There is a further system of income abatement in calculating the rate of AS. For income support recipients, as earned income increases, the rate is reduced by 25c in the dollar up to maximum earnings of \$80 per week (up to \$20 per week deduction). There is no further reduction when earnings exceed \$80 per week until they exceed the eligibility limits for the relevant income support benefit. At this point, payments are calculated as for non-income support recipients and are reduced by 25c for each dollar above the gross equivalent of the Invalids Benefit rate for that type of household until AS cuts out completely.²⁴ The steepness of this abatement regime has been criticised for disincentives for income support recipients to move into work, thereby contributing to a poverty trap (Stephens et al. 1995).

There have been criticisms in New Zealand about lower than expected take-up rates amongst both income support recipients and working households. A survey in the mid-1990s estimated the overall take-up rate of the AS at 65%, with particularly low rates amongst non-beneficiary renters of 31% and amongst non-beneficiary home owners of only 4% (Ministry of Housing 1997: 20). It appears that, despite considerable publicity about AS, take-up rates were low amongst those who had no other contact with Work and Income New Zealand, although between June 1994 and April 2002 the number of low income non-beneficiaries in receipt of the AS did increase from 11,000 to 22,509.²⁵ The New Zealand experience does, however, raise questions about the suitability of placing housing assistance for low wage earners within an income support system for people who have no other contact with that system.

The design of housing choice vouchers in the US is such that households moving into work retain their housing allowance but pay 30% of any additional income in rent until income is at a level when the market rent is 30% or less of household income. In this sense, housing work in the same way as income related rents in public housing and federally assisted private housing. There is a body of work in the US, largely based on econometric modelling, which suggests that the combined effects of social assistance, income related rents delivered through housing assistance, and food stamps (as well as state and local taxes, and social security taxes for those in work) reduce the propensity of households to work and increase their propensity to consume housing (Olsen 2001). There is, however, little empirical research to test these assumptions.

²³ The other urban areas are Hamilton, Rotorua, Napier, Hastings, Tauranga, Palmerston North, Nelson and Christchurch.

²⁴ Information on the calculation of the AS was supplied by the Ministry of Social Development.

²⁵ Ministry of Social Policy (1999: 88) and Ministry of Social Development, *Weekly AS Snapshot*, 15 April 2002

On the other hand, specific research in the US has found that receipt of housing vouchers has positive effects in enabling households to move from social assistance and into work. The most quoted research is an evaluation of the Minnesota Family Investment Program by the Manpower Research Corporation, which found that families in receipt of vouchers had the most success of any group in increasing income from paid work, with substantial flow-on effects on family wellbeing and reduction of poverty (Miller et al. 2000). Other small-scale studies have found similar results in terms of moving into work (e.g. Ong 1998).

The main difference between housing vouchers and income related rents in public housing and assisted private housing in the US, however, is that vouchers are portable; households can use them to move to areas with lower poverty rates and better job prospects. Research in the US strongly suggests that neighbourhood affects life chances in many ways (Ellen & Turner 1997). Housing vouchers have been used to move people from racially concentrated and high poverty areas since the famous Gautreaux program²⁶ in Chicago and in subsequent court-ordered mobility programs (Rosenbaum and DeLuca 2000) and demonstration projects such as the Moving to Opportunity Program. Evaluations of subsequent mobility programs of all these types suggest that housing vouchers are an effective means of promoting employment and desirable economic and social benefits (e.g. Newman & Schnare 1997; Turner 1998). For example, an evaluation of the Moving to Opportunity demonstration program in Baltimore found that ex-public housing residents who agreed to move to lower poverty neighbourhoods with the assistance of a housing voucher experienced large increases in employment and earnings relative to households who were not offered vouchers and remained in public housing (Ludwig et al. 2000). The Positioning Paper for this project (Hulse 2002b) discusses some of this literature.

Many of these projects are as much about educational achievement and children's behaviour, reducing criminal activity and improving health outcomes as they are about increasing employment participation. They are also small-scale in relation to low income renters as a whole, for example, the Gautreaux program, which is regarded as successful, moved an average of 340 households a year to lower poverty, lower minority concentration neighbourhoods (Turner 1998) in a metropolitan area of 8.1 million people. Baltimore City, with a population of 736,000 in a metropolitan area of 2.3 million, obtained Moving to Opportunity funding for 268 housing vouchers. The perceived threat of residential mobility associated with housing vouchers appears likely to ensure that such programs remain small-scale (Hartung & Henig 1997; Dreier 2000).

Specific measures within the general housing voucher program to encourage employment participation are also relatively small-scale. For example, the Moving to Work demonstration project currently involves twenty-two PHAs who have been exempted by Congress from many of the requirements of Housing Act 1937 HUD regulations to try different means of promoting self-sufficiency (HUD 2002d), including pooling of funds across program areas. Despite federal pressure to sign up housing voucher recipients on FSS contracts in the 1990s, by 1998 only about 40,000 families nationwide were participating, out of a total of 1.4 million voucher holders (Bell & Gleason 1999). These were predominantly female (91%), and mainly single parents (84%) from minority households (50%) (Rohe & Kleit 1999: 345). Despite the relatively small numbers in these programs, both HUD (e.g. Abt Associates Inc. 1999) and other organisations concerned with housing, such as the National Low Income Housing Coalition, the Center on Budget and Policy Priorities and the Brookings Institution, have been active in promoting the importance of housing vouchers to the success of welfare reform (e.g. NLIHC 2001; Sard & Lubell 2000; Center on Budget and Policy Priorities 2000; Sard & Waller 2002).

In summary, take-up rates for housing allowances by working households in Australia and New Zealand appear to be low. This may be due to design issues, such as the steep income abatement regime in New Zealand, and/or because households not in contact with income

²⁶ Dorothy Gautreaux was a tenant of the Chicago Housing Authority who instigated a class action against the Authority and HUD in 1966, claiming that the public housing program was based on racial segregation in violation of fair housing laws and the US constitution. The court found in her favour in 1969, and in 1976 the Supreme Court ruled that HUD should use its programs to remedy the defect (Rosenbaum 1998). Housing vouchers have been used ever since as the means of doing this.

support agencies are reluctant to claim 'welfare benefits'. The US housing assistance model means that the move to work does not affect receipt of housing vouchers until income is such that they become ineligible for assistance, although only four in ten recipients had some income from wages in 2001.

7. HOUSING ALLOWANCES, RENTAL MARKETS AND THE SUPPLY OF AFFORDABLE RENTAL HOUSING

As a type of demand subsidy, housing allowances require a supply of housing that is affordable to recipient households. The research has confirmed that most recipients, whatever the design of the program, are private renters. This section begins by briefly examining evidence from the four countries on the supply of affordable private rental housing.

7.1 Access to Affordable Private Rental Housing

As reported in the Positioning Paper for this project, one of EHAP's influential findings was that housing allowances had a negligible effect on increasing the supply of additional rental housing, and only a minor effect on improving the quality of existing rental housing (HUD 1980). Continued support by housing industry groups suggests, however, that some expectations remain that allowances will stimulate an increase in the supply of housing. The evidence from each country suggests that these lingering expectations are unfounded; instead, there is widespread concern about a contraction in the supply of private rental housing at the lower price end of the market.

In Australia, in the reform debate of the 1990s, the Commonwealth department responsible for both RA and housing supply strategies (the former Department of Social Security) contended that the private rental market was robust, had more than kept pace with increases in population and households, and that 'there is not a chronic failure in the supply of private rental housing' (DSS 1997: 63). Subsequent research, however, has suggested that, whilst the rental market had increased overall, growth was uneven across market segments in the period 1986-96, with much of the growth being in the higher price segments and a decline in both absolute and relative terms in the lowest price segment (Yates & Wulff 2000; Wulff, Yates & Burke 2001).

Most recently, analysis for the Affordable Housing National Research Consortium found that most private tenants in the bottom two income quintiles (the bottom 40% of incomes) in Adelaide, Melbourne and Sydney were unable to afford rental accommodation without paying more than 30% of household income in rent. The only accommodation that would be affordable for some of these renters was small accommodation in outer suburban areas, which was likely to be inappropriate in terms of size and location. The report concludes:

Significant market failure characterises segments of the Australian housing system. This results in inadequate supply responses, especially at the low-cost end of the private rental market due to the small-scale and informal nature of private investment and significant barriers which effectively exclude large-scale involvement by institutional investors. Chronic shortages of affordable and appropriate housing for lower income households create a range of complex negative externalities – i.e. unpriced costs – borne by both the people directly concerned and the community at large (Berry & Hall 2001: 14).

To date, much of the analysis of the supply of private rental housing has been based on 1996 Census data, and urgent investigation is required of changes between 1996 and 2001 following the release of preliminary data from the 2001 Census.

In New Zealand, advice to the government prior to the housing reforms of the early 1990s was that they would encourage investment in the supply of smaller rental accommodation and that the AS would help maintain the flow of finance from private lenders by providing backstop income support (Infometrics 1991: 2). This reflected a view held by many economists that public (state) housing 'crowded out' investment in private rental housing (New Zealand Institute of Economic Research 1999: v). Many commentators have subsequently pointed out that increased eligibility and a large injection of funds did not generate an increase in affordable rental housing (e.g. Murphy 1997; Robinson 1998; Thorns 2000). The private rental sector in New Zealand, as in Australia, comprises many small-scale and unsophisticated investors, with research indicating that more than 70% hold only one or two rental properties (Colmar Brunton Research 1999b: 11). As in Australia, the impending

release of data from the 2001 Census of Population and Dwellings should provide more detail on changes in the private rental market in the previous five years.

In Canada, concerns about the supply of affordable private rental housing have also increased over the last decade. Commentators have pointed to the decline in new rental apartment building, cessation of federal taxation incentives and supply subsidies, and loss of existing rental units due to demolition and conversion to other uses (e.g. Miron 1995; Crook 1998). Additions to supply have increasingly come from the 'secondary rental market', comprised of units being rented out by their owners and secondary suites/accessory apartments (CMHC 1999b: 1). At a provincial and local level, a number of studies have pointed to a decline in affordable housing, particularly in high rent markets such as Toronto, Vancouver and Montreal. For example, in Toronto, it has been estimated that over the five years 1991-96 almost 59,000 units or more than 20% of conventional private rental stock stopped being low rental units and shifted into the middle range of rents, as a consequence of rents rising faster than general inflation (City of Toronto 1999: 138).

Canadian governments at different levels have begun to investigate possible means of stimulating investment in private rental housing, particularly at the lower end of the market including the Canada Mortgage and Housing Corporation (CMHC 2000b). The Federation of Canadian Municipalities (2000) has argued that 45,000 new rental units a year are required to meet demand, with half of these affordable to people on low incomes. As a short-term measure, the federal government is negotiating a series of bilateral agreements with provinces and territories for assistance to increase the supply of affordable housing by way of a federal contribution of C\$25,000 per unit matched by the province/territory or a third party (Canadian Intergovernmental Conference Secretariat 2001). Affordable housing initiatives, in this context, are not restricted to the supply of newly constructed rental housing, but include renovation and conversion of existing dwellings.

Whilst there is support for housing allowances for both income support recipients and working households, they are promoted only as part of a package of measures to address issues of affordable housing (e.g. City of Toronto 1999; FCM 2000). A recent report expresses these views clearly:

Shelter subsidies do not create new supply – Given the current situation of negligible new rental production, a system of shelter subsidies alone cannot solve the problem of rental demand outstripping supply (Ontario Housing Supply Working Group 2001: 11).

In the US, in contrast to the other countries in the research, the federal government carries out detailed analysis of changes in private rental market segments, as part of regular reports to Congress on 'worst case' housing need. These have highlighted a long decline in the supply of units affordable to households with extremely low incomes (below 30% of area median income) if they are to pay no more than the benchmark 30% of household income in rent. A recent report to Congress indicates that the number of rental units available to renters with extremely low incomes, as defined above, who must comprise at least three-quarters of housing choice voucher recipients fell by 750,000 units or 13% in just two years, 1997-99 (HUD 2001: 8-9). HUD also reported to Congress that the number of units with rents below the 40th percentile (those able to be rented by housing voucher recipients under program guidelines) decreased in the same period both absolutely and as a share of local rental markets in every region (HUD 2001: 10).

These findings are corroborated by other research. For example, the Harvard based Joint Center for Housing Studies (2001: 24) found that in 1999 there were an estimated 4.5 million unsubsidised renters earning less than 30% of area median income, and just 1.2 million unsubsidised units that would be affordable for these households using the 30% of household income benchmark – a shortfall of 3.3 million rental units. As a result of these changes, a recent survey suggests that 37% of Americans see affordable housing as a very or fairly big problem in their communities, second only to lack of affordable health care (43%), and more of a problem than crime or pollution (Fannie Mae Foundation 2002). HUD (2001: 10)

acknowledges that these market trends mean that housing voucher recipients face increasing difficulty in finding affordable and available rental housing.

These difficulties in finding affordable housing are compounded by the design of the voucher program. As discussed above, landlords must agree to meet various program requirements in order to receive a subsidy, such as inspection of the unit, agreement on the rent level, attachment of a HUD addendum to the tenancy lease, and payment partly by the tenant and partly by the local program manager. A number of studies have found that this limited participating landlords to those who were familiar with the program (e.g. Kennedy & Finkel 1994: 71-2; Popkin & Cunningham 1999). These studies suggest a distinct sub-market of landlords willing to participate in the housing voucher program, and concentration of low income and minority households in specific areas of low cost private rental housing (Maney & Crowley 1999: Part V). For individual households, these findings are compounded by participating landlords' expectations about the type of tenant they would accept, for example, in terms of ethnicity or family type (Finkel & Kennedy 1992). A combination of market factors, program design and landlord attitudes has meant a decline in the success rate for housing choice voucher holders in finding accommodation. In 2000, 69% of voucher holders were successful in accessing private rental accommodation in programs administered by large metropolitan public housing agencies, a significant decrease from a success rate of more than 81% in 1993, largely attributed to a tightening of private rental markets in that period (Abt Associates Inc. 2001).

In summary, the available evidence, as presented in this report and in the Positioning Paper, confirms that housing allowances have not resulted in an increase in the supply of lower price private rental housing. Instead, there is widespread concern about a contraction in the supply of such housing available to housing allowance recipients in all four countries. These concerns have been expressed most clearly in Canada and the US where lack of investment and price rises have been compounded by landlord disinvestment, as expressed in conversion of rental units to home ownership, abandonment and demolition.

7.2 Private Market Rent Levels

A recurring theme in the literature on housing allowances is the suspicion that they may put upward pressure on rents that are counter-productive in terms of improving affordability (see Hulse 2002b). The conventional wisdom, however, still derives largely from the EHAP. The relevant part was the supply experiment, in which two experimental sites were to have saturation coverage of housing allowances to test the impact on local markets, including rent levels. The subsequent evaluation showed minimal impact on rents except for those households who moved to better accommodation (HUD 1980: 50).

This finding has influenced the governments of all four countries in this research over more than twenty years. For example, during the Australian reform debate of the mid-1990s, the Department of Social Security argued that RA had not inflated rents, maintaining that recipients regard it as an income supplement that is spent on items other than rent (DSS 1993, 1997). Three pieces of evidence were given in support of this view: two consultants' reports commissioned by the federal government (Econsult Planning & Development 1991; Pender 1996) and the findings of the EHAP supply experiment.

Apart from EHAP, much of the material on the link between housing allowances and private rent levels has been theoretical, based largely on econometric modelling, and there are few empirical studies (Real Estate Research Unit, University of Auckland and New Zealand Institute of Economic Research 1999 (i)). For example, modelling prior to the introduction of the AS resulted in advice to the New Zealand government that, together with changes to public housing, this would result in a 2% to 4% overall fall in rent levels, with rents for large units falling substantially (by as much as 7%), counterbalanced by some upward pressure on rents for smaller units, as the AS put pressure on households not to 'over-consume' housing (Infometrics 1991: 2).

In view of the dearth of empirical studies, arguably the key factor in considering the impact of housing allowances on rents is what share of the private rental market do housing allowance

recipients comprise. Across the two EHAP supply experiment sites, recipients comprised only 11.5% of households living in rental housing unsubsidised by the federal government.²⁷ The share of the unsubsidised rental market occupied by housing choice voucher holders in the US in 2000 was estimated at about 5% (see Table 10). As much of the literature on housing allowances still emanates from the US, it is not surprising that commentators agree that they do not impact on rent levels generally (e.g. Galster 1997), since recipients comprise such a small share of the overall rental market. There may, however, be an impact on niche markets comprising landlords who are willing to participate in the program. As the table indicates, the share of the unsubsidised rental market occupied by housing allowance recipients varies considerably by country.

Table 10

Estimate of percentage of renter households with housing allowances living in occupied private dwellings not in receipt of government supply subsidies, four countries

Households in occupied private dwellings	Australia (2001)	New Zealand (2001)	Canada (1999)	US (2000)
All households	7.1m	1.3m	11.6m	105.5m
Renter households	1.9m	0.4m	4.2m	35.7m
Less households in units with direct supply subsidies	0.3m	0.1m	0.7m	3.8m
Net renter households unassisted with direct supply subsidies	1.6m	0.3m	3.5m	31.9m
Independent renter households in receipt of housing allowances	0.7m	0.1m	1.0m	1.6m (HCV) 2.8m (includes TANF)
As % of net unassisted renter households	43.8%	51.8%	28.6%	5.0% (HCV) 8.8% (includes TANF)

Sources:

Australian data is from ABS, 2002, Census of Population and Housing, Selected Social and Housing Characteristics Australia 2001, Cat. no. 2015.0. The number of independent renter households in receipt of housing allowances was calculated by the author (Hulse 2002a).

New Zealand data is from Statistics New Zealand, Census of Households and Dwellings 2001, Census Classification Counts, Tenure of Household, for Households in Private Occupied Dwellings, Table 7. The number of independent renter households in receipt of housing allowances was calculated from WINZ 2001: Figure 1.

Canadian data is from Statistics Canada, *Selected Dwelling Characteristics and Household Equipment* <<http://www.statcan.ca/english/Pgdb/People/Families/famil09a.htm>> (accessed 18 May 2001), and CMHC (2001). The number of independent renter households in receipt of housing allowances was calculated by the author based on the percentage of social assistance 'cases' who are private renters plus households assisted through provincial housing allowance programs.

US data is from US Bureau of Statistics, US Census 2000, Table DP1, Profile of General Demographic Statistics 2000. Data on households with supply subsidies is from HUD (2000a: Exhibit 4). The number of independent renter households in receipt of housing allowances was calculated by the author based on the number of households in receipt of housing vouchers, and estimate of the number of social assistance units in receipt of assistance with housing costs with removal of double counting of 20% of social assistance recipients who are in receipt of housing vouchers.

There has been little work on the rental effects of housing allowances in Australia, apart from those mentioned above. Detailed analysis of Census data from 1986 and 1996 indicates that there was a 14.3% real increase in lowest quartile weekly rents, compared to a negligible (1.6%) real increase in highest quartile rents (Wulff, Yates & Burke 2001). These real increases in lowest quartile rents occurred during a period of extension of eligibility for RA and large increases in funding. By 2001 RA recipients were estimated to comprise more than four in ten renters in unsubsidised dwellings, a much higher rate than in North America. Many

²⁷ Calculated from HUD 1980, Table V-2: 45 and Table II-5: 14. There were 31,100 habitable rental units (excluding federally subsidised units) across the two sites. Of these 8,420 or 27% were eligible for a housing allowance. 48% of eligible households (1,776) became recipients in one site and 38% (1,794) in the other. There were thus 3,570 recipients out of 31,100 households living in rented dwellings without federal subsidies or 11.5%.

factors affect rent levels, and it is still unknown whether there was a causal connection between real increases in lower quartile rents and large increases in RA funding during the period and further research is required on this issue. Irrespective of the results of such research, it is apparent that some of the benefits of increased RA (1986-96) were offset by real rent increases in the lowest quartile of weekly rents.

In New Zealand, the issue of the impact of the AS on private rent levels has been, and continues to be, very controversial. As seen above, the big increase in AS recipients from 1993 to the present was in private sector renters. By June 2001, there were just under 150,000 private renters in receipt of the AS, comprising just over half of all households in occupied private rental housing, as enumerated in the 2001 Census of Population and Dwellings.

From 1993 onwards, private rents did rise markedly in New Zealand, at a level significantly greater than general price increases, although not as much as house price increases (Ministry of Social Policy 1999: 89). This generated debate about whether increased reliance on the AS, together with a move to market rents in public housing, had fuelled inflation in private rentals. There appear to be three sets of views on this issue:

- Community organisations and non-economist academic commentators generally agreed that the move to the AS and market rents in public (state) housing may simply have raised rents and landlords' profits (e.g. Roberts & Robinson 1996; Murphy 1997; Thorns 2000); and
- Government bureaucrats argued that the evidence that the AS has inflated private sector rents is inconclusive (Ministry of Housing 1997: 22; Ministry of Social Policy 1999: 89).
- Consultants to the government, including economic consultants, acknowledged the potential for part of the AS to be captured by landlords, but came to no firm view on whether a combination of the AS and market rents in public housing contributed to an upward ratcheting effect on private rent levels (New Zealand Institute of Economic Research 1999: 41, 53; Real Estate Research Unit, University of Auckland and NZ Institute of Economic Research, 1999: iii).

In summary, the share of unsubsidised rental housing occupied by housing allowance recipients in Australia and New Zealand is significantly larger than in the other two countries, and differs substantially from the US, which is the source of most of the literature on the price effects of housing allowances. The issue of whether the income supplement model of housing allowances contributes to increases in private rent levels is an important one. Evidence from both Australia and New Zealand suggests that reliance on housing allowances has not resulted in the market effects predicted by conventional econometric modelling techniques. Further work is required on a methodology that would enable an empirical study, in the Australasian context, of the impact of this type of assistance on private rent levels.

8. IMPLICATIONS FOR POLICY

RA in Australia is an example of an *income supplement model* of housing allowances; a model that provides an income supplement to those considered to have high housing costs, and is paid in addition to income support payments and, in some cases, low wages. It has most in common with the models of housing allowances in New Zealand and Quebec.

Two other models of housing allowances were identified in this research: the *income deficit model* in which specific provision is made for households' variable housing costs in calculating basic income support payments; and the *housing assistance model* which aims at ensuring that targeted households have access to housing which meets defined standards, such as levels of affordability, adequacy and appropriateness.

These models represent the three broad policy options for Australia:

- Wrap up RA into general income support;
- Redefine RA as a specific housing assistance program; or
- Continue with RA under the income supplement model with modifications.

Consideration of the first option, the income deficit model, as seen in US and Canadian social assistance programs, is unlikely in the Australian policy context of a national income support system based on the principle of horizontal equity. It would be possible, however, to move to a general income support model in which provision for variations in housing costs was included in the calculation of basic income support payments. This might entail differentiating payments into three categories: a fixed component to cover basic living expenses other than housing; a variable component for housing costs; and a variable component for special assistance, such as with the costs associated with a disability. Thus the calculation of income support payments could explicitly recognise not only that some types/sizes of households are likely to have higher housing costs than others, as at present, but also that housing costs vary by area, tenure and type of accommodation. Such a system might be applicable to those expected to be long-term income support recipients, such as the elderly, whose housing arrangements would be unlikely to change frequently.²⁸

Another option is to reconfigure RA as a separate housing assistance program. The US housing choice voucher program provides one example, but many of the elements are unlikely to be replicated in Australia, such as the level of detailed federal control, and approval of housing standards and household composition by local housing agencies. The housing assistance model sets clear housing rather than income objectives, and considers housing allowances as one policy instrument in the development of housing policy alongside initiatives to increase the supply of affordable housing and programs for specific groups. It implies that households are selected for assistance based on criteria of need, and that eligible households are not restricted to income support recipients. In the Australian context, such a model would need to involve the states/ territories, given the Commonwealth's recent restriction of its responsibility for housing to income support recipients. It could be combined with other types of housing assistance for private renters, such as assistance with bond and rent in advance and relocation assistance. The states/ territories are already responsible for the regulation of this sector and for local government in terms of planning and development issues. The model could be considered for low income households in receipt of wages rather than income support and who have no contact with Centrelink.

The third option is to retain the income supplement model but to introduce changes in design or targeting. Some of the possibilities are: development of rent thresholds and RA maxima based on region as well as household type/size, as Australia is the only national system that takes no account of geographic differences in housing prices; increase of rent thresholds and RA maxima to target payments at those with higher housing costs, extension of the payment

²⁸ Although outside the scope of this research, recent work on Housing Benefit in the UK by a broadly based group of government officials, leading academics and others reaches a similar conclusion, on the basis of the different needs of pensioners relative to those of working age. A separate Pensioner Housing Benefit has been recommended (Pivot Initiative 2001).

to home owners in some circumstances, such as sole parents wishing to remain in the family home; and extending eligibility to Austudy recipients.

The research findings based on housing allowances in the four countries studies are relevant to consideration of these different models. For example:

- Most housing allowance recipients are single people or sole parents. A housing allowance model must take into account the particular difficulties faced by single people who are unable to share housing costs with another adult income earner, including the relative lack of smaller housing stock;
- Many housing allowance recipients are women, particularly women with children. A housing allowance model should be sensitive to gender and different stages in life cycle. There is a trend towards tax credits for families with children that potentially provides an alternative to highly targeted housing allowance programs that attempt to compensate for the additional housing costs associated with children;
- Most housing allowance recipients, whatever the design of the program, are private renters. Housing allowances must be considered in the context of the supply of affordable rental housing, the likely market share of housing allowance recipients, and the impact, if any, of housing allowances on rents. The report has suggested development of a methodology that would enable empirical testing of the impact of housing allowances on rent levels;
- Housing allowance recipients are characterised by low incomes. The three models deal with this differently. The general income support model focuses attention on the overall adequacy of income, the income supplement model on the adequacy of income tagged for housing costs, and the housing assistance model on housing expenditures and the adequacy and appropriateness of housing; and
- Welfare reform is impacting on housing allowances for people of workforce age; the provision of this type of housing assistance is becoming contingent on employment participation agreements of different types. There are a range of options. At one end of the continuum, housing allowances could become a specific part of a participation agreement, for example, additional assistance could be given to enable the recipient to move to an area of higher employment as part of case management. At the other end, the development of tax credits for working households (focusing on income rather than housing) might provide an alternative approach. There are many possibilities in between.

Finally, it is important to reiterate that this research examined housing allowances in four countries characterised as having liberal welfare regimes. Those with other types of welfare regimes, particularly in Europe, also have housing allowance programs that differ from those analysed here. Further research would be required to investigate other models and their applicability to the Australian policy context.

9. TECHNICAL APPENDICES

Table A.1
Eligibility for housing allowance schemes, four countries

Housing allowance scheme	Workforce status	Income status	Household type	Tenure
Cash assistance within US state social assistance program (TANF)	Workforce age households	Social assistance recipients	Singles and couples with children	Private rental arrangements, public, community and assisted housing
Shelter allowances within provincial social assistance programs (Canada)	Workforce age households	Social assistance recipients	Singles and couples (with and without children)	Private rental arrangements, public and community housing, home purchasers
RA (Australia)	Workforce age households and those above workforce age	Income support recipients and low wage earners with dependent children in receipt of more than minimum family payment	Singles and couples (with and without children) on income support Singles and couples with children on low wages if in receipt of minimum amount of family payment	Private rental arrangements and some community housing
Accommodation supplement (New Zealand)	Workforce age households and those above workforce age	Income support recipients and low wage earners	Singles and couples (with and without children)	Private rental arrangements, home purchasers
Shelter allowance program (Quebec)	Workforce age households and those above workforce age	Income support recipients and low wage earners with dependent children	Singles and couples aged 55 and over Singles and couples under 55 with children	Private rental arrangements, home purchasers
Shelter allowance program (British Columbia)	Households above workforce age	Income support recipients in receipt of federal Old Age Security payments but not provincial social assistance	Singles and couples aged 65 and over (aged 60-64 in some circumstances)	Private rental arrangements
Housing choice voucher program (US)	Workforce age households and those above workforce age	Social security and social assistance recipients and low wage earners either with children and/or having a disability	Singles and couples with children Singles and couples without children who are elderly (62 & over) or who have a disability	Private rental arrangements or first home ownership (limited)

Table A.2
Policy, funding, design and administration of housing allowance schemes, four countries

Housing allowances	Policy	Funding	Design	Administration
Australia				
RA	Commonwealth Department of Family and Community Services	Commonwealth funding to Centrelink (statutory authority)	Commonwealth Department of Family & Community Services	Centrelink (statutory authority)
State ongoing rental assistance programs	States/territories within general guidelines of CSHA	Commonwealth and some states/territories through CSHA	Some state/territory housing agencies	Some state/territory housing agencies
New Zealand				
Accommodation Supplement	National Ministry of Social Development with protocol to consult with Housing New Zealand Corporation	National government funding to Ministry of Social Development	Ministry of Social Development with protocol to consult Housing New Zealand Corporation	Work and Income New Zealand (service delivery centres of Ministry of Social Development)
Special benefit	National Ministry of Social Development	National government funding to Ministry of Social Development	Ministry of Social Development	Work and Income New Zealand
Canada				
Shelter allowance components of social assistance programs	Provinces/territories	Part of federal mega block grant (Canadian Health and Social Transfer) and province/territory funds	Provinces/territories	Provinces/territories and in some cases local municipalities
Shelter Aid for Elderly Renters Program (British Columbia)	BC Housing	Province of British Columbia to BC Housing	BC Housing	BC Housing
Shelter Allowance Program (Quebec)	Quebec Housing Commission (Société d'habitation du Québec)	Province of Quebec to Ministry of Revenue	Quebec Housing Commission (Société d'habitation du Québec)	Quebec Ministry of Revenue (Ministère du Revenu du Québec)
US				
Cash assistance as part of Transitional Assistance to Needy Families (TANF) program	Federal Department of Health & Human Services sets basic parameters (within legislation) with scope for state/local variation	Federal block grant to the states plus prescribed minimum level of state funds	State agencies (responsible for family assistance and/or work programs)	State and local municipalities (responsible for family assistance and/or work programs)
Housing choice vouchers	Federal Department of Housing & Urban Development (HUD)	Federal funding allocated by HUD to local program managers	Main elements prescribed by HUD with some local discretion by program managers	Local program administrators (mainly local public housing agencies)

Table A.3
Housing allowance formulae, four countries

Payment	RA (Australia)	Accommodation supplement (New Zealand)	Housing choice vouchers (US)	Shelter allowances (Quebec)
Affordability benchmark	No.	Implied by minimum thresholds (25% of household income for renters and 30% of income for owners)	Yes – 30% of household income	Implied by minimum threshold of 30% of household income on housing costs
Subsidy formula	75% of difference between a minimum threshold and the rent (subject to a maximum payment)	70% of the difference between 25% of income for renters (30% of income for purchasers) and the rent/mortgage (subject to a maximum payment)	100% of the difference between 30% of income and the rent or payment standard for the accommodation, whichever is the lower	66.67% of the difference between 30% of income and housing costs (subject to a maximum payment)
Minimum threshold	Dollar amounts set according to household type/size	Rent more than 25% of income (renters) or more than 30% of income (purchasers)	Housing costs more than 30% of income	Housing costs more than 30% of income
Maximum payment	Set according to household type/size No variation in maximum payments by local housing market	Set according to household type/size and by three areas: 1. Auckland, 2. Wellington and other major centres, 3. Rest of New Zealand	Capped by a payment standard based on 90% to 110% of the 'fair market rent' for size of accommodation based on the lowest 40% of rentals in an area Also subject to a test of 'rent reasonableness'	Maxima set according to household type and size No variation in maximum payments by local housing market
Subsidy paid to:	Household	Household	Landlord	Household
Restriction on rent paid by household	No	No	Must not pay more than 40% of income on rent	No

Note: State social assistance programs in the US and provincial social assistance programs in Canada each have their own formula for calculating the component of payment that is allocated for housing costs.

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