Final Report

# Rental systems in Australia and overseas

authored by

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for the

**Australian Housing and Urban Research Institute**

Swinburne Institute for Social Research

June 2006

AHURI Final Report No. 95

ISSN: 1834-7223
ISBN: 1 920941 94 0

## ACKNOWLEDGEMENTS

This material was produced with funding from the Australia government and the Australian States and Territories. AHURI gratefully acknowledges the financial and other support it has received from the Australian, State and Territory governments, without which this work would not have been possible.

The author would also like to acknowledge the contribution of the following to the project and thank them for their participation:

The Project Reference Group:

| | |
|---|---|
| Terry Burke | Swinburne University of Technology |
| Vivienne Milligan | University of Sydney |
| Julie Walsh | Victorian Office of Housing |
| Alan Shaw | Queensland Department of Housing |
| Wendy Stone | AHURI |
| Vicki Moss and Deb Masani | Australian Department of Family and Community Services |
| Joseph Connellan | Supported Housing Ltd |
| Warren Smith | South Australian Housing Trust |

The Australasian Housing Institute and its members who participated in the housing practitioner forums and also the facilitator of these forums, Robin Zakharov

The Queensland Public Tenants Association and Tim Goulding who organised a survey of tenant groups, and the tenant groups who participated in the survey

Those who participated in the interviews (see Appendix 1)

Liss Ralston and Terry Burke who assisted with the financial modelling

David Hudson who edited both the Positioning Paper and Final Report for the project.

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# CONTENTS

# LIST OF DIAGRAMS



# LIST OF TABLES

# ABBREVIATIONS

| | |
|---|---|
| AHI | Australasian Housing Institute |
| CHO | Community Housing Organisation |
| CPI | Consumer Price Index |
| CRA | Commonwealth Rent Assistance |
| CSHA | Commonwealth-State Housing Agreement |
| HCV | Housing Commission Victoria |
| HNZC | Housing New Zealand Corporation |
| HUD | Department of Housing and Urban Development (United States) |
| IHO | Indigenous Housing Organisation |
| ILU | Independent Living Unit (aged housing) |
| LHA | Local Housing Authority (United Kingdom) |
| PHA | Public Housing Authority (United States) |
| RGI | Rent-geared-to-income (Canada) |
| RSL | Registered Social Landlord (United Kingdom) |
| SHA | State Housing Authority |
| SHO | Social Housing Organisation |

# GLOSSARY OF TERMS

Throughout this paper, some terms have a particular meaning as outlined below.

**Affordable rent** is a rent which is affordable to the tenant such that they have sufficient income to meet both rent and the cost of other components of a minimum standard of living.

**Assessable income** is the income taken into account by a social housing organisation (SHO) in calculating rents. Thus some income is included in a rent assessment, while other income such as specific purpose payments, e.g. Pharmaceutical Allowance in Australia is excluded.

**Asset utilisation cost**, often referred to more loosely as depreciation, is the money value of a building which is 'used up' annually. Over the long term, dwellings deteriorate. This includes both the physical deterioration that is not met through maintenance (day-to-day repairs or cyclical or programmed maintenance) and technological obsolescence where the dwelling over time will become below contemporary standards. Rather than meet the cost of replacing a dwelling at the end of its life (through borrowings or new capital grants), the asset utilisation cost is an annual provision. Strictly speaking, depreciation is an accounting term which seeks to ascertain properly the financial position of an SHO at any time. While this bears some relationship to the physical deterioration and technological obsolescence of dwellings, it may not reflect their current physical and technological state but rather their current market value.

**Cost of capital** is the cost incurred as a result of the way in which capital is raised to acquire stock. It includes interest and debt repayments and rent on long-term leases of land and property.

**Current cost-rent** is a form of property rent which is determined with reference to the current cost of providing social housing, in particular, the current cost of replacing a dwelling and the current cost of capital.

**Dwelling flat rent** is a form of flat rent, which is based upon the income of the households, allocated to a particular size of dwelling. It is calculated by taking the range of Centrelink incomes to which these households are entitled (these incomes vary according to circumstances such as household type, type of payment and age of children) and determining which rent is the lowest (lowpoint dwelling flat rent) and which rent is at the midpoint (midpoint dwelling flat rent) (see Section 10.3 and Appendix 5).

**Flat rent** is a form of rent which is common across a group of households or group of dwellings. It is based on a particular characteristic of households (such as household type) or dwellings (such as size and/or dwelling type) and ignores the diversity of characteristics among households and dwellings. A flat rent dissociates rent from each tenant's income so that any increases in income (from work) will not impact on rent paid to the SHO. In this paper, a flat rent is a rent below the market-derived rent and thus differs from its usage in the United States.

**Free equity** is a form of equity which does not require an SHO to provide a financial return to an 'external' equity holder and so does not impact on the cost of capital. It includes grants, interest-free loans, land donations and long-term lease of land rent-free.

**Historic cost-rent** is a form of property rent which is determined with reference to the cost of providing social housing, in particular, by reference to the historic cost of capital for the existing dwelling (i.e. loan repayments).

**Household flat rent** is a form of flat rent which is based upon the income of a particular type of household. It is calculated by taking the range of Centrelink incomes to which this type of household is entitled (these incomes vary according to circumstances such as type of payment and age of children) and determining which rent is the lowest (lowpoint household flat rent) and which rent is at the midpoint (midpoint household flat rent) (see Section 10.3 and Appendix 5).

**Household rent** is a form of rent which is determined with reference to the characteristics of the household occupying a dwelling, rather than the dwelling itself. Such characteristics include income, type of household, number of persons and age.

**Income-related rent** is a form of household rent where the rent is based upon the income of the household. In Australia it takes the form of a rebated rent where the rebate is the difference between the property rent and the income-related rent.

**Market rent** is a form of property rent which is the price at which a landlord agrees to rent a dwelling to a tenant.

**Market-derived rent** is a form of property rent which is determined administratively by reference to another market: the local private rental market, or the average level of return on investment in the rental market, or the average level of return on investment more broadly.

**Market-related rent** is a form of market-derived rent whereby only a determined proportion of the market-derived rent is charged.

**Ongoing costs** are the costs of providing social housing including operating costs, the cost of asset utilisation and the cost of capital.

**Operating costs** are the costs of administration, insurance, rates and maintenance (repairs and cyclical maintenance).

**Property rent** is a form of rent which is determined with reference to the characteristics of a dwelling such as its location, amenity and scarcity. Current cost-rent, historic cost-rent, market rent, market-related rent and market-derived rent are forms of property rent.

**Rent** is initially described as the payment made by a tenant to a landlord for housing services. This paper, however, seeks to define it more precisely within a social housing finance system. Rent is the revenue required to meet the ongoing costs of providing social housing. These costs differ from one social housing finance system to another, and thus rent has different meanings in different finance systems.

**Rent-to-income ratio** is the proportion of income charged as rent by an SHO. In Australia, the typical ratio is 25% assessable income.

**Rental benchmark** is the rent against which actual rents are assessed on the basis of affordability or equity.

**Rental policy** is the basis upon which rents are determined. For example, rents are determined on the basis of the tenant's income or the current costs of providing social housing or the rent on an equivalent dwelling in the private rental market.

**Rental structure** refers to the relationship between the rent on one dwelling and the rent on other dwellings.

**Rental system** refers to the processes whereby rents are determined within an SHO.

**Rent-setting** refers to practices through which the rent for a particular dwelling or household is determined. For example, within public housing, household rents are determined through a process which involves (i) tenants applying for rental rebates, (ii) tenants providing the State Housing Authority (SHA) with information about their household, (iii) the SHA confirming this information, (iv) the SHA calculating the rent based on a complex formula which distinguishes different types of incomes and applies different formulas to them (as incorporated into a rental rebates manual), and (v) the SHA informing the tenant of the household rent and making the necessary adjustments to its systems.

**State Housing Authority (SHA)** is a social housing organisation which manages public housing in each state and territory in Australia. From the 1940s to the 1980s, most SHAs were Commissions or Trusts operating at arms length of the state or territory government. They now operate within a government department.

**Social housing organisation (SHO)** is an organisation which manages social housing. SHOs include State Housing Authorities, community housing organisations such as housing cooperatives and housing associations, local governments insofar as they manage social housing, Indigenous housing organisations, aged care and disability organisations insofar as they manage social housing, and not-for-profit companies established for the purposes of managing social housing.

# EXECUTIVE SUMMARY

## Introduction

Rental policy is one of the constitutive elements of social housing, along with eligibility/ allocations policy and the supply of housing stock. It is critical to the achievement of social housing's objective.

This project on rental systems in Australia and overseas seeks to address four research questions:

- To what degree has an increasingly complex and dynamic social housing environment changed the nature of how we think about the best methods of setting social housing rents?
- What are the practices of social housing rent-setting in other countries and are any of the ideas relevant to Australia?
- What is the current state of rent-setting practice in Australia for both the public and community housing sectors and what initiatives or pilots of reform, e.g. local variations to allow for different housing markets, are being discussed or implemented?
- If there are different, but potentially appropriate, rent-setting practices, can they be modelled to ascertain the effects for social housing agencies and clients, e.g. the different implications for workforce incentives and disincentives, affordability, equity, efficiency and financial viability?

This is the second of two reports and should be read in conjunction with the first report, the Positioning Paper, which:

- Highlighted the importance of rental systems to the achievement of social housing objectives and to the ongoing provision of social housing;
- Reviewed and assessed the key literature in Australia and overseas;
- Briefly outlined the history and extensive debates on rental systems in Australia;
- Described current rental systems for five social housing sectors in Australia: public housing, community housing, affordable housing, Indigenous housing and aged persons' housing;
- Described current rental systems in seven overseas countries: New Zealand, the United States, Canada, the United Kingdom, Germany, Sweden and the Netherlands;
- Highlighted some unique characteristics of the Australian social housing finance system;
- Identified key issues for further research;
- Proposed a larger context within which possible reforms must be assessed.

## Overview of the final report

This Final Report traverses some difficult and complex issues: rent, rental systems, social housing finance systems, the objective of social housing, affordability, equity, financial viability and work disincentives. It not only discusses these issues in themselves but, more importantly, relates them to one another.

The report begins by outlining the strengths and weaknesses of Australian rental systems as identified through a series of forums with housing practitioners (in conjunction with the Australasian Housing Institute), a survey of some public tenant groups in Queensland and phone interviews with housing providers. Recognising that different parties have different and often incompatible views and experiences of rent, the report adopts a type of functional systems analysis which seeks to understand rental systems and their role within social housing as the basis for long-term policy changes. This analysis expands through three contexts:

- As a rental system determining a rent;
- The role of a rental system and rent as an aggregate within a social housing finance system;
- The role of a rental system and rent in relation to the objective of social housing and thus in relation to financial viability, affordability and equity.

The final part of the report focuses on implementing changes in rental policies by:

- Outlining the policy parameters that are implicit in the preceding analysis;
- Seeking to mesh different policy parameters within rental systems (such as affordability and financial viability), to mesh rental systems with other systems within social housing (such as eligibility/allocations) and to mesh rental systems with other systems external to social housing (such as income support);
- Outlining a range of options for achieving affordability, financial viability, reduction of work disincentives and administrative efficiency;
- Modelling two of the preceding options, the first combining affordability and financial viability, and the second combining work disincentives and administrative efficiency.

## Key findings

### Strengths and weaknesses of Australian rental systems (Section 1)

According to participants in social housing, the key strength of current rental systems is the benefits for tenants derived from income-related rents. The weaknesses are the ongoing tension between affordability and financial viability and the pressure on social housing organisations (SHOs) to trade off affordability for financial viability, the complexity and problems created by income-related rental systems, the irrelevance of market-derived rents, the implications of complex administrative systems, and the multiple objectives, which SHOs sought to achieve through the rental systems.

### Social housing rental systems (Section 3)

The purpose of a rental system is to determine a rent. The relevant processes that constitute a rental system are those that determine rents. Rental systems vary because they involve different processes, which are based on a unifying principle or set of principles. An SHO that manages a specified group of dwellings can adopt one or more rental systems.

Other countries have adopted other types of rental systems. While the Positioning Paper described rental systems both in Australia and overseas, this Final Report takes a more analytic view, distinguishing between property rental systems and household rental systems. It then proceeds to describe and compare four types of property rental systems – the historic cost-rent system, the current cost-rent system, the market rent system and the market-derived rent system – and three types of household rental systems – the income-related rental system, the subsidy-related rental system and the flat rental system.

### Rental systems within social housing finance systems (Section 4)

A rental system determines a rent, but rent as an aggregate operates within the context of a social housing finance system.

The analysis provides a common framework for understanding different social housing finance systems, both in Australia – for public housing, community housing and affordable housing – and overseas in New Zealand, the United Kingdom, the United States, Canada, the Netherlands and Sweden.

The comparison between social housing finance systems moves away from the particular institutional arrangements within each system and builds a comparison around four core elements – capital arrangements, ongoing costs, rent and subsidies – and the interrelationship between them. Despite the variability of the elements between finance systems, each system makes adjustments in each of the elements to ensure the financial viability of SHOs. The function of a rental system within the context of a social housing finance system is to cover the ongoing costs of providing social housing. These vary between finance systems, depending upon capital arrangements and upon types of subsidies that contribute to meeting the costs of capital and other ongoing costs.

This analysis of finance systems has nothing to do with the objectives of social housing and operates regardless of these objectives. It makes it clear that financial viability is the objective of the social housing finance system. It is not an objective of social housing. Rather, as the objective of the social housing finance system, it is a necessary prerequisite for social housing to achieve its objectives. Unless social housing is financially viable, it cannot continue.

The Australian social housing finance system is inherently unstable because, unlike overseas systems, it does not receive subsidies that directly compensate SHAs for allocating dwellings to low-income tenants. Hall and Berry (2004) in their AHURI report *Operating Deficits and Public Housing: Policy Options for Reversing the Trend* highlight the unsustainability of the current finance system for public housing. But this is not new. Throughout their history SHAs have repeatedly reached a point where they are confronted with operating deficits and have to address their lack of financial viability. Indeed, financial crises are endemic to the Australian social housing finance system. In the long term, it is clear that social housing in Australia requires a more stable social housing finance system, one that provides SHOs with a stable revenue base regardless of changes to the income profile of tenants.

### Rental systems and the objective of social housing (Section 2.3 and Section 5)

Rental systems not only operate in the context of the social housing finance system, they also operate within the broader social housing context and, as such, contribute towards the achievement of the objective of social housing.

The traditional approach to the objective of social housing is to list and discuss a whole range of objectives. This report proposes a different approach, one which identifies the objective of social housing with what is unique about it and which unifies the different systems within social housing: housing acquisition, eligibility/allocations, tenancy management, asset management, property management, finance and other systems.

This report proposes that the objective of social housing is ‘to provide adequate and appropriate housing as one component of an equitable standard of living’. As such, the objective has many dimensions, yet it also provides a basis for distinguishing between this objective and a series of objectives which are particular to each participant in social housing, i.e. principally but not exclusively tenants, Australian, state and local governments and SHOs.

This formulation of one objective puts into relief and orders a range of other aspects of social housing which have often been regarded as objectives, particularly in relation to rental policy, viz. affordability, equity and financial viability. The discussion argues that these are not objectives of social housing.

**Affordability** is a complex function of income, rent and the costs of meeting other components of a minimum standard of living. It is not simply a function of income and rent and thus measured as a rent-to-income ratio. Social housing is affordable when households have achieved a minimum standard of living given their level of income and the cost of this standard of living. The cost of housing is one reason why households are unable to achieve this minimum standard of living. Affordability, then, is a measure or an indicator as to whether the objective of social housing is being achieved.

**Equity** is a complex notion with a number of threads. It is related to the objective of social housing insofar as it is the basis for determining what is adequate and appropriate housing. Equity in relation to rent and subsidies is a secondary meaning.

The history of rent-setting in Australia reveals how rental systems can embody different meanings of equity, that these different meanings have been used to justify rental increases, and that equity enters into rental systems at different points – in decisions about the overall rental system, about how rents are set and about the rental structure.

Equity is a key notion underpinning public policy, yet it has been little explored in the context of social housing. This report highlights the inadequacy of our understanding of equity and the need for further work. It proposes that affordability (as a minimum standard of living) has priority over equity.

### Policy parameters for rental systems in Australia (Section 6)

From the preceding analysis, this section outlines some policy parameters for changes in rental systems in Australia:

- While the function of a rental system is to determine a rent, it also operates in two contexts: within the context of a social housing finance system and within the context of the objective of social housing;
- Financial viability is the specific objective of the social housing finance system and a necessary prerequisite for the ongoing provision of social housing. It is not an objective of social housing. In this context, the rental system operates to determine rents whose aggregate is sufficient to cover the ongoing costs of providing social housing. Ongoing costs vary between finance systems depending upon the other two elements of the finance system – capital arrangements and subsidies (with different types of subsidies contributing to the costs of capital and other ongoing costs);
- Affordability is a function of income, rent and other costs required for a minimum standard of living. Affordability, then, is not an objective of social housing. Rather, it is a measure or indicator as to whether the objective of social housing is being achieved. In this context, the rental system operates to determine a rent which is affordable and thus is essential to social housing and

to the achievement of its objective, viz. adequate and appropriate housing as a component of an equitable standard of living;

- Both affordability (as a key indicator of whether social housing is achieving its objective) and financial viability (as the specific objective of the finance system and a necessary precondition for the ongoing provision of social housing) are constitutive of social housing and, as such, cannot be traded off. However, there is a tension between affordability and financial viability, and any rental policy must resolve this;
- A unique aspect of Australia’s social housing finance system is that household rents have to serve two functions: achieving the purpose of social housing by providing housing at an affordable price, and ensuring the ongoing financial viability of social housing as the necessary prerequisite for the continued achievement of this purpose. In other countries, these two aspects of rental policy are dealt with in separate decisions (though they may be linked);
- As affordable, the level of rent indicates whether a minimum standard of living is being achieved;
- As equitable, the level of rent indicates whether the standard of social housing is comparable with that enjoyed by other households in the community;
- Affordable rents have priority over equitable rents because affordability relates to a minimum standard of living while equity operates above this minimum standard and is concerned with the comparability between households.

### Planning: meshing the rental system and other elements of social housing

Planning is the process whereby policy positions within rental systems are meshed, rental systems (and their policy positions) are meshed with other systems within social housing (and their policy positions) and with other systems external to social housing (and their policy positions) and rental systems are institutionalised within particular organisational structures. Planning is essential if we are to avoid bright ideas which address one particular issue only to create disasters in other areas.

The tension between financial viability and affordability is a unique aspect of Australia’s social housing finance system. Australian social housing seeks to mesh these two aspects of rental policy within one decision, viz. the decision about household rents. In other countries, these are dealt with in separate decisions (though they may be linked). In the United States, affordability is a function of the household rental system, and financial viability is a function of the adequacy of the cost benchmarks as determined by the Department of Housing and Urban Development. In New Zealand and Canada, affordability is also a function of the household rental system but SHOs are compensated the difference between the household rent and the property rent. In most European countries, SHOs charge a property rent, and financial viability is a function of the adequacy of property rents. Affordability, however, is a function of a decision regarding the level of rental subsidies to be provided to households. Such a decision is external to SHOs and places the responsibility for affordability in the hands of governments.

### Options for change

Planning highlighted the functional relationships between rental systems and other systems both within and external to social housing. Within the policy parameters for rental systems, such connections provide the basis for a broad range of options for change, depending upon whether the objective is affordability, financial viability, reducing work disincentives or administrative efficiency.

### Modelling rental systems (Section 8 and Appendix 5)

One of the objectives of this study was to model the effects of modified forms of rent-setting practice for SHOs and tenants. Two options for change are explored.

A budget standard model established minimum rents based upon the ongoing costs of providing social housing (excluding the cost of capital), thus ensuring the financial viability of social housing. The purpose of the modelling was to assess whether households have sufficient income to meet a minimum standard of living in social housing (including housing affordability) and the extent of any surpluses or shortfalls. In the most conservative version (public housing households with rents based on the current ongoing costs of Victorian public housing), it found that most households require an income higher than their current Centrelink entitlements in order to have sufficient income to meet a minimum standard of living, ranging from an additional $2 per week for a pensioner couple with a child to $129 per week for an unemployed couple with four children. One further finding was that rent as a proportion of income varies dramatically between household types, ranging from 16% for a couple with three children to 33% for a single aged pensioner.

A flat rent model using different methods of determining a flat rent sought to find out the impact of each method on the financial viability of social housing. The modelling distinguished between flat rents based on dwelling and household, those based on the midpoint or the lowpoint, and those based on a flat rent for all households and for aged households. All midpoint models of flat rent (except the midpoint household flat rent version) would increase SHA rental revenue. The lowpoint household models provide greater rental revenue than the lowpoint dwelling models.

# PART A: BACKGROUND

## 1. INTRODUCTION

Rental policy is one of the constitutive elements of social housing, along with eligibility/ allocations policy and the supply of housing stock. It is critical to the achievement of social housing’s objectives.

The immediate objective of social housing is to provide good quality, secure and appropriate housing that is affordable for tenants. But a rental system not only has to achieve affordability for tenants without creating poverty traps and deterring employment opportunities, but also has to ensure the financial viability of social housing organisations (SHOs), alleviate housing-related poverty without creating inequities, provide housing stability and security for tenants and thereby contribute to community sustainability, and ensure that stock is well utilised.

Within Australia, rental policies and practices have been the centre of much debate over the years. While changes to rental systems over the past 50 years have provided additional rental revenue, once again many social housing organisations, but particularly State Housing Authorities (SHAs), are confronting issues of insufficient revenue to maintain and manage their current stock. Meanwhile, tenants are confronted with a complex rental system with new issues emerging, including work disincentives and the administrative burdens of the system. Other questions have also arisen. Are current systems appropriate for affordable housing initiatives? Given the diversity of the social housing sector, is a ‘one size fits all’ approach appropriate? In this policy context, it is time for a more considered review of rental systems and of a more appropriate rental system(s) for social housing in Australia.

This is the second of two papers for this AHURI project on ‘Rental systems in Australia and overseas’.

### 1.1 Project aims and scope

The broad objective of this project is to evaluate the need and potential for reform of the rental system among the diverse social housing sectors in Australia. Specific aims are:

- To document the complex and changing nature of social housing management as it may affect rental systems, both nationally and internationally;
- To audit current rental policies and rent-setting practices in Australia;
- To document changes in rental systems internationally and to evaluate their relevance (if any) for Australia;
- To model the effects of modified forms of rent-setting practice for SHOs and tenants.

The research is national and international in scope, although international literature on rental policies, rent-setting practices and rental systems is relatively thin. It is one of the first international comparative studies of rental systems within social housing. The project locates rental systems and rental policies within a broad context and highlights the complexity of interrelated issues.

## 1.2 Research questions

The research questions which this project seeks to address are:

Research Question 1: To what degree has an increasingly complex and dynamic social housing environment changed the nature of how we think about the best methods of setting social housing rents?

Research Question 2: What are the practices of social housing rent-setting in other countries and are any of the ideas relevant to Australia?

Research Question 3: What is the current state of rent-setting practice in Australia for both the public and community housing sectors and what initiatives or pilots of reform, e.g. local variations to allow for different housing markets, are being discussed or implemented?

Research Question 4: If there are different but potentially appropriate rent-setting practices, can they be modelled to ascertain the effects for social housing agencies and clients, e.g. implications for workforce incentives and disincentives, affordability, equity, efficiency and financial viability?

## 1.3 Methods

In order to address these questions, a number of methods in three stages were used.

Stage 1 reviewed Australian and overseas literature. The results are outlined in the Positioning Paper (McNelis and Burke 2004), and the Final Report should be read in conjunction with this. In brief, the Positioning Paper:

- Highlighted the importance of rental systems to the achievement of social housing objectives and to the ongoing provision of social housing;
- Reviewed and assessed the key literature in Australia and overseas;
- Briefly outlined the history and extensive debates on rental systems in Australia;
- Described current rental systems for five social housing sectors in Australia: public housing, community housing, affordable housing, Indigenous housing and aged persons' housing;
- Described current rental systems in seven overseas countries: New Zealand, the United States, Canada, the United Kingdom, Germany, Sweden and the Netherlands;
- Highlighted some unique characteristics of the Australian social housing finance system;
- Identified key issues for further research;
- Proposed a larger context within which possible reforms must be assessed.

Thus, the Positioning Paper partly addressed Research Question 1 (the impact of the social housing environment on rent-setting) and addressed Research Question 2 and Research Question 3 (social housing rent-setting overseas and the current state of rent-setting practices in Australia).

Stage 2, through a series of interviews with housing providers and a series of forums with housing practitioners, sought to identify the strengths and weaknesses of current Australian rental systems. In addition, a small survey was conducted of public housing tenant organisations.

Fifteen semi-structured interviews of approximately one hour were held, seven face-to-face and eight by phone.[1] The interviews included officers from all SHAs (except New South Wales), three community housing providers, two peak organisations for community housing providers, one peak organisation for tenants, and one state department responsible for community housing.[2]

In conjunction with the Australasian Housing Institute (AHI), four forums for housing practitioners were held in Melbourne, Brisbane, Sydney and Auckland. To assist with these forums, a background paper on ‘Rent-setting policies and practices’ was prepared (see Appendix 2). AHI engaged a consultant to facilitate the forums and prepare a report.[3]
A member of the project team attended each of the forums, making an initial presentation and participating in the discussion.

In conjunction with the Queensland Public Tenants Association, a small semi-structured survey, based on the material provided for the AHI housing practitioner forums, was conducted of public housing tenant organisations in Queensland. 25 responses were received.[4] This survey was additional to the original brief and complemented the views of housing practitioners with those of some public housing tenant organisations.

A summary of the findings of these interviews, forums and surveys is provided in Section 2. These findings complement the review of literature by expanding our understanding of the social housing environment and its impact on rent-setting (Research Question 1) and providing additional material on the current state of rent-setting practices in Australia (Research Question 2).

Stage 3 sought to evaluate policy options. However, policy options and their evaluation are by no means straightforward. To propose and evaluate a policy option required this stage to work through a complex array of issues. To do this, the research adopted a particular type of functional systems analysis. This approach provided the best way in which to sort out the complex issues, relate rental systems with social housing finance systems and relate rental systems to the objectives of social housing. This approach also provided a framework for evaluating policy options, addressing the relevance of overseas rent-setting practices for Australia (Research Question 2) and proposing and modelling changes to the current rental system (Research Question 4).

## 1.4 This Final Report

This Final Report is divided into three major parts, with a number of sections in each.

Part A: Background, consisting of two sections, provides the background for the report. The Introduction outlines the aims, scope, research questions and methodology for the project.

Section 2 outlines the current issues with rental systems in Australia by briefly summarising the findings from the interviews with housing providers, peak organisations and tenants, the AHI forums and the survey of tenant organisations. These findings highlight the complexity of the issues and the tensions within rental systems as different players seek to achieve different things.

Part B: Rental systems: an analysis is characterised by a marked shift in perspective to a particular type of functional systems analysis of rental systems. Section 3 outlines this

1 See Appendix 1 for a list of participants in the interviews and Appendix 2 for the semi-structured questionnaire.

2 Unsuccessful attempts were made to interview officers from Indigenous Housing Organisations.

3 A report on these forums is available at <http://www.housinginstitute.org/policy/Report_on_Rent_Forums.pdf>.

4 See Appendix 4 for the semi-structured survey.

approach and why it is necessary for the development of rental policies and their implementation. This section also contains a discussion about the purpose or objective of social housing as a preliminary to issues raised in later sections.

A starting point for this analysis is the different types of rental systems. This is outlined in Section 4. Section 5 locates the rental system within the social housing finance system and its purpose, and explores rent within social housing finance systems in Australia and overseas.

Section 6 widens the parameters further by noting that rental systems and social housing finance systems operate within the context of social housing. Within this larger context, rent plays a central role in the achievement of social housing objectives. Section 6 asks how rental policy relates to these objectives and how significant it is to their achievement.

<u>Part C: Rental systems in Australia: implementation</u> looks forward to improving the current rental systems in Australia. Previously, Sections 4 to 6 had focused specifically on understanding rental systems and their role within social housing. This analysis is abstract yet it does lead us to some basic positions in relation to rental policy (summarised in Section 7). But such policy positions are a long way from the implementation of new practices.

Implementation requires a twofold movement. The first movement is a meshing of the rental system with a range of other systems within and outside social housing and their policies. Within social housing, the rental system has to be meshed with eligibility and allocations, with housing acquisition, with asset management, with property management, with tenancy management, with the financial system etc. and their associated policies. Outside social housing, the rental system has to be meshed with income support, employment, community development, infrastructure development etc. and their associated policies. This is the role of planning, and Section 8 is a limited attempt at beginning this complex process. Such meshing is essential. Anyone familiar with the history of public housing is all too aware of how bright ideas turned to disasters because they were not adequately meshed with other policies. For example, the development of public housing on the fringe of cities was not meshed with the policies associated with the development of sustainable communities, or the use of concrete in the 1950s to reduce housing acquisition costs was not meshed with the policies associated with the asset management system.

The second movement towards implementation is particularisation, which involves a return to the institutions, the organisations and the roles people play within these organisations. It involves particular shifts in their activities which incorporate the reflections and the understandings of the previous stages. Thus, Section 9 outlines a range of options for achieving specific objectives and their respective policy parameters. Further, within the constraints of further work required in other areas and the constraints of data availability, two of these options are modelled in Section 10 (and Appendix 5).[5]

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[5] McShane (2002, ch. 3) outlines an efficient eightfold division of labour, from basic research through analysis to implementation in the context of economics.

In their literature review of research-policy linkages, Jones and Seelig (2004) distinguished three models of linkages: the enlightenment model, the engagement model and the engineering model. The above division of implementation into policy positions, planning and particularisation parallels these three models. But rather than juxtaposing them, it integrates them into one process, relates them and links them together.

# 2. AUSTRALIAN RENTAL SYSTEMS: STRENGTHS AND WEAKNESSES

As outlined above, Stage 2 involved a series of face-to-face and phone interviews with housing providers (SHAs and community housing organisations (CHOs)), peak provider organisations and a peak tenant organisation, forums with housing practitioners (in conjunction with the Australasian Housing Institute)[6], and a survey of some public housing tenant organisations in Queensland. These discussions focused on rental systems as they are operating in Australia. Their purpose was to complement the material from the literature review (presented in the Positioning Paper) in order to develop a more comprehensive view of the strengths and weaknesses of the Australian rental systems: what is working, the concerns of providers, housing practitioners and tenants, and their perspective on the issues and problems currently besetting these systems.

Before the findings are presented, the next section outlines a brief overview of the context within which these interviews, forums and surveys took place.

## 2.1 Context

### (i) Social housing management

Over the past two decades, the management context within which rent-setting and rent collection operate has changed significantly, impacting on both housing practitioners and tenants:

- Housing officers require a greater range and level of skills;
- Eligibility/allocation systems, asset management systems, finance systems, income support systems etc. are becoming increasingly complex;
- SHOs are subject to more extensive accountability and reporting requirements;
- SHOs are planning their activities more extensively and examining the implication of these activities on their future;
- SHOs are developing activities around agreed outputs;
- The legal responsibilities of housing managers have increased with new legislation such as residential tenancies law, planning and building codes, occupational health and safety, fire safety requirements, privacy and the new taxation system;
- Many SHOs, particularly community housing organisations, are seeking to become accredited organisations meeting specific standards of services. Some have introduced customer service charters;
- Some SHOs raise funds through private sector arrangements and this requires greater skills and knowledge of financial arrangements, housing markets and their related risks;
- Tenancy management has become more complex as social housing has become increasingly residualised. Housing practitioners are dealing with greater numbers of people who are struggling to cope financially, socially and emotionally, whose

6 A fuller report on these forums is available at http://www.housinginstitute.org/policy/Report_on_Rent_Forums.pdf

primary language is not English and who require ongoing support to maintain their housing.

### (ii) Rental systems

The Positioning Paper described rental systems in five sectors of social housing in Australia: public housing, community housing, affordable housing, Indigenous housing and aged persons' housing (McNelis and Burke 2004: 4-12). The interviews, forums and surveys involved participants in the first two sectors: a large public housing sector consisting of eight state and territory jurisdictions and a very small community housing sector.

In the public housing sector, a dual rental system operates: a maximum rent is determined by a property rent based on a market-derived rent and a variable household rent based on an income-related rental formula (also known as a rebated rent because the tenant receives a rebate of the difference between the market-derived rent and the rent based on the income-related rental formula). At June 2003, 89% of public tenants paid a rebated rent. Thus property rents are becoming less relevant. The income-related rental formula is similar from jurisdiction to jurisdiction. The key differences relate to: [7]

- Definitions of assessable and non-assessable income;
- Whether gross or net income is assessed – while most jurisdictions assess gross income, Queensland assesses income up to $20,000 on a net basis and income above that on a gross basis;
- The general rate at which income is assessed, with most jurisdictions using 25% of assessable income, but some such as the Northern Territory and Tasmania using lower general rates;
- Variations in the general rate at which income is assessed, for example, South Australia has a sliding rate with different rates for metropolitan and non-metropolitan tenants and for aged cottage flats;
- The treatment of Family Tax Benefit, for example, both Family Tax Benefit A and Family Tax Benefit B are assessed at 11% in Victoria and New South Wales but at 10% in South Australia, the Australian Capital Territory and the Northern Territory. Queensland, Tasmania and Western Australia vary the income assessed according to the number of children and/or rate of assessment and/or type of Family Tax Benefit;
- The contribution made by other income-earning residents (dependants and non-dependants) to the rent, for example, Victoria and Western Australia use the same rate that applies to tenant income, Tasmania combines all household income, and other jurisdictions vary according to the age of the resident and/or their relationship with the tenant;
- How often they undertake rent assessments, for example, Victoria does so whenever the income of a tenant changes (and backdates changes) while Queensland assesses and sets rents every six months.

The community housing sector has a diversity of rental systems revolving around four aspects of the rental system (McNelis and Burke 2004):

- Their overall rental systems: some CHOs have a dual rental system with both property rents and household rents, others only maintain a household rent;

[7] For a brief overview of the differences in the income-related rental formulas used by SHAs, see FaCS (2004: Table H6, Table H7 and Table H8, pp. 220 ff.).

- Their approach to property rents: some CHOs charge a market-derived rent, some charge some sort of cost-rent and some charge a discounted market rent;
- Their approach to household rents: some CHOs base their rent on the public housing rent formula, some adopt a proportion of income approach (say, 20% or 25%), some adopt a flat amount (sometimes with a view to level of the current age pension);
- Their approach to Commonwealth Rent Assistance (CRA). A key difference between public and community housing is that tenants in community housing are eligible for CRA. Some CHOs ignore it all together, some include it within household income, some adopt a rental formula which includes all the tenant's entitlement to CRA or includes the maximum CRA for that household type.

## 2.2 Key findings

The interviews, forums and surveys are indicative of the views of the various participants in social housing. They particularly highlighted the complexity of implementing new rent-setting and rent-collecting practices. These issues will explored further in Part C. The following briefly summarises the key findings that emerged.

#### Key strength

Most housing practitioners and tenants believed that the key strength of the current rental system is that rental rebates ensure that tenants pay an affordable rent. Many participants recognised the benefits of income-related rents, in particular, their flexible contribution towards providing affordable housing, and strongly affirmed that affordability is a primary objective of social housing. It also ensured equity between tenants, a degree of certainty about housing costs and, with some adjustments, could potentially minimise work disincentives. Indeed, tenants prefer the income-based rental system (some would say this preference is entrenched) and it will be very difficult, politically, to move away from this.

#### Housing affordability or financial viability: the key unresolved issue

There is considerable debate about future directions, with many concerned about the affordability of social housing and others concerned about its financial viability. This is the key unresolved issue with the rental system: the tension between housing affordability for tenants and financial viability for SHOs.

The changing income profile of tenants has undermined the financial viability of SHAs and resulted in the need to increase rents in order to ensure financial viability. Many participants recognised that housing providers in Australia, unlike in other countries, did not receive a subsidy to meet the difference between an income-related rent and the property rent. Further, some participants were looking for a rental system which would not only ensure financial viability but would also support the growth of social housing.

Tenants were particularly concerned about pressures to change rents such that they would pay more for their housing.

#### Income-related rental formula

The phone interviews highlighted the extensive diversity among housing providers in the ways in which they calculate household rents, a diversity which has it roots in the particular history of each state.

One key weakness of the income-related rental system is that while rents are adjusted according to a household's income, they do not reflect the location, quality and amenity of dwellings. Thus tenants living in older stock in poor condition could be paying the same rent as those on similar incomes living in good quality housing in sought-after locations.

The current income-related rental system has created problems for some tenants who have other income-earning dependant or non-dependant residents, particularly in recent years as the rental formula has increased the contribution expected from these residents. The tenants were reluctant to seek rent contributions from other household members, particularly children. Where these residents would not contribute, the burden of paying rent and sustaining the tenancy was borne solely by the tenant.

The current income-related rental system was one among a number of policies (such as income and tax policies) that potentially created work disincentives for tenants. While the extent of the impact is unclear, particularly in comparison with income and tax policy settings, many participants sought changes in the income-related rental system which facilitated the transition of tenants to work.

#### Market-derived rents

For the most part, participants were uneasy about market-derived rents and, given changes to the income profile of tenants, regarded them as no longer relevant to social housing. Indeed, they may be an impediment to the Australian government[8] subsidising the difference between a tenant's rent and the market-derived rent. Further, many were keen to explore alternative rental systems.

#### Complex administration

Both tenants and housing practitioners highlighted the complexity and intrusiveness of income-related rental systems. These require regular income reviews, extensive documentation from tenants and intensive administration from housing providers. This was particularly so for those tenants who worked variable hours and those who were self-employed. Many participants called for a simpler and less intrusive system.

#### Rental system and Centrelink

Not only is the income-related rental system complex, but so too is the social security system. Together they create difficulties for both tenants and housing providers: tenants have to deal with two different bureaucracies, each with their own requirements; changes in eligibility for and the structure of Centrelink payments impact on rental revenue for housing providers, e.g. some CHOs now rely on Commonwealth Rent Assistance for their ongoing financial viability.

#### An arena for conflict between tenants and housing workers

Rent was seen as a key area of conflict between tenants and housing workers. In particular, some operational policies such as backdating rent increases were viewed as punitive. In this regard, there was a marked contrast between poor tenant-worker relationships within public housing in Victoria which, as a practice, backdated or adjusted rent at the time of every change in tenants' circumstances, often putting them in arrears, and those relationships in Queensland where rents were reviewed and set at six monthly intervals.

[8] The Commonwealth or federal government is now referred to as the Australian government. However, the term 'Commonwealth' is retained where it refers to historical events and where it is still commonly used such as Commonwealth Rent Assistance (CRA) or Commonwealth-State Housing Agreement (CSHA).

**Multiple objectives**

Participants noted that the current rental system is used to achieve a whole range of objectives, not just affordability and financial viability but also equity between tenants, equity with private tenants, minimising workforce disincentives, administrative efficiency, allocative efficiency of housing stock etc. The achievement of such multiple objectives through one mechanism such as the rental system make the practice of setting and administering rents very complex.

* * *

These findings highlight the complexity of rental systems in Australia. They highlight the increasingly complex and dynamic social housing environment within which rental policy is formulated and implemented (Research Question 1), the different concerns about rental policy and rent-setting practices in Australia (Research Question 2) and point to areas which require some changes in policy and practice. But these findings also highlight different types of issues which confront Australian rental systems:

- The principles and objectives of rental systems such as affordability, financial viability and equity;
- The relationship of the rental system to other aspects of social housing;
- The relationship of rental systems to other social and economic policies such as social security payments;
- The setting of rents;
- The implementation of rental policies;
- The complexity of administering rents for both tenants and housing practitioners.

Part B (Rental systems: an analysis), which follows, marks a shift to an analysis of rental systems, showing the relationships between rental systems and other features of social housing, outlining the possible range of policy options, and providing some foundations for progressively addressing these issues. It will also enable a comparison of rental systems overseas and an assessment of their relevance to Australia. Some of the more practical issues will be discussed in Part C (Rental systems in Australia: implementation). The next section, Section 2, outlines more fully the rationale for this approach.

# PART B: RENTAL SYSTEMS AN ANALYSIS

Part B shifts from a description of rental systems in Australia and overseas to an analysis of rental systems. This begins by distinguishing different types of rental systems (Section 4). A first expansion considers rental systems within social housing finance systems in Australia and overseas (Section 5). A second expansion considers the role of rental systems within social housing (Section 6).

Such an analysis serves four purposes. First, it highlights the important differences between rental systems in Australia and those overseas. This provides a basis for assessing their relevance to Australia. Second, it highlights the relationship between rental systems and the objective of social housing. Third, it highlights a broad range of policy options that could be evaluated and adopted in Australia. Fourth, it provides a sound basis for rental policy and its implementation – these are explored in Part C.

The approach to the analysis of rental systems indicates a particular approach to housing research and housing policy. As a preliminary to Part B, Section 3 outlines this approach and provides an important context for understanding this Final Report. This section raises some difficult methodological and philosophical issues. This, however, is not the place to argue for and justify this approach. Rather it seeks to explain the approach as a context for understanding the remainder of the Final Report. Moreover, this section also contains a discussion about the purpose or objective of social housing. While not a particular focus of the report, this is necessary because it is central to the issues raised in later sections, particularly Section 6.

# 3. THE ANALYSIS OF RENTAL SYSTEMS: THE APPROACH OF THIS PAPER

## 3.1 The key problem: What do we do about rents?

The previous section has highlighted some strengths and weakness of Australian rental systems. Housing providers and housing practitioners in particular are seeking to make changes to the rental system: financial viability is a key issue for housing providers; administrative complexities are key issues for housing practitioners and tenants.

The key problem which this study of rental systems needs to confront is: ‘What do we do about rents?’ Participants in the forums, surveys and phone interviews proposed a range of changes in policies and practices based upon their experience with rent. Over the past six decades, SHAs have introduced a range of changes to the rental system in Australian public housing. Overseas, social housing operates and makes changes to rental systems within different social, economic and financial contexts from those in Australia.

The issue here is not just any sort of change in rental policies and practices, but changes which introduce better rental policies and practices. This raises the further issue as to whether such changes are better for particular participants in social housing or whether they are better overall.

As the forums, surveys and phone interviews make clear; there are very different views about and experiences of ‘rent’. This poses some particular problems for this study: which perspective should the researcher take – that of the tenant, the housing provider, the housing practitioner, the Australian government or the state and territory governments? How does the researcher deal with this multitude of views without being partisan to one particular viewpoint? Among the various experiences and views, which are significant, indeed, are some more significant than other? What weight does the researcher give to one experience or view in comparison with others? How does the researcher move to a viewpoint which integrates these various perspectives? How does the researcher come to some understanding of what rent is, an understanding which takes account of these various perspectives and locates them within a larger context? How does the researcher assess the broad range of proposals from different participants?

## 3.2 From description to explanation

If we are to make changes that result in better rental policies and practices, then it is critical that we understand the role of rent within social housing. Understanding precedes policy and is a condition for good policy.

This paper proceeds by distinguishing between two different understandings of rent from two points of view. The first is a descriptive view of rent, that is, the common practical understanding that tenants and housing practitioners come to as they work with rent every day – setting rent, collecting rent, following up rent arrears. In this descriptive understanding, a landlord acquires and manages housing and leases this to tenants. A tenant leases housing from a landlord in order to gain specific housing services which will meet their needs. ‘Rent’ is a payment made by a tenant to a landlord for housing services. The tenant’s need for housing services is ongoing and thus the payment of rent recurs. It is an understanding of rent that allows both tenant and housing practitioner to go about their everyday business and get things done. It is an understanding of rent insofar as it relates to them and allows them to get on with the business of social housing. This is its strength. But it is also its limitation because its understanding is restricted to what is necessary for getting on with everyday business.

Within this first point of view, changes in rental policies and practices proceed in response to the everyday experience of rents. It seeks to make changes that work in the current circumstances. It proceeds largely by trial and error to find out what works. Its focus, however, is the short term and the immediate, rather than the long term and how the changes operate in the larger context. For this a different type of understanding is required.

The second point of view shifts from a descriptive view of rent to an explanatory or analytic understanding of rent. Such a view seeks an understanding of rent in its internal functioning and in its external functioning with other aspects of social housing. The understanding goes beyond the particular actors (such as tenants and housing practitioners) and particular institutions (such as SHOs and governments) to understanding the role, purpose and function of rent in relation to other components of social housing. To get to such an explanation requires a lot of sorting out, distinguishing between processes that pertain to rent and those that distort its proper functioning or pertain to other components of social housing. This requires what might be termed a dialectical' approach. Furthermore, such a view is normative because it brings together those aspects that pertain to the rent, its role and its functioning within social housing.[9]

## 3.3 What is social housing?

A brief discussion of social housing can illustrate the value of an explanatory definition. This will also provide a context for understanding later sections of this paper.

### (i) An explanatory definition of social housing

From an explanatory point of view, as illustrated in Diagram 1, social housing is constituted by a complex of systems (and sub-systems)[10] and their interrelationships. Among the systems that constitute social housing are:

- An **eligibility/allocations system** which relates specific characteristics of applicants with the processes for determining who is eligible for social housing, the processes for determining their priority and the processes by which dwellings are chosen or allocated to applicants;
- A **housing acquisition system** which relates a standard of housing with the processes for raising of capital funds, the processes for determining these standards and the processes by which land and dwellings are acquired;
- An **asset management system** which relates a standard of housing with the processes for maintaining that standard, the process for bringing dwellings up to that standard and the processes for deciding whether and when to upgrade, demolish or sell dwellings;
- A **property management system** which relates an ongoing standard of maintenance and repair of properties with the processes whereby they are maintained;
- A **tenancy management system** which relates management of tenancies with processes whereby tenants and staff can interact and whereby tenants' rights are ensured etc.;
- A **finance system** which relates different transactions – capital and operating – with processes for determining ongoing costs, with processes for determining rents and with processes for allocating subsidies.

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9 For a discussion of the distinction between the everyday world of common sense (which relates the world to us) and scientific analysis (which seeks the relationship of things to one another), see Melchin (2003), McShane (c. 2000) or, more technically, Lonergan (1957, in particular, chs 1, 7).

10 Three things distinguish the meaning of 'system' here from the way it is may be used in the social sciences. See Lonergan (1957: 118 ff.) and, in relation to private property, Melchin (2003).

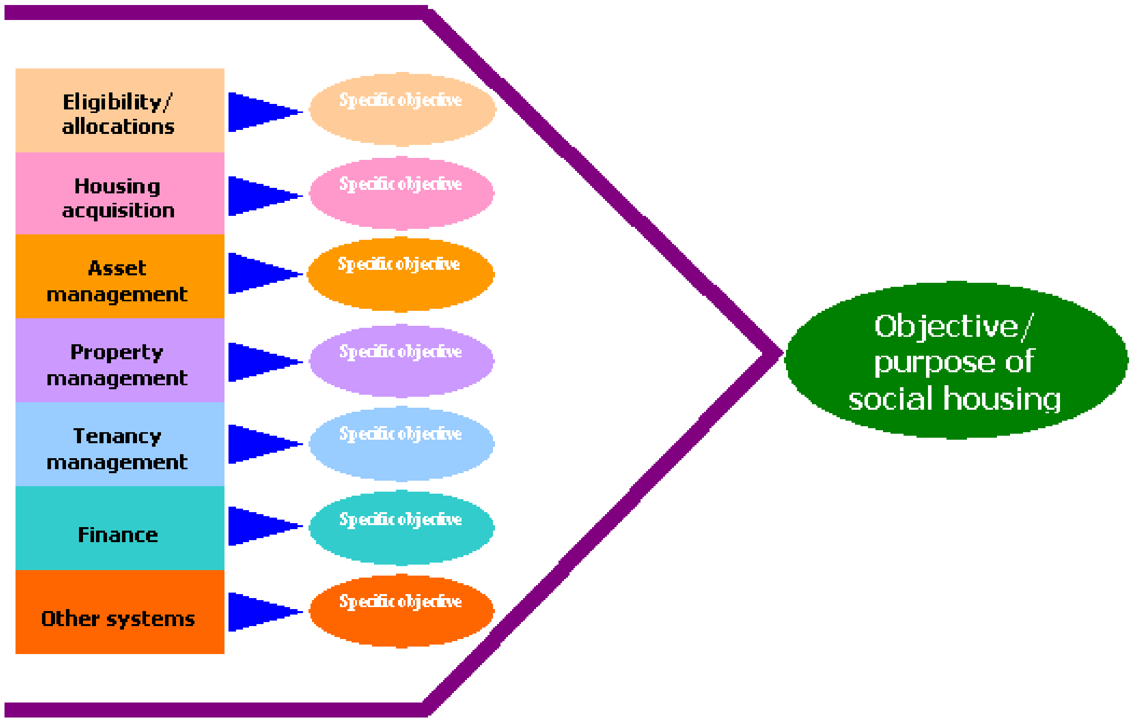
First, by a 'system' is meant a scheme of recurrence, i.e. a pattern of recurring events or processes. This scheme has its conditions for emergence and survival. It is open to change and not closed; rather, the occurrence and recurrence of the scheme is subject to a probability of emergence and a probability of survival. Thus, the system can develop or it can decline.

Second, the system does not relate institutions or bodies as a whole; rather it relates specific aspects of these institutions and bodies. In this way, a systematic analysis does not seek to relate such bodies as social housing organisations, governments, tenants, communities etc. Rather, it seeks to relate elements or processes of social housing functionally, i.e. the various processes and elements have a role in relation to one another and to the whole system. This analysis thus distinguishes between the processes of social housing and the institutionalisation of these processes within particular 'bodies' such as a social housing organisation, a tenant or a government.

Third, the purpose or objective of the system is commensurate with the functioning system. The purpose or objective operates at the level of the system. It draws the disparate elements together such that they form the system. In this way, the system can only have one objective. This purpose is not arbitrarily imposed. Rather, it pulls out the relevant processes and what makes sense of them. Nor is the objective or purpose something from a higher level. It is at the level of the system.

Each of these systems consists of specific processes. Each has its own specific objective. However, each system achieves this objective within the larger context of social housing and the achievement of the objective or purpose of social housing.

**Diagram 1: Social housing from an explanatory point of view**




The focus of this paper is one particular system, the rental system. It is a system in its own right with its own specific objective. The rental system is also a sub-system of the social housing finance system that has its own specific objective. In turn, this social housing finance system is a sub-system of social housing and its specific objective.

### (ii) The objective of social housing

This section raises a basic question about the objectives of social housing, a subject which seems to have been little explored yet provides the foundations for social housing.

One approach to discussing the objectives of social housing is just to list the range of objectives that it is seeking to achieve (Bramley 1991; Yates c. 1994). A similar approach is again to list a range of objectives but to differentiate between the various objectives of the parties to social housing (McNelis 2001). A third approach is to accept that governments are major sponsors of social housing and that their objectives (changing with different parties and with different times) are the objectives. These listings are done with some sense of priorities among the objectives.

But these approaches are not compatible with the analytic approach outlined above. As illustrated in Diagram 1, what this analytic approach is seeking is a single objective, which unifies the particular systems and processes that constitute social housing. As such it has three characteristics: it has a particular housing dimension, it can be distinguished from participant objectives, and it is explanatory.

Housing dimension: Social housing operates within the context of a society and economy whose purpose is to provide, among other things, a standard of living for all households (McShane 2002). This is achieved through a variety of social and economic processes, including those undertaken by government. This standard of living includes many different components, one of which is housing.

A range of standards of living operate within a society, but the goal of social and economic progress is to ensure that all households enjoy an equitable standard of living including adequate and appropriate housing.

A society and economy can ensure that all its households achieve this equitable housing standard in a range of ways, some of which are in conjunction with other elements of the standard of living. Rather than initiating major changes in the mainstream economic processes to achieve this housing standard for all, Australia has adopted a series of alternative processes including the provision of capital for social housing, the acquisition and management of social housing, and subsidies for tenants, producers and managers of social housing. These are not objectives in themselves; rather, they are strategies by which this standard of living can be achieved. These various strategies not only relate specifically or predominantly to the achievement of a housing standard, but also work in conjunction with other strategies to achieve this housing standard, as well as achieving a range of other standards.

Participant objectives: The objective of social housing can be distinguished from the particular and shifting objectives of the various participants, i.e. the objectives of the different parties that embody or institutionalise social housing. The objective of social housing remains constant regardless of the shifting participant objectives. Without this objective, social housing would collapse or become something else. Participant objectives are legitimate and can be supported provided that they are consistent with the objective of social housing. They are not legitimate if they undermine it.

So tenants can use social housing to meet their particular housing preferences. They can seek housing in particular locations. They can seek housing of particular types or housing that contains particular characteristics.

Governments can use social housing to ensure equitable subsidies between households as well as the efficiency and transparency of social housing and the subsidies it provides. In view of their policy preferences, they can also use it to highlight particular aspects of appropriateness as well as ensuring the targeting of social housing, social cohesion or to reduce workforce disincentives etc.

SHOs can use the social housing system to promote operational autonomy as a way of balancing the various demands made on them.

Explanatory: As explanatory, the objective will unify the various systems and processes that constitute social housing (see Diagram 1). It does not supersede or destroy these systems and their particular purpose or objective; indeed, social housing depends upon their proper functioning if it is to achieve its objective. The objective is not arbitrary, does not look forward to some future goal and is not externally imposed. Rather it is commensurate with the internal systems of social housing. It makes sense of social housing and the relationships between the systems.

The above is sufficient to indicate that a fully adequate formulation of the objective of social housing is beyond the scope of this research. However, the following is an interim formulation, which requires further exploration and verification but which provides a basis for later discussions. A formulation of the objective of social housing is a matter of understanding the functioning of social housing and what brings this functioning together. One proposed formulation is as follows:

***The objective of social housing is to ensure that all households have access to housing which is adequate and appropriate as a key component of an equitable standard of living.***

Seven points can be noted about this formulation of the objective of social housing.

First, it encapsulates and refines the 'traditional' perspectives on social housing:

- From a consumer/tenant perspective, social housing meets their particular housing needs;
- From a social perspective, social housing eliminates housing-related poverty and ensures that everyone has an equitable standard of housing.

Second, the objective refers to an 'equitable' standard of living. Equity is a complex term. It refers to the fair distribution of opportunities and rewards. It can also refer to the relationship between organisations and their clients. Equity is closely connected with social equality and with equality before the law. Equity is often the basis for government policies both in housing policy and in other areas; for example, equity is used as the basis for the allocation or distribution of many government subsidies. It incorporates two aspects. On the one hand, it incorporates a minimum standard of living for all households. On the other hand, it incorporates a comparable standard of living among households.[11] As such, it is the principle of equity that provides the guide for determining what is adequate and appropriate housing at any time and place.[12]

Third, it allows for a developing appreciation for what is incorporated in the key terms, adequate and appropriate and for changing standards of housing. 'Adequacy' refers to the standard and quality of the housing relative to community standards as they evolve and the general standard of living improves. 'Appropriate' can incorporate a varying number of elements such as the relationship between the size of the dwelling and the number of occupants, the type of housing and security of tenure, its location in relation to industry, the style of its management, the concentration of social housing in particular areas, linkages with other support services, the relationship between neighbours (social cohesion) and the relationship to employment (workforce incentives).

Fourth, the objective does not refer to the affordability of this housing. The objective is to provide adequate and appropriate housing. Affordability brings in a further dimension, which involves the relationship between income, a standard of living and the cost of housing as one particular component within that standard of living. An equitable standard of living requires sufficient income to pay for and meet that objective. The objective, then, is about a standard of living, not about the means by which this is achieved. Social housing is primarily a response to the inadequacies of the private market, which is unable to provide adequate and appropriate housing at a price that can be afforded by a significant number of households. The private market is inadequate because households cannot achieve the objective of 'adequate and appropriate housing'. The reason why they cannot do so is because such housing is not affordable in the private market. Social housing as a policy response addresses this reason (as the most cost-effective way compared with other responses). But its objective is to provide 'adequate and appropriate' housing for these households.[13]

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[11] Equity is often the assumed basis for public policy. Yet it is subject to both various meanings and to disputes as its proper meaning (Hicks 2000; Sen 1987; Rawls 1973). This, however, is not the place to explore more rigorously its use and abuse, its role as the basis for public policy, whether it is an adequate basis for public policy and how it relates to other bases for public policy.

[12] See Section 6.2 below for a further discussion of equity in relation to its various meanings in rental policy.

[13] See Section 6.1 below for a further discussion of affordability.

Fifth, in different countries, this objective is achieved in different ways. Within the larger context of economic, social and cultural process, various processes constitute social housing – capital is raised, housing constructed or acquired, housing is managed, tenants apply for and are allocated housing etc. In each country, the objective of adequate and appropriate housing is achieved through one or more variations in these processes.

Sixth, this formulation of one objective puts into relief and orders a range of other aspects of social housing which have often been regarded as objectives, viz. affordability and financial viability. The discussion proposes that these are not objectives of social housing. Rather, as argued below, affordability is an indicator of the achievement of this objective (Section 6.1), and financial viability is an objective of the social housing finance system and, as such, is a precondition for the ongoing achievement of the objective of social housing (Sections 5.1 to 5.6).

Finally, it should be noted that this formulation is by no means a definitive formulation. It does, however, accord with the characteristics outlined above: it has a housing dimension ('housing as a component of an equitable standard of living'); it reflects social housing as a whole and not the objectives of participants or of one particular system; as a single objective it seeks to unify the different systems and processes that constitute social housing. The extent to which it is adequate will be tested through debates about what are the systems that constitute social housing (as distinct from a social housing organisation) and what unifies them.

# 4. SOCIAL HOUSING RENTAL SYSTEMS

We can distinguish between the rents actually charged to tenants and the processes whereby these rents are determined. The term ‘rental system’ refers to the way in which these processes link together to determine actual rents. Rental systems are different because they involve different processes, which are based on a unifying principle or set of principles. An SHO which manages a specified group of dwellings can adopt one or more rental systems.

The Positioning Paper described a variety of rental systems in Australia and overseas. It described the rental systems in five sectors of social housing in Australia: public housing; community housing; affordable housing; Indigenous housing and aged persons’ housing (McNelis and Burke 2004: 4-12). It also described rental systems in seven countries: New Zealand, the United States, Canada, the United Kingdom, Germany, Sweden and the Netherlands (McNelis and Burke 2004: 12-19). This selective review highlighted some characteristics of rental systems in Australia:

- Australia, New Zealand and the United States are the only countries operating a dual system of property rents and household rents;
- Australia and New Zealand are the only countries that use private market rents to derive property rents and measure subsidies to tenants on the basis of the difference between these market-derived rents and the household rent actually charged;
- Australia, New Zealand, Canada and the United States are the only countries operating a household rent which is adjusted on the basis of the circumstances of each individual household. Affordability is a function of their particular circumstances. In other countries, housing allowances are adjusted according to different types and sizes of households and different regional rents using implicit benchmarks. Affordability is related to households with common characteristics, rather than the circumstances of each individual household;
- The twin goals of affordability for tenants and financial viability for SHOs are the main drivers underlying rental systems in all countries. However, those with property rental systems clearly separate government decisions on these two competing goals. In Australia they are not separated and the rental system is the critical pressure point and focus of debate about these two competing goals.

Rather than repeat much of the material in the Positioning Paper, this section will assume this material and shift to a more analytic view of these rental systems. The purpose is to outline the various types of social housing rental systems, their processes for determining rents and their underlying principles.[14]

Initially, we can distinguish between two types of rental systems, each of which operates on a different principle:

- A property rental system is a generic term for those rental systems which determine the rent for a dwelling, for example, market rents;
- A household rental system is a generic term for those rental systems that determine the rent according to the household occupying a dwelling, for example, rebated rents in public housing in Australia.

Different countries adopt one or other these or some combination thereof. Most European countries only operate a single property rental system, usually a cost-rent

[14] This section draws on but extends and systematises the work of Bramley (1991), Yates (1994) and McNelis (2001).

system (see below). Australia, New Zealand, Canada and the United States operate both a property rental system and a household rental system, together with the property rental system determining the maximum rent paid for a dwelling while the household rental system ensures some level of affordability. But the type of property rental system and the type of household rental system in each of these countries differs. For example, Australia, New Zealand and the United States operate on the market-derived property rental system (see below) whereas Canada operates on a variety of property rental systems: discounted market rent, 'low end of market' rent and a market rent. For their household rental system, the United States uses a rent-to-income ratio of 30% (this includes the cost of utilities) while Australia and New Zealand use a ratio of 25%.

Section 4.1 discusses different types of property rental systems while Section 4.2 discusses different types of household rental systems.

## 4.1 Property rental systems

A property rental system determines a rent for each dwelling. Underlying each system is a principle or principles, which further specifies the basis on which property rents are determined. This further principle allows us to distinguish between a number of rental systems: a historic cost-rent system, a current cost-rent system, a market rent system and a market-derived rent system. These are briefly described below:

### (i) Cost-rent systems

Cost-rent systems operate with the explicit goal of ensuring that rent is sufficient to cover the ongoing costs of providing a specified group of dwellings (the cost-rent pool). The cost-rent pool may be small such as a small housing cooperative with under 50 dwellings or it may be very large such as SHOs with over 100,000 dwellings. Some pools operate across SHOs and even operate on a national basis.

The primary unifying principle of cost-rent systems is that tenants in the cost-rent pool share the ongoing costs of managing, financing and maintaining all dwellings in the pool. Rent on a particular dwelling is not determined by the ongoing costs of that particular dwelling. Rather, both ongoing costs and rental revenue are pooled. The rental structure distributes rents between dwellings in such a way that rental revenue is sufficient to meet the total ongoing costs of all dwellings in the cost pool. The general level of rents will depend upon the level of the ongoing costs of providing housing.

A secondary unifying principle distinguishes two different cost-rent systems: historic cost-rent and current cost-rent. What distinguish these two systems are their approach to the replacement of dwellings and their approach to the cost of capital.

#### Historic cost-rent system

A historic cost-rent system takes as its point of reference the existing dwelling and meeting the cost of capital for this dwelling. This cost of capital is the cost of borrowing funds, a cost that, as the name suggests, reflects the historic price of the dwelling at the time of its acquisition. Through repayments on these borrowings, the SHO is not only repaying the capital required to acquire the existing dwelling (through repayment of principal) but it is also paying for the cost of this capital (interest). By taking as its point of reference the capital required to acquire the existing dwelling, the historic cost-rent system ignores the changing values in the dwelling over time.

The historic cost of capital can be affected by 'objective' subsidies (capital grants provided by governments), which reduce the capital required to be borrowed, or by manipulation of interest rates and various mechanisms that can be used to lower or subsidise these rates.

In a historic cost-rent system, the tenant is meeting both the cost of asset utilisation (depreciation) and the cost of capital for the existing, dwelling rather than for the dwelling which will replace it at the end of its economic life. Capital for the replacement dwelling or for major upgrade, refurbishment or redevelopment of the dwelling is once again borrowed and the costs of this capital become the new point of reference.

A historic cost-rent system focuses on the cash required to meet the ongoing costs of providing housing where the cost of capital is the cash payments required to service debt (principal and interest repayments). It is this cash flow or financial perspective that characterises the historic cost-rent system, and the finance system is viable provided rent revenue is sufficient to meet the cash costs of providing social housing.

Historic cost-rent systems pose some challenges for housing managers. The first is to ensure that the term of borrowings is aligned with the lifecycle of dwellings such that outstanding debt does not exceed the value of the dwelling. A second challenge is managing cash flows during an expanding phase where the SHO is borrowing funds. Decisions to acquire dwellings must address the tension between the interests of current tenants and the interests of future tenants. As debt matures, current tenants will benefit through lower rents. On the other hand, the acquisition of stock for future tenants slows down the maturation of debt. Indeed, the acquisition of stock may increase the debt-asset ratio and lead to higher rents for current tenants. Provided the housing portfolio consists of stock acquired over a long period of time, cost pooling is one way in which these cash flow difficulties can be managed.

### Current cost-rent system

A current cost-rent system takes as its point of reference the dwelling which will replace the existing dwelling and the capital required to do this. It looks to the cost of replacing the existing dwelling by another equivalent dwelling, and the cost of the capital invested in the dwelling. It operates from where things are at now. So, it makes provision for the replacement of the existing dwelling based upon its current value and its expected life. It also bases the cost of capital on the current value of the dwelling. This return on capital invested in social housing is usually comparable with other sectors of the economy. A current cost-rent system, then, allows the SHO as a landlord ‘to go on providing rented housing indefinitely, with the same return on investment as is available elsewhere in the economy’ (Hills 1991; see also Hills, Berthoud and Kemp 1989, and Bramley 1991).

Where the historic cost-rent system focuses on cash flows, the current cost-rent system focuses on its asset base. It aims for a ‘steady state’ balance sheet (Bramley 1991) that neither deteriorates nor improves (in real terms). Through rent, it seeks to cover any costs that would reduce this asset base over the long term.

Where the historic cost-rent system meets the capital cost of the current dwelling by repaying loans (based on the historical price of the dwelling), the current cost-rent system depreciates the value of the dwelling over its life (based on the current value of the dwelling).

The historic cost-rent system has high initial ongoing costs reducing to low levels over time as the real cost of capital decreases (loan repayments decrease in real terms) until funds have to be borrowed for major upgrading. In contrast, the current cost-rent system has lower initial ongoing costs that increase over time as capital values increase. Thus, the time horizon inherent in each of the costs and inflation will have an impact on the provision made for the various costs.

Again, the current cost-rent system poses some challenges for housing managers. First, it ignores the short-term cash flows associated with the repayment of borrowings and takes a longer-term view of recouping the capital required to acquire the dwelling (through the provision for depreciation) and the cost of this capital (by incorporating a charge on capital comparable to investments in other sectors of the economy). The challenge for the current cost-rent system is to align revenue from depreciation and the charge on capital with the cash flows required to meet particular capital arrangements.

Where the historic cost-rent system includes the capital cost of land as an element of loan repayment, the current cost-rent system does not include this cost. Where the historic cost-rent system includes the interest component of loan repayment, the current cost-rent system includes a return on equity and/or the opportunity cost of capital.

### Rental structure in cost-rent systems

The foregoing discussion on cost-rent systems has distinguished two rental systems on the basis of the overall ongoing costs which each takes into account. This, however, is only the initial step in determining rents.

A second process is the adoption of a rental structure that distributes the burden of these overall costs equitably among all dwellings. The structure takes into account dwelling characteristics such as the size, quality and amenity and uses this to determine higher rents for dwellings that are relatively better than others. In this way, the rental structure relates the rent on one dwelling to that of other dwellings.

A number of methods (Gibbs 1992) can be used to distribute the overall costs of providing social housing and determine rents, such as:

- Relating rents to the cost of acquiring a dwelling or group of dwellings (or project);
- Relating rents to the market rent of dwellings;
- Relating rents to the market value of dwellings;
- Relating rents to specific characteristics of dwellings through a points system.

While these methods are used to determine the relative weighting of each dwelling in relation to others, total rent revenue or the aggregate of individual rents is the ongoing costs of providing these dwellings. As outlined above, the historic cost-rent system and the current cost-rent system determine these costs in different ways and thus total rent revenue will depend upon the type of system adopted. Table 1 below provides an example of how an SHO with 10 dwellings distributes rent between them based upon a points system. Each of the dwellings is assessed according to particular characteristics and allocated a number of points. For the SHO, the total ongoing cost for these 10 dwellings is $90,000. This cost is distributed to each dwelling according to its number of points. Thus, the annual rent on Dwelling 1 is 92/744 of the total costs ($90,000).

**Table 1: Rental structure within a cost-rent system**

| Dwelling | Points | Annual Rent |
|---|---|---|
| 1 | 92 | $11,129 |
| 2 | 85 | $10,282 |
| 3 | 65 | $7,863 |
| 4 | 74 | $8,952 |
| 5 | 63 | $7,621 |
| 6 | 55 | $6,653 |

| | | |
|---|---|---|
| 7 | 83 | $10,040 |
| 8 | 72 | $8,710 |
| 9 | 69 | $8,347 |
| 10 | 86 | $10,403 |
| | **744** | **$90,000** |

### (ii) Market rent system

A market rent is the actual price at which a landlord and tenant agree to rent a dwelling. This price is specific to a particular landlord and a particular tenant at a particular time in a particular location and in relation to a particular dwelling. A market rent will 'find the economic mean, so to speak, of wise and stupid, intelligent and foolish preferences; it will weight true and false expectations with the money that backs them' (Lonergan 1998: 194).

Of course, the rent agreed between the landlord and the tenant has its conditions, both individual and general. Individual conditions relate to the expectations, preferences, skills, capacities, income, knowledge etc. of both the landlord and the tenant. Either one may be in a weak or a strong negotiating position. General conditions which become subsumed as demand and supply for rental housing relate to how many households are seeking particular types and sizes of dwellings in particular housing markets, the phases of housing production, the phases of the economy, interest rates, availability of capital, shortages of labour, the legislative framework etc. These are not just economic conditions but are also range of cultural, social and legal conditions. The extent of competition between landlords, between investors, between producers of housing, between workers is only one of a range of conditions which impact on the position that a landlord and a tenant find themselves in as they agree on a market rent. A key characteristic of the market rent system is its capacity to determine a rent at the point of agreement between the landlord and the tenant.

All rental systems are of necessity to some extent integrated into the market system. The historic cost-rent system is least integrated, viz. through the initial price of the dwelling (and possibly the cost of finance) and through the market cost of both labour and materials. Under the historic cost-rent system, once a dwelling is paid for, i.e. when the initial loan is repaid, the market penetrates this system only through the market cost of labour and materials. The current cost-rent system is more integrated because it bases many of its costs on market values and may distribute rents based on market rent values. The market rent system is fully integrated into the market system.

The cost-rent systems seek to minimise the impact of the market on actual rents, while the market rent system accepts and works with the market. The key public policy question, then, is at what points and to what extent is it appropriate for the market to impact on the rental system for social housing.

### (iii) Market-derived rent system

Social housing for the most part (particularly in Australia, New Zealand, the United Kingdom and the United States) does not operate in the marketplace. Access is controlled and rationed through eligibility criteria, limited stock and long waiting times. Actual rents for social housing properties are not determined through individual agreements about each dwelling as in the market rent system. Rather, they are derived from what is generally happening in another market (such as the private rental market). Actual rents are determined administratively by reference to this other market.

Under a market-derived rental system, an SHO can adopt one of two methods to determine rents. The first method, generally adopted in Australia, derives the market rent from what is happening in the local private rental market. Under this method, the rents on similar dwellings in the local area are used to determine the rent on a particular dwelling. For example, rent on a 3-bedroom house of standard quality is determined by comparison with similar 3-bedroom houses in the private rental market of that local area.[15]

The second method, known as the 'capital value' method (Bramley 1991), derives the market rent from what is happening in the housing market and the investment market more generally. Under this method, the annual market rent on a social housing dwelling is a proportion of its value. For example, where a dwelling is currently valued at $200,000 and the prevailing rate of return on investments is 7%, then the market-derived rent is $14,000 per annum.

## 4.2 Household rents

Household rents are based upon a different underlying principle than property rents. Where property rents are based upon the characteristics of the properties, household rents are based upon the characteristics of the household occupying a dwelling.

Three different types of household rental systems can be distinguished: an income-related rental system, a subsidy-related rental system and a flat rental system.

### (i) Income-related rental system

An income-related rental system bases rent on the income of the household. The purpose is to make housing affordable or more affordable. Income-related rental systems revolve around two basic approaches (Burke 2003). In the non-shelter-first approach, SHOs set rent as a proportion of income in such a way that tenants have sufficient after-housing income to meet their non-shelter needs (food, clothing, transport, medical care, education etc.). In the rent-first approach, SHOs set rent in such a way that their revenue is sufficient to maintain their financial viability.

A non-shelter-first approach to rents implies that social housing will play the primary role in assisting households to achieve a minimum standard of living. Social housing will ensure that a household's income is adequate by reducing the cost of housing to such a point that the minimum standard of living can be achieved. Further, it indicates that SHOs have primary responsibility for tenants achieving this standard and that this is a priority even though the SHO will not collect sufficient revenue to remain financially viable.

A shelter-first approach implies that social housing will play a secondary role in assisting households to achieve a minimum standard of living. SHOs will charge the rent they require for financial viability, and whether the household achieves the minimum standard of living depends upon the adequacy of a household's income. Further, it indicates that SHOs have a primary responsibility to ensure their financial viability and to provide adequate and appropriate housing, but are not responsible for whether tenants have adequate incomes to achieve a minimum standard of living.

An income-related household rent bases rent on the income of each household. The rental structure, which relates the rent for one household to that of others within the SHO, depends upon the rent-to-income ratio adopted. In most Australian jurisdictions, this is currently 25% assessable household income (with some reduction in the ratio for

[15] The process for determining rents may vary: the process may seek to determine the rent for each dwelling and subsequently increase this annually by the general trend in market rents in the local area, or it may seek to determine the rent for particular types and sizes of dwellings and apply that to all dwellings in the local area, regardless of specific differences between dwellings of a particular type and size.

Family Tax Benefit). This ratio is applied regardless of the quality, amenity or location of the dwelling.[16]

### (ii) Subsidy-related rental system

A subsidy-related rental system focuses on the subsidy, which will be provided to the household.[17] Rent is the default element. The SHO determines the subsidy to be provided to the household first. The remainder is the rent, which has to be met by the tenant.

Both the income-related and subsidy-related rental systems involve subsidies. The difference between the two is which is determined first, the rent or the subsidy. Both seek to reduce the extent to which a tenant relies upon their own resources to meet rent, but their focus is different. The income-related rental system focuses on rents, on what is affordable to tenants and thus on outcomes. Rental subsidies are the residual. The subsidy-related rental system focuses on rental subsidies. As such, it does not intend to guarantee a particular housing outcome. Rents are the residual and are less likely to be affordable.

With a subsidy-related household rent, the subsidy can be determined with reference to one or more of a range of factors such as:

- Location of the dwelling;
- Type of household;
- Household income.

In this way, similar households on the same incomes but living in different locations can pay different household rents. Through this means, household rents can be varied according to market rents.

### (iii) Flat rental system

The term 'flat rent' has various meanings. In this paper, a flat rent is one below the market-derived rent and thus differs from its usage in the United States where it is often associated with the market-derived rent and discussed in the context of reducing work disincentives for tenants.

The income-related rental system adjusts rents according to the income of tenants. As a result, whenever a tenant's income increases, so too does their rent. A flat rental system seeks to break the nexus between the particular tenant's income and their rent by determining a rent that is common across a group of households or a group of dwellings. It flat rental system still takes into account income, but income across a range of households.

A flat rent dissociates rent from each tenant's income so that any increases in their income (from work) will not impact on their rent.

A flat rent can be determined in a number of ways. The common factor is that it takes into account the income of a group of tenants rather than determining rent on the basis of the income of each tenant.

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[16] This notes only one of the many differences in rental formulas between jurisdictions. See 2.1(ii) for more details.

[17] The subsidy-related rent system should not be confused with the provision of rental subsidies directly to tenants as an income supplement (such as rent assistance or a housing allowance). The essential difference is that, under a subsidy-related rent system, the subsidy (and subsequently the household rent) is determined internally by the SHO. This type of household rent system was proposed by the Industry Commission in its review of public housing (1993a, 1993b; summarised in the Positioning Paper (McNelis and Burke 2004: 8 ff.)).

A household flat rent is common to a group of households and is determined by reference to the range of incomes within a particular household type. For example, given that most tenants within public housing in Australia are in receipt of Centrelink incomes, the range of incomes among different household types is limited. A flat rent can be determined by reference to this range of incomes.

A dwelling flat rent is common to a group of dwellings and is determined by reference to the range of incomes of households who occupy or could occupy dwellings with particular characteristics such as size and/or dwelling type. For example, only certain types of households are eligible to occupy 3-bedroom dwellings. A dwelling flat rent can be determined by reference to the range of incomes among these types of households: a sole parent with two children or with three children, a couple with two children, or three single adults sharing.

A discounted market rent such as 70% market rent can also be a flat rent. The discount is struck in terms of what households could generally afford to pay for that dwelling. The rent does not vary according to the particular circumstances of the tenant.

## 4.3 Concluding comments

This discussion has highlighted the underlying principles and processes of different rental systems. Different processes within each system can result in different levels of rent being paid by tenants, but they are not the only determinants of actual rent levels.

For cost-rent systems, a key factor determining actual rents is the total ongoing costs of the SHO. If, for instance, it has high ongoing costs, then aggregate rent will be high to cover these costs. The rental structure allocates rents among dwellings and determines the relativities between dwellings. However, the level of all actual rents will be higher than they would be if the SHO had lower ongoing costs.

For a market rent system, a key factor determining actual rents is the extent of investment in the rental market generally and the extent of demand from households. Underlying each of these is a range of factors: the extent of investment depends upon the capacity and cost of constructing dwellings, expectations of returns relative to other investments etc.

Various factors, then, can impact on either the ongoing costs of the SHO (and subsequently actual rents) or market rents in a local area (and subsequently the rent charged by an SHO). Section 5 below shifts the context of discussion from rental systems per se to the role of rental systems within the social housing finance system. It is within this context that the different types of rental systems play a specific role in different countries, particularly in relation to the financial viability of social housing.

The discussion about various rental systems and their underlying principles and processes raises a further question. Which rental system is more appropriate for social housing and the achievement of its objective? This raises a question about the relationship between rental systems and the objective of social housing. This question is explored in Section 6 below.

# 5. RENTAL SYSTEMS WITHIN SOCIAL HOUSING FINANCE SYSTEMS

This section locates rental systems within the larger context of social housing finance systems. This not only expands the analysis of rental systems but places them in a context that highlights both the commonalities and differences between rental systems in Australia and overseas.

Just as the Positioning Paper described a variety of rental systems in Australia and overseas, so also did it describe the respective social housing finance systems for the five sectors of social housing in Australia (public housing, community housing, affordable housing, Indigenous housing and aged persons' housing) and for the seven countries reviewed (New Zealand, the United States, Canada, the United Kingdom, Germany, Sweden and the Netherlands).

In doing so, it highlighted some unique characteristics of the social housing finance system in Australia:

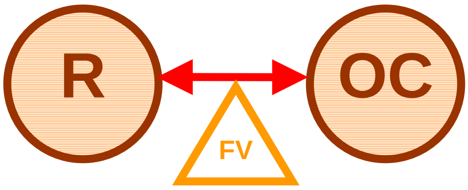
- Australia is the only country where the SHO carries the rental subsidy internally. In all other countries it is paid by a central agency, whether Treasury, Social Security or a Housing Ministry or Department;
- Where the rental subsidy is funded externally, systems vary as to whether it is paid directly to the tenant (Sweden, Netherlands, United Kingdom, Denmark) or to the housing agency (United States, New Zealand);
- In countries that have a property rental system, rental revenue is the major source of income, and all the short-term and long-term costs of providing housing have to be met through this revenue. However, the level of these costs is partly determined by various other capital and operating subsidies such as grants for capital purposes, concessional loans, zoning of land for social housing purposes, taxation concessions, interest rate subsidies and, in some cases (particularly in the past), provider subsidies. Many of the operating subsidies are implicit;
- In all countries studied (other than Australia), there is a clear separation of subsidies for acquiring new stock and those subsidies which assist tenants to afford their rent and allow SHOs to meet the cost of their operations;
- In countries with a property rental system, SHOs' financial viability is not as sensitive to the mix of income groups, as the level of housing allowance compensates for groups with lower household incomes.

This analysis of rental systems within social housing finance systems begins by relating two key elements of a social housing finance system: rent and ongoing costs (Section 5.1). It then expands in two steps. First, the analysis expands to include two other key elements of a social housing finance system – capital and subsidies (Section 5.2). It is around this expansion that the social housing finance systems in Australia and overseas, and the role of rental systems within this, are compared (Section 5.3 to Section 5.5). Second, the analysis expands into an explanatory framework for any social housing finance system (Section 5.6).

## 5.1 A social housing finance system: a beginning

Rent can be determined by any one of a number of rental systems as outlined above. In the context of a social housing finance system, individual rents are not important. What is important is the aggregate of all these individual rents. In this context, the purpose of rent or its function is to cover the ongoing costs of providing housing. Rent, as an aggregate of rent from many dwellings, seeks to cover the ongoing costs of providing housing (or the aggregate of the ongoing costs of providing many dwellings). Such a definition relates the two terms – rent and ongoing costs – functionally and defines that relationship as one of equilibrium between them or, to put it in other words, a relationship that ensures the financial viability of social housing. This relationship is illustrated in Diagram 2 below.

**Diagram 2: Rent and ongoing costs**




R = Rent
OC = Ongoing costs
FV = Financial viability

## 5.2 A social housing finance system: a first expansion

A social housing finance system consists of two interrelated parts: the production and holding of housing as an asset, and the ongoing provision of housing services or rental operations. These are interrelated insofar as capital for the production or acquisition of housing can be raised in various ways, and each of these has a different impact on rental operations.

The business of social housing is the management, maintenance and replacement of its housing stock. Thus ongoing costs include:

- Tenancy management: administration;
- Property management: maintenance (repairs and cyclical maintenance), rates and insurance;
- Asset management: the cost of asset utilisation (or the cost of paying for or replacing the current dwelling);
- The cost of capital.[18]

The interrelationship between rental operations and capital operates through the impact of the cost of capital on ongoing costs. The cost of capital reflects the outcome of different capital arrangements (types of capital, instruments, conditions, terms and rates of interest). These arrangements thus introduce an historical element into the cost of capital.

Within a social housing finance system, subsidies play a key role in maintaining financial viability. Both the cost of capital and other ongoing costs can be reduced through subsidies, and rents can be boosted by rental subsidies.

A social housing finance system, then, consists of four primary elements: rent, subsidies, ongoing costs and capital. The particular characteristics of each of these

[18] The cost of asset utilisation (or replacement) and the cost of capital tend to overlap and require some clarification. We can distinguish maintenance of a dwelling from its slow consumption over very long periods (50 years plus). This cost can be met upfront as owner equity or it can be met through borrowings. In the former case, what is incorporated into ongoing costs is the cost of replacing the dwelling (or significant parts of it). In the latter case, what is incorporated into ongoing costs is the cost of capital (principal and interest) for the current dwelling.

elements can vary from one social housing finance system to another. Yet within each system, these elements have a determinate relationship with one another such that the system is financially viable.
A change in one element requires a change in one or more of the others. Financial viability is the fulcrum around which the other elements operate. At a minimum, it requires that social housing revenue (which includes both rent and subsidies) is equal to or greater than its net ongoing costs (net of any subsidies provided to ongoing costs).

To gain an understanding of how different social housing finance systems operate in Australia and overseas, the following sub-sections relate four primary elements: capital, ongoing costs, rents and subsidies.

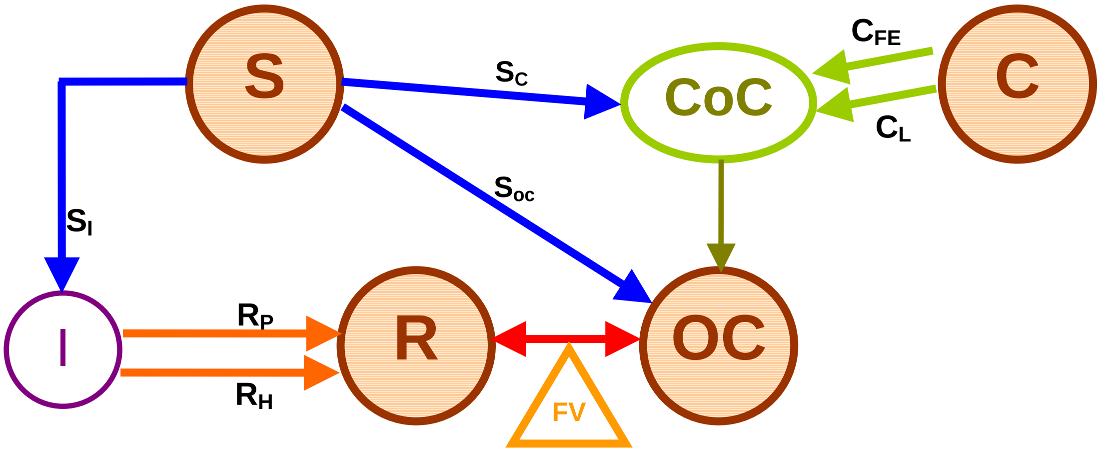
## 5.3 Public housing finance framework in Australia

Public housing is the largest and dominant form of social housing in Australia. This sub-section seeks to do two things: to locate the current role of rent within the broader public housing finance framework operating in Australia, and to highlight the nature of changes in the rental system within public housing over the past 50 years and the reasons for these changes.

### (i) The current public housing finance system and the role of the rental system

The starting point for the current public housing finance system, around which the other elements are built, is the rental system. As illustrated in Diagram 3 below, rent takes two forms: a property rent ($R_P$) and a household rent ($R_H$). The property rent is a market-derived rent. The household rent is an income-related rent ranging from 20% to 25% income. The predominant form of rent is the household rent which is paid by around 90% of tenants. Moreover, the level of household rents largely depends upon the income profile of tenants, most of whom are in receipt of Centrelink payments or income subsidies ($S_I$).

**Diagram 3: Public housing finance system in Australia**




I = Income S = Subsidy
R = Rent
$R_P$ = Property rent
$R_H$ = Household rent
OC = Ongoing costs

CoC = Cost of capital

$S_I$ = Subsidy paid to tenant for general purposes
$S_{OC}$ = Subsidy paid to SHA to reduce ongoing costs (allocation of CSHA funds)
$S_C$ = Subsidy paid to SHA to reduce the cost of capital (allocation of CSHA funds to meet some debt repayment)
FV = Financial viability C = Capital
$C_{FE}$ = Free equity $C_L$ = Loans

Currently SHAs acquire new stock by utilising Commonwealth-State Housing Agreement (CSHA) grants or free equity ($C_{FE}$), a form of equity which does not require SHAs to provide a financial return to an 'external' equity holder and so does not impact on the cost of capital.[19] Prior to the 1989 CSHA, however, SHAs acquired stock using a mixture of loan funds – concessional loans from the Commonwealth government, state government loans and commercial loans ($C_L$). The cost of capital is the cost of repaying principal and interest on these accumulated debts. SHAs can and do meet some or all the cost of capital by allocating CSHA funds, i.e. insofar as CSHA funds are allocated to this purpose, they are a subsidy to the cost of capital ($S_C$).

SHAs also meet some of their ongoing costs, in particular, the cost of major upgrades, refurbishments and redevelopment of stock, by allocating CSHA funds, i.e. insofar as CSHA funds are allocated to this purpose, they are a subsidy to ongoing costs ($S_{OC}$).

Rental revenue, predominantly from household rents, is severely restricted because Centrelink payments are relatively low. How then do SHAs maintain their financial viability? They do so in two ways: by utilising free equity in the form of CSHA grant funds as capital for the acquisition of new stock, and by allocating CSHA funds to cover some or all the cost of capital ($S_C$) and to subsidise capital replacement ($S_{OC}$).

SHAs can only achieve financial viability because they receive CSHA funds as grants. SHAs can allocate them as subsidies towards the cost of capital and the cost of replacing or refurbishing existing stock. Any remaining funds are then available as capital for the acquisition of new stock and, as grants, the form of capital does not increase the cost of capital within rental operations. If SHAs utilise loan funds for capital purposes, then their ongoing costs will increase (as the cost of capital increases) and they require additional subsidies to achieve financial viability.[20]

### (ii) Changes in the finance system over the past 50 years

Hall and Berry (2004) in their recent AHURI report *Operating Deficits and Public Housing: Policy Options for Reversing the Trend* conclude as follows:

> on the analysis in this study, if the current policy focus is maintained, Australian public housing will not remain viable.
>
> In the future if affordability benchmarks of 25% of assessable income in rent are maintained, changes to rent charging will not be an available tool to relieve growing deficits. Maintenance of tight targeting will ensure the decline in real Net Rents per unit experienced by some housing authorities will become more widespread and accelerate. In addition, for many of the Operating Expenditure items, continuing to seek improvements in housing stock and continuous improvements in client services cannot be achieved without the acceleration of the trend to real cost increases. In a context where:
>
> (a) the funding of public housing is divorced from its community service obligations;
>
> (b) affordability benchmarks of 25% of assessable income are maintained;
>
> (c) tight targeting continues; and

[19] Some jurisdictions such as Queensland have a requirement to pay an equity return to Treasury, but this is a notional rather than actual requirement.

[20] Subsidies provided through the CSHA take the form of subsidies to the cost of capital ($S_C$) and to ongoing costs ($S_{OC}$). Thus they serve to reduce ongoing costs such that rent can cover these costs. Unlike other social housing finance systems, subsidies do not supplement rent either in the form of a housing allowance (or rent assistance) provided directly to tenants or in the form of a payment to the SHA which is related to the rent paid by the tenant.

(d) the emphasis on continuous service improvement is enforced;

then incomes per unit will fall, real expenditures per unit will increase and operating deficits will continue to grow.

This suggests that the focus must be on firstly eliminating deficits and then assuring real income growth per household. If there is no policy change it is not a question of benchmarking services to best-practice standards but of what quality of services can public housing authorities afford, and who should pay for them?

This study serves to highlight the unsustainability of the current finance system for public housing. In particular, as noted in the above quote, Hall and Berry point to the impact of targeting on rental revenue and the costs of tenancy management and the inadequacies of current household rents based on 25% income.

But these phenomena are not new. A review of the history of public housing in Australia indicates that SHAs repeatedly reach a point where they are confronted with operating deficits and have to address their lack of financial viability. Commonwealth and state governments could have adopted one of a number of responses to falling SHA revenue. However, as ‘reluctant landlords’,[21] they did not provide additional funds or operating subsidies to compensate SHAs for targeting households with lower incomes. Rather, in response to each crisis, Commonwealth and state governments in conjunction with SHAs have adjusted their rental systems to increase their rental revenue. The following briefly outlines these phases of crisis and response leading to a solution, albeit temporary.[22]

**1945: Establishment phase**

The 1945 CSHA established a dual rental system:

- A property rent based upon the costs of each dwelling or project (a dwelling-based historic cost-rent);
- A household rent based on one-fifth of family income for those whose income was equal to the basic wage, less than one-fifth for those with income less than the basic wage, and more than one-fifth for those with income above than the basic wage.

The Commonwealth provided loans at concessional rates (1% below the long-term rate for Commonwealth government bonds) to SHAs. The Commonwealth and the states agreed to share any cash losses incurred by SHAs.

Through the 1945 CSHA, the Commonwealth and state governments envisaged that SHAs would be largely self-sustaining. Subsidies to ensure their financial viability were expected to be very small because the cost of constructing dwellings was determined with reference to a rent equal to one-fifth of the basic wage.

21 Hayward (1996) argues that Commonwealth and state governments have been ‘reluctant landlords’ since the inception of public housing in the late 1930s.

22 This material is drawn from McNelis (2001) and summarised in the Positioning Paper (McNelis and Burke 2004: 3-8). This material traces the development of rental systems in Victoria over the past 50 years. While references here are to Victoria, they have general relevance to other states.

### Mid-1950s

*Crisis phase*

Throughout the early 1950s, approximately 10% public tenants received rental rebates. In Victoria, despite increases in operating costs, rents on dwellings had remained unchanged from the time of their acquisition due to rent controls in the private rental market[23] and the anticipated political backlash if public rents were increased. Construction costs increased substantially and, as a result, cost-rents generally rose above one-fifth of the basic wage. The Housing Commission Victoria (HCV) sought funds from the state government to cover their increasing losses. By the mid-1950s, the loss-sharing agreement between the Commonwealth and the states had largely fallen apart. The Commonwealth strictly enforced the provisions of the CSHA. While some states (Queensland and Tasmania) had complied with these provisions, most had not done so, and no funds were provided to them to reduce their cash losses.

*Resolution of the crisis*

Rather than provide funds to cover the increasing losses of HCV, the Victorian government looked to HCV to progressively introduce a range of measures to resolve their financial crisis.

First, the terms of the 1956 CSHA allowed HCV to shore up its financial position by selling public housing.[24]

Second, in 1955, after considerable debate and changes in policy, HCV adjusted rents of all tenants to reflect the real rather than estimated costs of each dwelling/project as well as increases in the costs of maintenance, rates and administration.

Third, at the same time, HCV introduced 'vacancy rents'. As dwellings became vacant, a new and higher rent was struck for the incoming tenant. This rent more closely reflected the increased costs of managing and maintaining the dwelling.

Fourth, in 1963, HCV introduced rent averaging. While this maintained the historic cost principle that rent would be sufficient to cover the costs of providing housing, it differed from the previous rental system in three ways. Rent averaging introduced a cost-rent pool whereby the costs of providing public housing were distributed among tenants. It introduced a method for distributing rents among tenants based upon the type and size of dwellings rather than according to when a particular dwelling was constructed. Finally, rent averaging introduced an additional cost into the rental formula – the cost of rental rebates. The objective was to ensure that rental revenue was sufficient to meet the cost of both outgoings and rental rebates. Thus, as rental rebates increased, so too did this version of historic cost-rents.

### 1970s

*Crisis phase*

The 1970s saw the end of a long period of economic growth in Australia. They also brought a period of substantial losses for HCV as a result of significant increases in the cost of rental rebates. This cost could no longer be sustained through increases in historic cost-rents. The major cause of increased cost of rebates was the changing income profile of public housing tenants as social conditions changed, in particular, higher incidence of unemployment and single parent families. During the 1970s this was further exacerbated by tighter eligibility criteria and targeting.

[23] Rent controls were put in place during World War II and were not lifted until the mid-1950s.

[24] This purpose was later overtaken by the state government's commitment to owner-occupied housing and HCV's interest in the construction of new dwellings and in urban development.

*Resolution of the crisis*
The states strongly argued that rental rebates were a Commonwealth responsibility. As a stopgap measure, in view of the seriousness of the situation, the Commonwealth provided the states with an additional grant of $1.2 5million each year for the five years 1971-72 to 1975-76. In the long term, however, the Commonwealth did not agree with the states. The resolution of this crisis was the reintroduction of a national market-related rental policy in the 1978 CSHA, which allowed the states to continue with annual rent increases.

### 1980s

*Crisis phase*
Optimistically, both the Commonwealth and the states anticipated significant surpluses from the introduction of market-related rents. These surpluses were expected to fund the acquisition of new stock (justifying reduced CSHA funding).

In the early 1980s a Commonwealth-State Working Party on Financial Viability outlined the current and future impact of the increased cost of rental rebates and proposed a number of measures to ensure the financial viability of SHAs. Most of these were rejected by the Commonwealth.

*Resolution of the crisis*
One measure, which was adopted partly in 1984 and then fully in 1989 (after further work by the National Housing Policy Review) saw the Commonwealth provide CSHA funds as grants rather than concessional loans. Despite a return to current cost-rents in the early 1980s (with the Hawke Labor government) in some states,[25] property rents continued to increase in real terms. Along with the change to grants, the 1989 CSHA introduced an opportunity cost on capital into the current cost-rent formula, forcing further increases in property rents.

Two financial propositions underpinned the 1989 CSHA. First, by utilising grants rather than loans, SHAs would continue to acquire new stock rather than have future CSHA funds eaten up by loan repayments. Second, grants did not impact on the cost of capital and it was anticipated that SHA rental revenue would be sufficient to meet operating costs (administration, maintenance, rates and insurance).

During the early 1990s, property rents progressively increased in real terms until they reached market levels. Where current cost-rents or other rental formulas had been introduced in the early 1980s, they were abandoned and market-derived rents were formally adopted by most SHAs.

### 1990s

*Crisis phase*
The 1990s saw two interrelated problems emerge, both of which undermined the financial viability of SHAs. First, there were issues related to the condition and quality of stock. These had bubbled away in the 1980s but had now become a priority. As a result, SHAs had to allocate increased levels of funds to the replacement and upgrade of current stock.

Second, by the mid-1990s, most SHAs had adopted market-derived rents and had maximised rental revenue from property rents. At the same time, however, with even

[25] While the states adopted the 1984 CSHA which provided for current cost-rents (see Clause 32 and the Second Schedule), some did not return to cost-rents but continued with their previous rental systems. Victoria was very active in formally reintroducing cost-rents.

tighter targeting, SHAs housed not only more tenants on lower incomes but tenants requiring greater levels of assistance. Overall rental revenue per dwelling continued to decline as costs increased (Hall and Berry 2004).

*Resolution of the crisis*

During the early 1990s, SHAs adopted two strategies to meet this crisis. First, to varying extents, they allocated CSHA funds towards meeting the cost of capital (principal and interest repayments on loans).[26] Remaining funds were primarily allocated to the acquisition of new stock. Increasingly, however, they also allocated CSHA funds towards the cost of upgrading and redeveloping existing stock. Currently, most SHAs are allocating all CSHA funds towards meeting the cost of capital and the cost of major refurbishment of their existing stock. They now face the prospect of having to sell stock in order to refurbish other stock.

Second, with property rents at maximum levels, SHAs now focused on household rents. In the mid-1990s, in the context of the Commonwealth's efficiency reforms, most SHAs under strong pressure from the Commonwealth, and following the lead of Victoria, made a major change in the rent-to-income ratio for household rents by increasing it to 25%. In addition, recognising the changing profile of households – more with non-dependant children and residents, more single person households and more group households – Victoria introduced a series of changes to the treatment of income from other residents, significantly increasing the rent-to-income ratio from 10% to 25%.

### Summary

Throughout the past 50 years of public housing, the financial viability of SHAs has been continually undermined by two factors. First, the income profile of their tenants has changed as public housing has become increasingly targeted at households with lower incomes. Second, despite changing their expectations of SHAs, Commonwealth and state governments have been reluctant to provide additional funds for public housing to compensate for the very low incomes of these households.

The solution to the ongoing issue of financial viability has generally been sought without recourse to additional Commonwealth or state funds. It has had two primary elements. The first was increased rental revenue from property rents and then from household rents. The second element was a shift in the allocation of CSHA funds away from capital purposes, viz. the acquisition of new stock, towards operating subsidies to meet the cost of capital and the cost of major refurbishment of existing stock.

Once again as highlighted by Hall and Berry, SHAs are facing a financial crisis, and the Commonwealth and state governments want them to resolve this by increasing household rents.

## 5.4 Other social housing finance systems in Australia

The Positioning Paper referred to a number of other models of social housing in Australia – Indigenous housing, community housing, affordable housing, aged housing and disability housing. There are many similarities as well as many differences between the financial arrangements of these models and even within particular models. Analysis of two emerging models – community housing and affordable housing – indicates the main similarities and differences.

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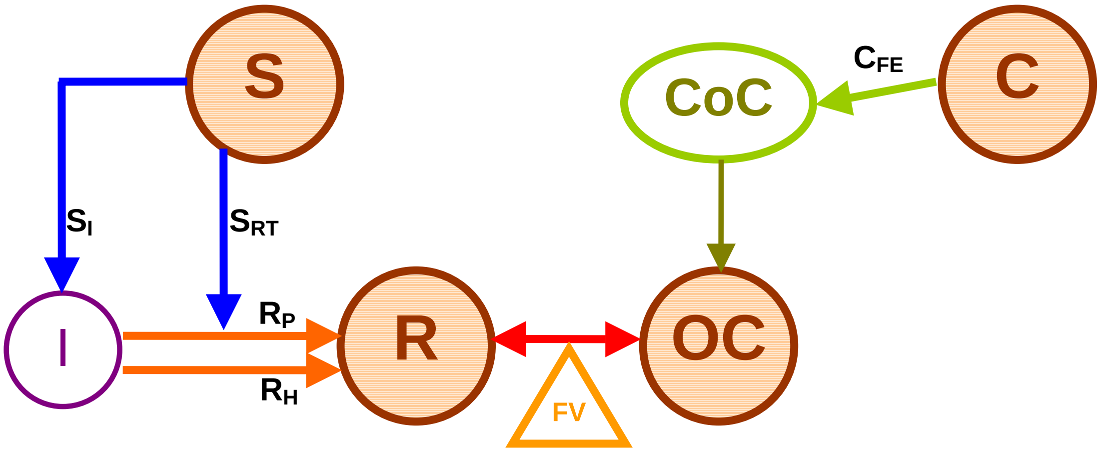
[26] CSHA funds did not meet the full cost of capital (principal and interest repayments on loans) in each state. Rental revenue to varying extents each year covered some of the cost of capital. CSHA funds were allocated to cover the remaining costs as agreed between each state and the Commonwealth.

### (i) Community housing

Diagram 4 below outlines the finance system for one particular community housing model in Australia. It is similar in many ways to the public housing finance system but has some significant differences.

**Diagram 4: Community housing finance system in Australia**




I = Income
R = Rent
$R_P$ = Property rent
$R_H$ = Household rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
$S_I$ = Subsidy paid to tenant for general purposes
$S_{RT}$ = Subsidy paid to tenant as a rent supplement (Commonwealth Rent Assistance)
C = Capital
$C_{FE}$ = Free equity

First, community housing has higher levels of rental revenue by incorporating into their household rent formula, rent assistance ($S_{RT}$). This can provide, on average, up to an additional $2,000 (approx.) per year to household rent ($R_H$).

Second, community housing has acquired most of its stock in the past two decades. Capital for these acquisitions has generally been in the form of free equity, either capital grants or interest-free loans from CSHA funds and land 'donations' from churches, local government or other organisations ($C_{FE}$). Thus, for community housing, the cost of capital is minimal, if any.

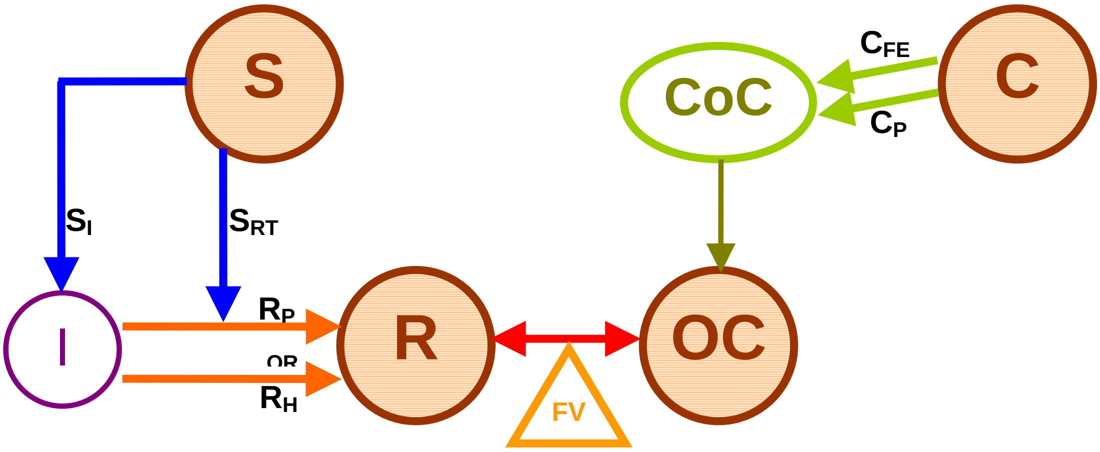
Third, community housing does not receive ongoing subsidies to meet either the cost of major refurbishment or the cost of capital.

Again the starting point for the finance system for community housing in Australia is the rental system. It can achieve financial viability even though it does not receive ongoing subsidies for the cost of major refurbishment of dwellings and the cost of capital by charging higher household rents (incorporating rent assistance paid to the tenant). These higher rents are necessary to meet the cost of major refurbishment, in particular. The cost of capital is minimal, if any, as a result of free equity. Community housing can achieve financial viability as long as its rental revenue (again predominantly from household rents whose levels are largely determined by Centrelink payments) is sufficient to cover the ongoing costs of tenancy management, property management and refurbishment of dwellings.

### (ii) Affordable housing

Affordable housing[27] has a similar financial structure to community housing. The major difference, as illustrated in Diagram 5, lies in affordable housing seeking to fund capital through private sector arrangements ($C_P$). This element adds considerably to the cost of capital, forcing higher rents to ensure financial viability.

**Diagram 5: Affordable housing finance system in Australia**




I = Income
R = Rent
$R_P$ = Property rent
$R_H$ = Household rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
$S_I$ = Subsidy paid to tenant for general purposes
$S_{RT}$ = Subsidy paid to tenant as a rent supplement (Commonwealth Rent Assistance)
C = Capital
$C_{FE}$ = Free equity (grant allocations through CSHA)
$C_P$ = Private sector finance

While the capital arrangements drive rents in this model, the level of capital is often determined with a particular rental outcome in mind, whether that is a specific property rent such as 75% market rent ($R_P$) or a household rent ($R_H$) such as 25% or 30% of the income of a particular target group plus their entitlement to rent assistance ($S_{RT}$). This outcome is achieved by mixing private sector finance ($C_P$) with free equity ($C_{FE}$). Affordable housing can maintain its financial viability as long as the level of its rental revenue is consistent.

## 5.5 Social housing finance systems overseas

This sub-section outlines five overseas social housing finance systems: New Zealand, the United Kingdom, the United States, Canada, and the Netherlands and Sweden. At the outset, two points should be noted. Most of the countries discussed below utilise household rents and this is supported in a variety of ways. This, therefore, tends to give a one-sided emphasis to household rents when most countries, particularly throughout Europe, do not have household rents. Second, the Netherlands and Sweden are discussed together because at this level of analysis they have similar arrangements. However, in many details, as described in the Positioning Paper, they differ considerably, particularly in the methods they use to determine property rents and the various mechanisms which support their raising of capital funds for housing purposes.

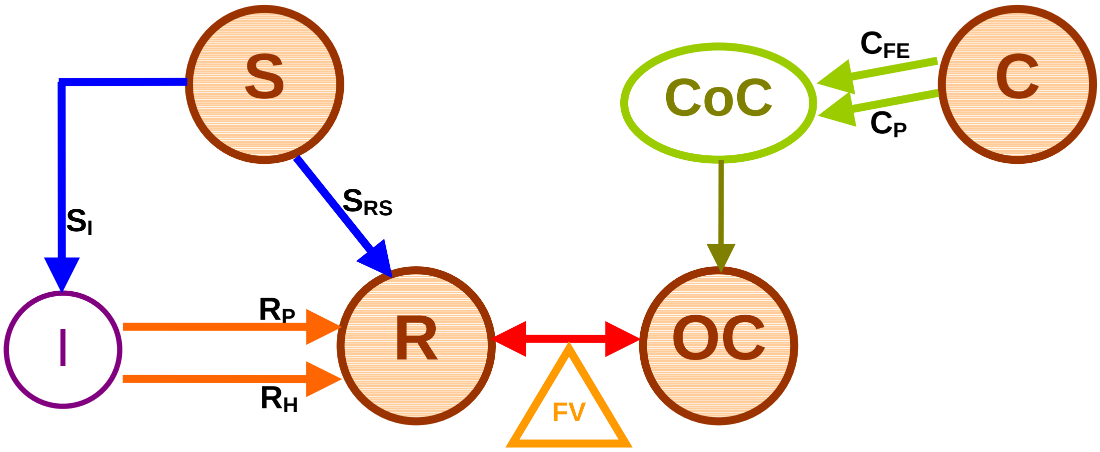
[27] The term 'affordable housing' covers a range of different housing models with different financial structures. Currently, most affordable housing organisations in Australia tend to operate on a community housing finance system. Many, however, aspire to incorporate private sector funding in their capital arrangements. This, then, is the distinctive element in finance structure outlined under this heading.

### (i) New Zealand[28]

In New Zealand, the rental system is the primary starting point, with the determination of both a property rent based on market rent ($R_P$) and a household rent based on an income-related rent ($R_H$). Rental revenue, for Housing New Zealand Corporation (HNZC), is the aggregate of tenants paying market rent and tenants paying a household rent. Rental revenue is supplemented by a direct payment from the New Zealand Treasury to HNZC. As the payment is a supplement to rent based on the difference between the market rent and income-related rent paid by the tenant, it is a subsidy to rent ($S_{RS}$). Thus total revenue for HNZC is equivalent to aggregate market rent.

Rent thus covers all ongoing costs: operating costs (administration, maintenance, rates and insurance) and the cost of capital in the form of interest on outstanding borrowings. The 'surplus' after meeting operating costs and the cost of capital is in the order of 10% to 15% of total revenue. This surplus is payable to the government. However, the actual dividend is determined with regard to two factors: funds required for major refurbishment of housing stock and free equity required for capital purposes (the acquisition of new dwellings) ($C_{FE}$). This free equity supplements HNZC borrowings ($C_L$), ensuring a debt to equity ratio of around 23:77. Currently all surplus funds are allocated to these purposes and no dividend is paid to the government.

**Diagram 6: New Zealand social housing finance system**




I = Income
R = Rent
  $R_P$ = Property rent
  $R_H$ = Household rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
  $S_I$ = Subsidy paid to tenant for general purposes
  $S_{RS}$ = Subsidy paid to social housing as a rent supplement (paid to HNZC by New Zealand Treasury)
C = Capital
  $C_{FE}$ = Free equity
  $C_P$ = Private sector borrowings

Social housing is financially viable insofar as the Treasury continues to pay a subsidy that is the difference between market rents and income-related rents, ongoing costs (including operating costs, the cost of capital and long-term major refurbishment costs) do not exceed market rents, and whether and to what extent the government seeks a dividend. Ongoing costs involves a number of other interrelated conditions: whether the cost of capital increases (due to borrowings which are subject to variable interest rates, the extent to which new borrowings are undertaken and the extent to which interest rates rise) and whether increases in market rents exceed or keep pace with operating costs and the costs of major refurbishment. At the present time, HNZC not only

[28] See McNelis and Burke (2004) for references and more details on New Zealand social housing.

maintains its financial viability but also has sufficient surplus funds for investment in additional stock.

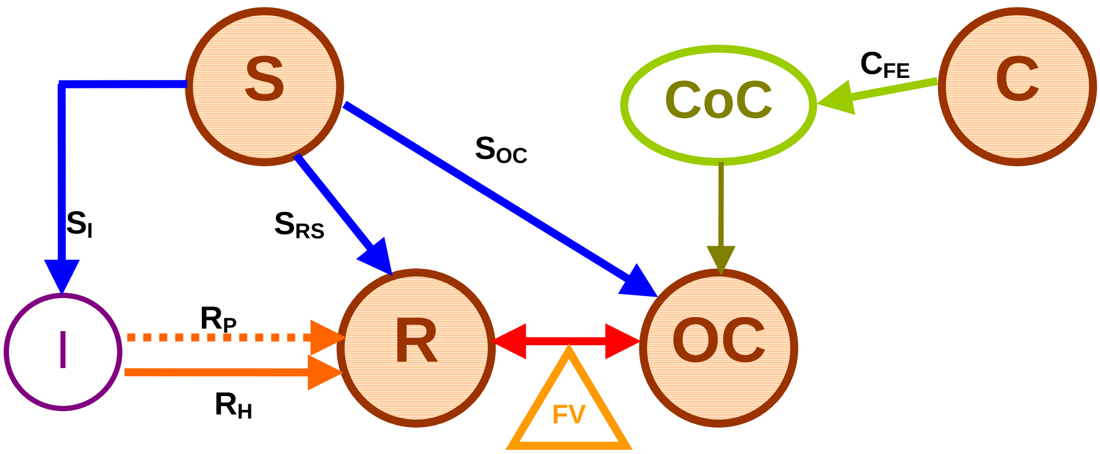
### (ii) United States[29]

The social housing finance system for public housing authorities (PHAs) in the United States is illustrated in

Diagram 7 below. The starting point is the rental system where household rents ($R_H$) are determined according to a specified formula (generally 30% monthly income). In addition, each year tenants have the option of opting for a market-based flat rent, a form of property rent or the household rent.

PHA rental revenue is supplemented by operating subsidies ($S_{RS}$) from the federal Department of Housing and Urban Development (HUD). The level of these subsidies is based on the difference between rental revenue and a benchmark amount for operating costs determined by HUD. PHAs fund the acquisition of new stock with free equity in the form of capital grants from HUD ($C_{FE}$). As a result, the cost of capital included in ongoing costs is nil. In addition, HUD provides further subsidies ($S_{OC}$) for the major refurbishment of stock.

**Diagram 7: Social housing finance system in the United States**




I = Income
R = Rent
$R_H$ = Household rent
$R_P$ = Property rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
$S_I$ = Subsidy paid to tenant for general purposes
$S_{RS}$ = Subsidy paid to social housing as a rent supplement (from HUD based on the difference between rental revenue and benchmarks for operating costs)
$S_{OC}$ = Subsidy paid to social housing to reduce ongoing costs (from HUD for major refurbishment)
C = Capital
$C_{FE}$ = Free equity (grant funds for new housing stock from HUD)

Social housing is financially viable insofar as the benchmarks for operating costs as determined by HUD are adequate and are sensitive in increases in these costs, the PHA can operate within these cost parameters, and subsidies from HUD for the major refurbishment of stock are adequate.

29 See McNelis and Burke (2004) for references and more details on social housing in the United States.

### (iii) Canada[30]

The social housing finance system in Canada is illustrated in Diagram 8 below.

The starting point is the rental system for determining property rents ($R_P$). Different forms of social housing have different benchmarks for the property rent: a discounted market rent, a 'low end of market' rent and a market rent. The particular rental benchmark is achieved by manipulating the cost of capital. This is done by mixing free equity ($C_{FE}$) in the form of government grants, and borrowings ($C_L$) as forms of capital for new stock.

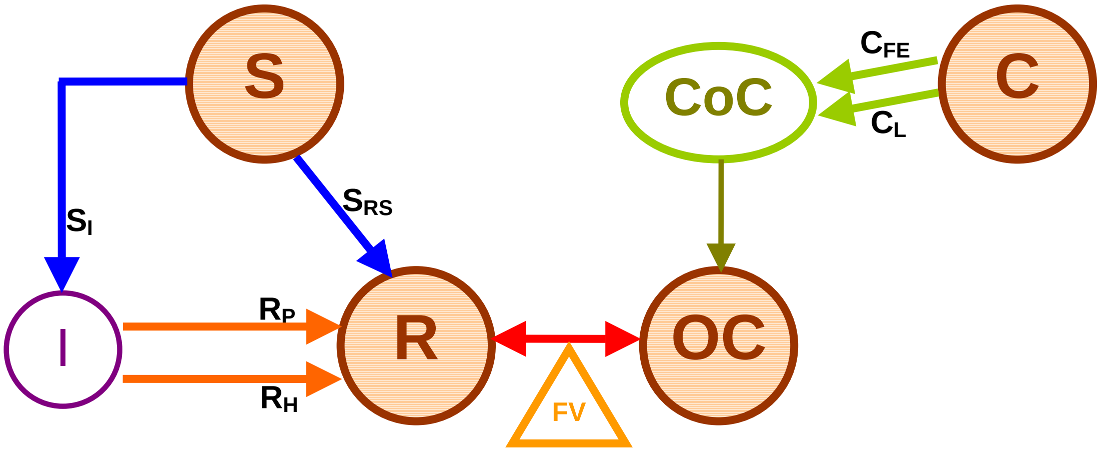
Not all tenants, however, pay a property rent. Most forms of social housing in Canada operate a dual rental system. In addition to the property rent, they charge a household rent ($R_H$) which is a rent-geared-to-income (RGI). In the not-for-profit sector, social housing is subsidised the difference between RGI rents and property rents by the provincial government or the Canadian government.[31] In this way, total revenue from rents and subsidies is equivalent to total property rents.

Social housing is financially viable insofar as property rents set as discounted market rents, 'low end of market' rents or market rents are sufficient to cover ongoing costs (including the cost of capital and major refurbishments, and they can operate within these cost parameters.

[30] See McNelis and Burke (2004) for references and more details on social housing in Canada.

[31] SHOs have to be approved to charge RGI rents and thus some tenants may pay property rents in the interim.

**Diagram 8: Social housing finance system in Canada**




I = Income
R = Rent
  $R_P$ = Property rents
  $R_H$ = Household rent (RGI)
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
  $S_I$ = Subsidy paid to tenant for general purposes
  $S_{RS}$ = Subsidy paid to social housing as a rent supplement (paid by provincial or Canadian government)
C = Capital
  $C_{FE}$ = Free equity

### (iv) United Kingdom[32]

In the United Kingdom, the two forms of social housing – Local Housing Authority (LHA) and Registered Social Landlord (RSL) – have similar finance systems. Diagram 9 below illustrates the major components of this system. The starting point is the capital funding arrangements. Capital for housing stock is raised through some combination of grants (free equity) ($C_{FE}$) and loans ($C_L$). These loans have various sources – local government, central government and the private sector – with various terms and conditions. Social housing charges a property rent only ($R_P$) which is based on the historical costs of providing social housing.

Low-income social housing tenants are supported through a housing benefit. This is a subsidy up to the value of the property rent and can be paid either to the tenant ($S_R$) or directly to the social housing providers ($S_{RS}$).

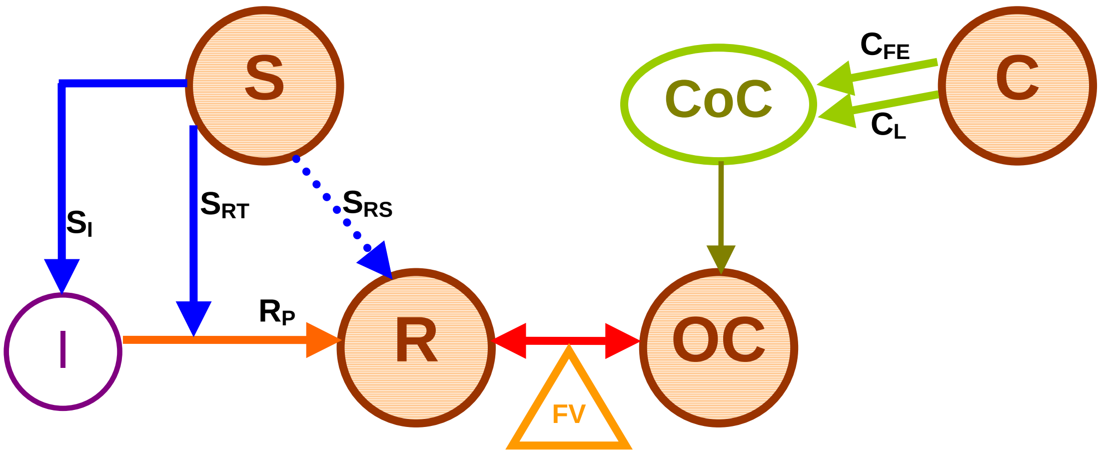
The cost of capital (CoC) is a key component of ongoing costs and largely determines the level of property rents. It is this cost which differentiates the two forms of social housing. The LHA sector raised capital through some combination of grant funds from central government and borrowings. The cost of capital reflects the historical cost of raising capital funds and, as this sector has not expanded in past decade or so, the debt: equity ratio is now low and the cost of capital is relatively low. Thus, property rents in the LHA sector based upon the historic costs of providing social housing are now relatively low.

On the other hand, the RSL sector has been expanding, using a combination of grant funds from the Housing Corporation and commercial borrowings. The cost of capital reflects current capital requirements, capital instruments and rates of return. The debt: equity ratio among RSLs is much higher than most LHAs and the cost of capital is higher. Thus, property rents among RSLs are relatively higher than LHAs.

32 See McNelis and Burke (2004) for references and more details on social housing in the United Kingdom.

The way in which rents on individual properties are determined varies with the form of social housing. LHAs tended to base rent upon one of three methods: a points system which differentiated the attributes of properties relative to one another, property values and market rents. RSLs also use these methods. However, more tend to use market rents or discounted market rents to distribute rents among properties. Some began with this rental benchmark and raised capital such that their ongoing costs (including the cost of capital) could be covered by their rental revenue. As a result, rents within RSLs are generally higher, even much higher, than rents within LHAs.

**Diagram 9: Social housing finance system in the United Kingdom**




I = Income
R = Rent
  $R_P$ = Property rent
OC = Ongoing costs
CoC = Cost of capital
  C = Capital
FV = Financial viability

S = Subsidy
  $S_I$ = Subsidy paid to tenant for general purposes
  $S_{RT}$ = Subsidy paid to tenant as a rent supplement (housing benefit)
  $S_{RS}$ = Subsidy paid to social housing as a rent supplement (housing benefit)
  $C_{FE}$ = Free equity
  $C_L$ = Government or private sector loans

Each form of social housing achieves financial viability provided that rents were set in such a way that rental revenue covered the historical costs of providing social housing.

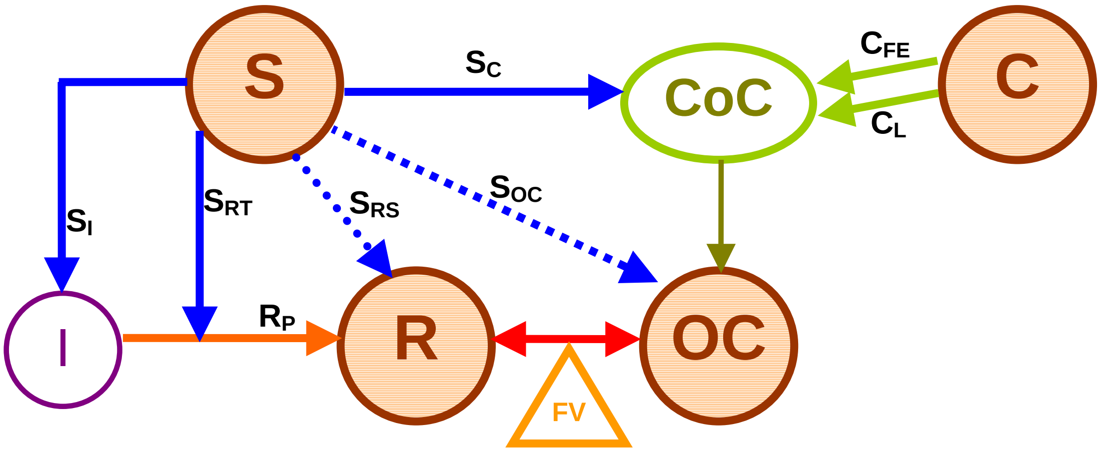
Recent changes are seeking to address the large differences in rents between LHAs and RSLs, between similar dwellings in the same area and between different but similar locations. These differences are the result of each form of social housing having different ongoing costs (particularly, cost of capital) and adopting its own method for determining how rents will be distributed within the pool of their properties. The changes shift away from many different pools to one national rent pool, with the rent on each property varied from the national average rent for a social housing property according to three factors: earnings in each region, property value and the size of dwellings. The introduction of the new system will see LHA rents rise while rents in RSLs will decrease. This will mean an increase in rent revenue for LHA (above their current ongoing costs) and additional costs to central government through the housing benefit as LHA rents increase. The relationship between central government and LHAs allows central government to claw back any surplus LHA funds.

The new rental system will change the rents charged for each property. Each form of social housing will remain financially viable provided that rents under the new system are sufficient to meet their ongoing costs. LHAs face an additional ‘ongoing cost’ in the form of the claw-back from central government as their rental revenue increases. RSLs, on the other hand, generally must account for a decrease in rental revenue as rents are adjusted downwards.

### (v) The Netherlands and Sweden[33]

The social housing finance system in the Netherlands and Sweden is illustrated in Diagram 10 below. The starting point is the capital arrangements. Social housing raises capital for new stock through a mixture of borrowings ($C_L$) and free equity ($C_{FE}$). Until the last decade, free equity consisted of capital grants from government (known as object subsidies). These capital grants have reduced dramatically and social housing, particularly in the Netherlands, has relied upon accumulated reserves as free equity. In both countries, a sophisticated capital financial structure facilitates social housing borrowings, providing guarantees and financial support where required. All tenants pay a property rent ($R_P$) such that aggregate property rents cover the ongoing costs of the social housing. One of key cost components is the cost of capital. Over the past decade, as object subsidies have been reduced, social housing organisations have had to increase their property rents to cover their ongoing costs. In this way, they have been moving towards some sort of market rent.

**Diagram 10: Social housing finance system in the Netherlands and Sweden**




I = Income
R = Rent
  $R_P$ = Property rents
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability
C = Capital
  $C_{FE}$ = Free equity
  $C_L$ = Private sector borrowings

S = Subsidy
  $S_I$ = Subsidy paid to tenant for general purposes
  $S_{RT}$ = Subsidy paid to tenant as a rent supplement (Housing allowances)
  $S_{RS}$ = Subsidy paid directly to social housing as a rent supplement (Housing allowance)
  $S_{OC}$ = Operating subsidies paid to SHO for new dwellings only
  $S_C$ = Subsidy paid to SHO to reduce the cost of capital

A housing allowance assists low-income tenants to pay property rents. It can be in the form of a payment to the tenant ($S_{RT}$) or paid directly to a social housing provider ($S_{RS}$). Social housing maintains its financial viability insofar as its aggregate property rents are sufficient to cover its ongoing costs.

## 5.6 A social housing finance system: a second expansion

The analysis in Section 5.3, Section 5.4 and Section 5.5 has focused on four primary elements – rent, ongoing costs, capital and subsidies – as they constitute the social housing finance system. While the analysis had a common framework, it revealed that these elements operate differently in different countries. The particular relationship

[33] See McNelis and Burke (2004) for references and more details on social housing in both the Netherlands and Sweden.

between them and the character of each element differs from one social housing finance system to another. A change in one element requires a change in one or more of the others in order to maintain financial viability.

This country by country analysis allows us to develop a generalised social housing finance system. Diagram 11 outlines the generalisation along with a breakdown of ongoing costs and an elaboration of capital arrangements and their relationship to the acquisition of social housing.

Rent can take one or both of two forms: a property rent and/or a household rent which is generally related to income. In Sweden, the Netherlands and many other northern European countries, rents take the form of property rents that are largely determined in relation to the ongoing costs of providing social housing. In particular, the cost of capital (determined by the capital arrangements) is a major component of ongoing costs. As object subsidies have decreased, social housing has relied more on internal reserves supplemented by borrowings to meet its capital requirements, and the cost of capital has increased. Subsequently, property rents have risen.

Different countries have different approaches to low-income households. In those where a property rent is charged, some form of rental subsidy or housing allowance is provided to tenants. This can be paid to the tenant or paid directly to a social housing provider. The tenant is responsible for any difference between the property rent and the subsidy. This can range from zero in the United Kingdom where housing benefit pays all the property rent to some proportion of income in other countries. By setting property rents in such a way that it covers its ongoing costs, social housing can maintain its financial viability.

In other countries, the approach to low-income households is different, with household rent based upon the tenant's income charged. In many of these countries, rent (or aggregate rent) is determined by the income profile of a provider's tenants. As providers target lower-income households, their rent will decrease proportionately. In New Zealand, however, where Treasury provides a direct subsidy to the social housing provider based upon the difference between the property rent and the household rent, the level of household rents is not relevant to the provider because subsidies provide a guaranteed level of rent and the provider can maintain its financial viability. In Australia, however, providers do not receive such subsidies and thus bear the full impact of the changing income profile of their tenants.

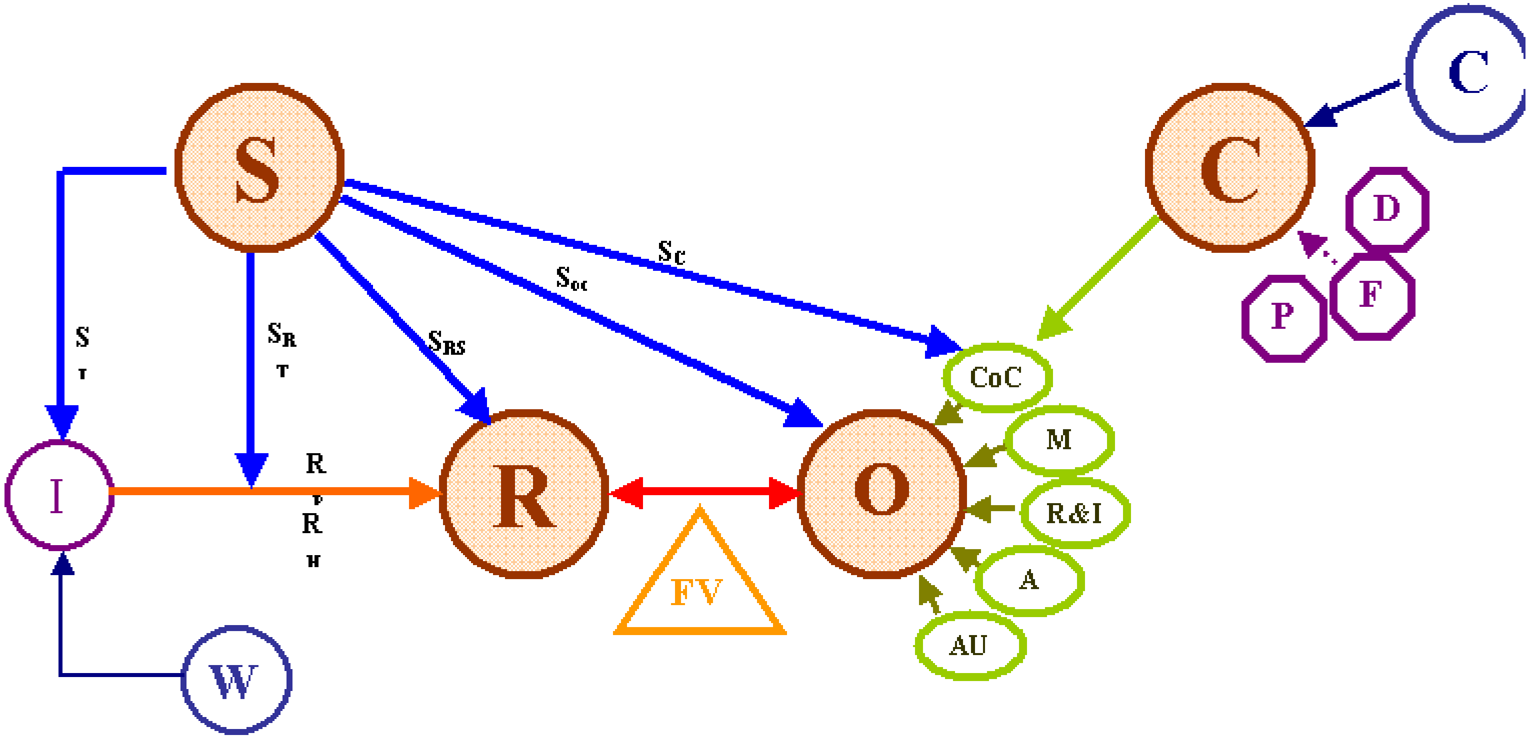
Social housing organisations have to meet a range of **ongoing costs**. There are different ways of categorising these costs but the one adopted here categorises them into five components: the cost of capital (CoC), maintenance (M), rates and insurance (R&I), administration (A) and asset utilisation (AU) (more generally known as depreciation). While some efficiencies may be found, the level of most components is determined by the characteristics of the dwelling (such as location, type and materials) and is fairly consistent.

The most significant component of ongoing costs is the cost of capital. As indicated in Diagram 11, this is related to the **capital** arrangements and the capital required to acquire the dwelling. In turn, the capital required will depend upon the cost of land, labour and materials as well as the standard and amenity of the dwelling. While the cost of labour and materials is reasonably consistent across locations, the cost of land can vary significantly. The impact of capital arrangements on the cost of capital will depend upon a range of factors such as whether capital is sourced as debt finance, free equity or private equity, prevailing interest rates, and the level of capital subsidies available. In both Australia and the United States, the current cost of capital is zero because all new acquisitions are acquired utilising free equity. European countries have largely relied upon debt finance with some free equity (most recently in the form of capital reserves) that lowers the cost of capital. The recent shifts away from object subsidies (free equity) is the mechanism by which some have gradually increased the cost of capital, with subsequent increases in rents. In Canada, the weighting of capital arrangements between debt finance and free equity varies according to the rental outcome that is sought.

The fourth element of a social housing finance system is **subsidies**. As Diagram 11 illustrates, these can enter the system in various ways and take various forms:

- Income subsidies ($S_I$) such as social security payments to aged persons, people with disabilities, the unemployed etc.;
- Housing subsidies ($S_{RT}$) such as housing allowances and housing benefits paid directly to tenants;
- Housing subsidies ($S_{RS}$) paid to social housing providers as rent supplements. In some countries, housing allowances and housing benefits can be paid directly to providers. In New Zealand, the housing subsidy as the difference between household rent and property rent is paid directly to the provider;
- Subsidies for ongoing costs ($S_{OC}$) such as payments for asset utilisation or payments to meet ongoing costs;
- Capital subsidies ($S_C$) such as interest subsidies and low-interest loans.

**Diagram 11: Elements of a social housing finance system**




R = Rent
- $R_P$ = Property rent
- $R_H$ = Household rent

OC = ongoing costs of providing housing
- CoC = Cost of capital
- M = Maintenance
- R&I = Rates and insurance
- A = Adminstration
- AU = Asset utilisation/depreciation

FV = Financial viability

S = subsidy
- $S_I$ = subsidy paid to tenant for general purposes
- $S_{RT}$ = subsidy paid to tenant as a rent supplement
- $S_{RS}$ = subsidy paid to social housing providers as a rent supplement to compensate for reduced rental revenue
- $S_{OC}$ = subsidy paid to social housing providers to reduce ongoing costs
- $S_C$ = subsidy paid to social housing providers to reduce the cost of capital

I = Income
W = Wages, salaries and other sources of income

C = Capital
CR = Capital requirement
DF = Debt finance (including borrowings, bonds and debentures)
FE = Free equity
PE = Private or other equity

The social housing finance system admits of many different permutations and combinations of rent, ongoing costs, capital arrangements and subsidies. The fulcrum around which these different operate is the financial viability. The four basic elements must be arranged in such a way that social housing achieves financial viability. A change in one element must be accompanied by a corresponding change in one or more of the other three. For social housing, the rent required to meet its ongoing costs will vary according to the particular combinations of the four elements. In Europe, where social housing extensively utilises debt finance for its capital requirements, ongoing costs are relatively high and so too are property rents and the level of housing subsidies required to support low-income tenants to meet those property rents.

On the other hand, in Australia, where social housing utilises free equity for the capital requirements, ongoing costs are relatively low, consisting primarily of the costs of administration, maintenance, rates and insurance, and asset utilisation. In public housing, the cost of asset utilisation is subsidised. Thus, the predominant form of rents, household rents which are relatively low, have been sufficient to meet the remaining ongoing costs. However, they may not be sufficient in the future as social housing faces rising operating costs (Hall and Berry 2004). In community housing, CHOs can charge higher rents because tenants are eligible for rent assistance. In this way they can meet the cost of asset utilisation without recourse to subsidies. This is further assisted through specific taxation arrangements or through concessions on utilities such as water and council rates. As charities providing housing at less than 75% market rent, CHOs can claim input tax credits and through fringe benefits arrangements reduce their overall administrative costs.

Social housing organisations can adjust the various elements of the social housing finance system in order to maintain their financial viability. In the short term, this can be achieved through a range of efficiencies, which reduce the ongoing costs of providing housing. Eventually, however, these efficiencies may impinge on the level of services provided to tenants. For example, the pressure to increase stock with a given level of capital funds can result in the acquisition of stock, which has long-term costs for both the tenant and the SHO. So stock is acquired in locations where land costs are lower but with associated reduced amenity. Housing standards and amenity are reduced such that the energy efficiency of dwellings is reduced, with associated higher heating and cooling costs for tenants. For SHOs, the acquisition of particular stock results in higher maintenance costs and higher levels of asset utilisation. Ongoing costs can be reduced by an SHO not expending sufficient funds on maintenance, leading to a run-down in housing stock.

As the income profile of tenants changes and more become reliant on Centrelink payments, the level of rent revenue decreases. With increased targeting, ongoing costs increase as an SHO spends more time with tenants, maintains more complex eligibility, assessment, waiting lists and allocation processes, and the costs of maintenance increase. To some extent, such increases in costs can be offset by increased efficiency and possible reduction in services.

Diagram 11 functionally relates the different elements of the social housing finance system.

It does not seek to describe the organisations involved nor the transactions between them. Rather, it seeks to understand the relations between the different elements of a social housing finance system. So, the reference to subsidies does not imply that they are subsidies from government. Indeed, they may have a number of sources. For example, in community housing, these subsidies come from non-government organisations. They could also refer to internal subsidies. The reference to these elements within an SHO does not imply that it applies to organisations, as such – they could be involved in a range of non-housing activities as well. Rather, it refers to the social housing finance system, which operates within the organisation in relation to their housing activities.

Diagram 11 places rent within the larger framework of the social housing finance system. The point of the diagram is to highlight the interrelationships between the key elements of social housing finance system: rent, ongoing costs, capital and subsidies. It also calls attention to the relationship between the cost of capital and the institutional framework for raising capital, and between the capacity of tenants to pay rent and the income of the tenant.

Rent is not just a payment by a tenant to a landlord. Rent is one of four elements within a social housing finance system. Within this system, the meaning of rent varies according to the relationships between the elements.

By placing rental systems within this framework, the changes in the Australian rental systems over the past 50 years become clearer, as do the differences in rental systems between Australia and other countries. We can understand why rents have been a particular topic of fierce debate in Australia, while in Europe the debates have revolved around different aspects of the social housing finance system such the reductions in capital or object subsidies and the adequacy of (and reduction in) housing allowances.

Finally it is important to note that, while Diagram 11 functionally relates the four core elements of a social housing finance system, it does not assume that the way in which they relate to one another in a particular country will always remain the same. The relationship is conditional upon a range of factors. Indeed, even the achievement of financial viability is conditional upon the arrangement of the elements. Why a particular configuration of the elements developed within a particular country is also conditional and could be further elaborated through an historical study, which would outline how the line of development occurred, a line of development that is subject to a range of possibilities.

## 5.7 Concluding comments

Section 5.3, Section 5.4 and Section 5.5 have outlined a range of social housing finance systems in Australia and overseas. As the elements vary from system to system, so too does the role of the rental system. In Australia as in New Zealand, Canada and the United States, the elements of the social housing finance system are set up around decisions about the rental system. In the United Kingdom, the Netherlands and Sweden, they are set up in relation to the capital arrangements.

The preceding analysis focuses purely on the social housing finance system. It has not considered any of the objectives of social housing. It makes clear that financial viability is an objective of the finance system, not an objective of social housing. As an objective of the finance system, financial viability is a necessary prerequisite for social housing. Unless social housing is financially viable, then it cannot continue to achieve its objectives. Unless it is financially viable, it will cease operations.

What, then, is rent? In this analysis, rent is the revenue required to meet the ongoing costs of providing social housing. In different social housing finance systems, however, this has a different meaning. In many European (including United Kingdom) finance systems, a property rent meets all the ongoing costs (including the cost of capital and asset utilisation) of providing social housing. In the New Zealand and Canadian finance systems, household rent is supplemented by housing subsidies direct to the SHOs, providing sufficient rent to meet their ongoing costs (including the cost of capital and asset utilisation). In the United States finance system, household rent is supplemented by housing subsidies direct to SHOs (based on the difference between rent and benchmark operating costs) such that SHOs have sufficient rental revenue to meet their operating costs. In the Australian finance systems, SHOs charge household rents (which are not supplemented by housing subsidies direct to SHOs) and this rental revenue is required to meet their operating costs.

The finance framework presented above allows for different starting points. A first starting point (in the Australian social housing system) is the setting of income-related rents. While the formula for these has changed over the past decades, it is around income-related rents that the other elements are built. First, property rents are increased until they reach market rents as a way of maximising revenue from rent. Second, the cost of capital is reduced, first through concessional loans and then through interest free (grant) CSHA funds. As a result, operating costs are lower. Third, SHOs receive operating subsidies to meet any remaining cost of capital and the cost of major refurbishments.

The second starting point (in many overseas social housing systems) is the provision of capital. Distinct institutional structures for raising capital funds provide an avenue for raising adequate levels of capital at reasonable, if not concessional, rates. The cost of capital is passed on to ongoing costs. These costs, in turn, provide the basis for determining rents (related to costs). Whether these rents are affordable depends upon the level and conditions of subsidies in the form of housing allowances provided to the tenants. In these arrangements, financial viability is achieved through the direct connection between rents and ongoing costs. The process whereby these are connected varies from country to country.
In Sweden, the framework for rent increases is negotiated by the peak tenant and provider organisations nationally, and local rent increases are negotiated within this framework by the local tenant and provider organisations. In the Netherlands, the rent increase is controlled by an act of parliament. In other countries, provider organisations determine their own level of increases. Within this arrangement, the housing allowance is determined on the basis of various characteristics of households and local housing markets and seeks to achieve a general level of affordability. In many European countries, cost-rents have been moving towards market levels as various types of object subsidies are withdrawn. These subsidies work to reduce the cost of capital and/or ongoing costs. Where the level of housing allowances keeps pace with increases in rents, particular affordability outcomes are maintained. Where the level of housing allowances is not increased or increased minimally, then particular affordability outcomes shift and housing becomes less affordable.

# 6. RENTAL SYSTEMS AND THE OBJECTIVE OF SOCIAL HOUSING

To briefly recap; the function, purpose or objective of a social finance system is to ensure the financial viability of social housing. It is a necessary prerequisite for its ongoing provision. Rent, as one element, has a particular role within the social housing finance system – its function is to meet the ongoing costs of providing social housing. Both the rental system and the finance system operate within the larger framework of social housing whose objective is 'to ensure that all households have access to housing which is adequate and appropriate as a key component of an equitable standard of living'.

As the review of social housing finance systems in Section 5 indicates, rent can play different roles in different systems. In all systems its essential function is to meet the ongoing costs of providing housing.

Traditionally, rent tends to be associated with the achievement of particular objectives of social housing such as affordability, equity, reduction of workforce disincentives and the autonomy of SHOs (Yates c.1994; Bramley 1991). It is to these associations that we turn in this section, asking more precisely: what is the role of rent in the achievement of the objective of social housing?

Each of the following sub-sections discusses the relationship between the objective of social housing, rent, and affordability (Section 6.1), equity (Section 6.2), reduction of workforce disincentives (Section 6.3) and the autonomy of SHOs (Section 6.4).

## 6.1 Affordability

This sub-section proposes that affordability is an indicator of the achievement of adequate and affordable housing and, as such, links rent and the objective of social housing. It starts by considering the mechanism by which affordability is achieved both within Australia and overseas. Beginning with benchmarks for affordability in the Australian context, it then considers the question: what is affordability? Finally, it discusses the significance of affordability and how this links to the objective of social housing.

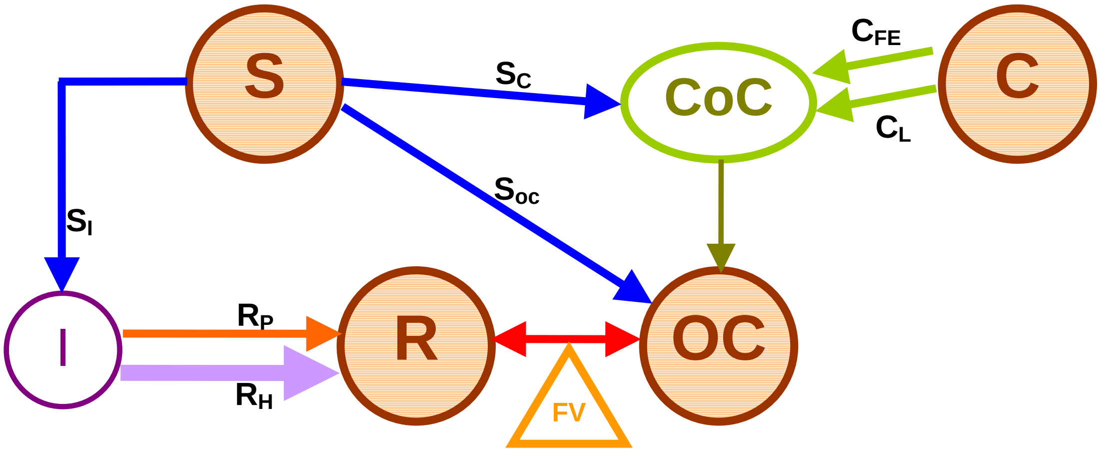
### (i) Achieving affordability

Different social housing systems achieve housing affordability for tenants in different ways.
In Section 2 above we have already outlined different social housing finance systems. The following outlines how, within the context of a particular social housing finance system, different countries achieve or seek to achieve affordability for tenants. It outlines the mechanism by which each country seeks to achieve affordability, not whether affordability is actually achieved.

#### Australia

Diagram 12 outlines the social housing finance system in Australia. Within this system, public tenants are charged either a property rent ($R_P$) or a household rent ($R_H$). They receive no rental subsidies ($S_R$) to assist with paying this rent. In Australia, then, whether public housing is affordable is determined by the rents that are charged. Property rents determine the maximum rent a tenant pays for any particular dwelling, but the relationship between the income of the tenant and the rent charged is determined by the formula used to determine household or rebated rent. As highlighted in Diagram 12, household rent is the mechanism by which the Australian social housing finance system achieves affordability. Insofar as the household rent is affordable and the dwelling is adequate and appropriate, public housing in Australia achieves the objective of social housing.

**Diagram 12: Public housing in Australia: affordability mechanism – household**




**rent**

I = Income
R = Rent
 $R_P$ = Property rent
 $R_H$ = Household rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
 $S_I$ = Subsidy paid to tenant for general purposes
 $S_{OC}$ = Subsidy paid to SHO to reduce ongoing costs
 $S_C$ = Subsidy to reduce the cost of capital
C = Capital
 $C_{FE}$ = Free equity
 $C_L$ = Loans

But the formula for household rents is no guarantee that the rent is affordable. Indeed, the benchmarks for both property rents and household rents have changed considerably over the past 50 years.

<u>Property rent as affordable</u>
Section 5.3(ii) above outlined these changes. As new property rental systems were introduced, property rents steadily increased. Where originally dwellings were constructed in such a way that property rents were related to the basic wage, property rents are now market-derived rents and vary substantially from local area to local area within each state.

As a result, property rents in many areas have become less affordable, and SHAs have increasingly relied upon household rents to provide affordable housing to their tenants. This is exemplified by the increasing proportion of tenants in Victoria receiving rental rebates – from less than 10% up until the early 1960s, less than 20% during the 1960s, less than 40% in the 1970s, 60% to 80% in the 1980s and 80% to 90% in the 1990s.[34]

<u>Household rents: 1945-55</u>
The 1945 CSHA specified in some detail the rental formula which states were required to adopt. The ‘rent-to-income ratio’ was one-fifth of family income equal to the basic

[34] See Diagram 7.2 in McNelis (2001).

wage. For families with income less than the basic wage, rebate of rental would increase by one-quarter for any amount below the basic wage – these families thus paid less than 20% family income in rent. For families with an income more than the basic wage, rebate of rental decreased by one-third for any amount of family income above the basic wage – these families thus paid more than 20% family income in rent. This ‘rent-to-income ratio’ of 20% family income remained largely intact until the late 1990s. The 1945 CSHA defined family income as the weekly income of the highest income earner, two-thirds of the next highest and one-third of other household members. Child endowment and maternity allowances were excluded.

Household rents: 1955 to the late 1970s

With the 1955 CSHA, the states were free to determine their own rental formulas. In response to a range of factors, they introduced a wide variety of changes, resulting in diverse arrangements between the states. These factors included:

- The basic wage was phased out of awards, and different proxies for the basic wage were adopted by SHAs;
- The Commonwealth made changes to the nature, type, structure and coverage of family payments such as child endowment and maternity allowances;
- The Commonwealth introduced a range of payments for particular purposes, e.g. education, orphan, mobility and telephone allowances, and carers and disability allowances;
- A broader range of income sources, such as maintenance, workers’ compensation and car accident payments, became more significant;
- Various local political factors impacted on decisions about the rental formula.

In 1968 the states began to receive Commonwealth funds for older persons housing. The states adopted different approaches to determining the level of rents for this group.

While the formulas have become increasingly complex and their details varied from state to state, reflecting continuing local policy decisions, the 20% rent-to-income ratio remained in place with a lower ratio for older persons.

Household rents from 1978

Since 1978 the rental formula has been regularly reviewed in Victoria, with household rents increasing above the CPI. Each review progressively introduced a higher rent-to-income ratio:

- To 20% from 1978 for those households with incomes below the minimum wage and, for those above this level, 20% minimum wage plus 25% any income above the minimum wage;
- To 20% from 1988 for those households below a specified income threshold and a sliding scale up to 25% income for households with incomes above that threshold;
- To 23% for existing tenants and 25% for new tenants from 1998;
- To 25% from 2003 for all tenants.

In addition, charges for boarders and lodgers increased from 10% income up to 10% minimum wage (from 1978), to 15% in 1995, to 20% in 1996, and to 25% income in 2003.

The reasons for these increases have been outlined in Section 5.3(ii) above. The focus here is their impact on housing affordability. At the very least, they indicate that housing has become less affordable. They have impacted differently on different groups. The extent of this impact and the extent to which public housing rents are currently not affordable are discussed elsewhere (Burke 1998; McNelis 2001; Burke and Ralston 2003). The key issue here is that these changes have been introduced without reference to an affordability benchmark. It is this issue that the next sub-section seeks to explore.

#### Affordability through household rents: New Zealand, United States and Canada

As in Australia, social housing is affordable in both New Zealand and the United States insofar as household rents are affordable. The level of household rents is related to household income through a rent formula, with each country having a different rent-to-income ratio: 25% income in New Zealand and 30% in the United States.

Within the Canadian social housing finance system, rents are affordable insofar as tenants eligible for RGI rents pay RGI rents, and rents determined using the RGI formula result in affordable rents for tenants. The rent-to-income ratio for RGI rents vary between the not-for-profit sector and public housing sector, as well as between provinces.

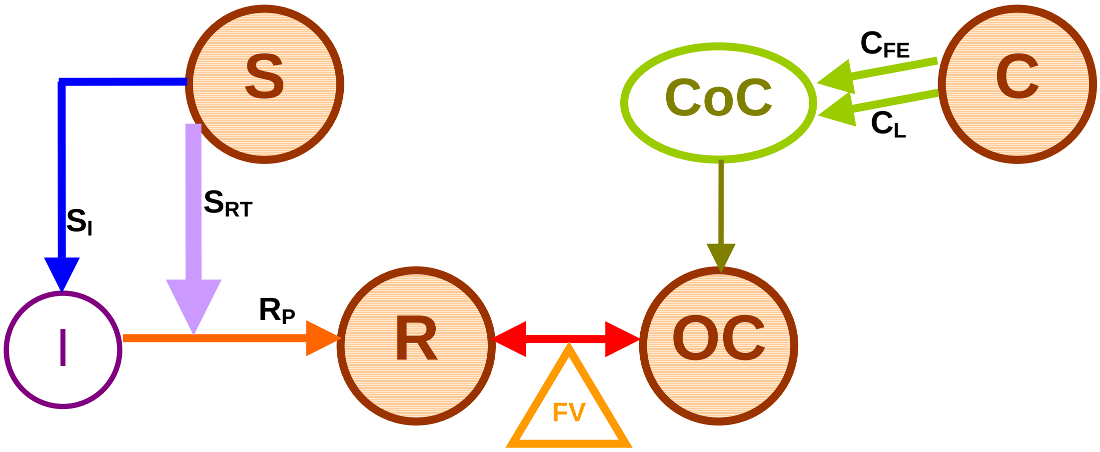
#### Affordability through rental subsidies: United Kingdom, the Netherlands and Sweden

In the United Kingdom, social housing tenants pay a property rent. For some, a housing subsidy to tenants, known as housing benefit, meets the full cost of their housing. For others, a part housing benefit meets some of the cost of their housing. Other tenants are not eligible for housing benefit and must meet the cost of their housing from other income sources. For the latter two groups, whether their housing is affordable depends upon the scope and structure of housing benefits. This includes such elements as eligibility criteria, the points at which the housing benefit begins to taper, the taper rate and the take-up rate. For those tenants who are not in receipt of any housing benefit, whether their housing is affordable depends upon the level of property rents.

As noted above, the United Kingdom social housing finance system is in transition and the new rental system will change the rents charged for each property. The conditions for achieving affordability, however, are the same as previously: whether housing benefit is sufficient to ensure affordability (where it does not cover all the property rent) and whether property rents continue to be affordable.

Social housing tenants in the Netherlands, Sweden and many other European countries pay a property rent, and those on low incomes receive some form of housing subsidy or housing allowance. This subsidy varies according to household type, the level of rent and the level of income of the tenant. Social housing is affordable then insofar as the housing subsidy is sufficient.

**Diagram 13: Social housing in Europe: affordability mechanism – rental subsidy**[35]




I = Income
R = Rent
$R_P$ = Property rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
$S_I$ = Subsidy paid to tenant for general purposes
$S_{RT}$ = Subsidy paid to tenant as a rent supplement (housing benefit or housing allowance)
C = Capital
$C_{FE}$ = Free equity
CL = Government or private sector loans

### (ii) What is affordability?

The previous sub-section outlined the various ways in which social housing finance systems seek to achieve affordability and the conditions under which it is achieved. In some countries affordability is directly related to the rent charged, in others it is related to the housing subsidy. This indicates how affordability can be achieved. It does not indicate whether it is actually achieved. This raises the more pressing question: what do we mean by 'housing affordability'?

The first thing to note is that affordability relates primarily to an individual household – the question is whether housing is affordable for this household. The mechanism (whether rent or housing subsidy) seeks to deliver affordability for each household. For delivery and measurement purposes, however, individual households are usually grouped.

#### Rent-to-income ratio as affordability benchmarks in Australia

In Australia, a predominant view is that housing is affordable when a tenant pays less than a specified proportion of their income on rent. Housing affordability is regarded as a function of rent-to-income ratio. In this view, the debate tends to focus on whether the ratio should be 20% or 25% or 30%. Under this approach, housing is regarded as affordable when the rent-to-income ratio is struck in such a way that a household has sufficient income to meet its other household costs. Burke (2003) characterises this approach to rents as a non-shelter-first approach and contrasts it with a rent-first approach.[36]

Under the non-shelter-first approach, the rent-to-income ratio is set in such a way that tenants have sufficient after-housing income to meet their non-shelter needs (food,

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35 This diagram does not include all the types of subsidies provided in these European countries, in order to highlight the affordability mechanism. See Diagram 9 (United Kingdom) and Diagram 10 (the Netherlands and Sweden) above for more details.

36 This is discussed above in Section 4.2(i).

clothing, transport, medical care, education etc.). In this way, housing affordability is achieved without compromising the tenant's capacity to meet their non-shelter needs.

This approach recognises the centrality of housing costs in achieving a minimum standard of living and that it is often housing costs which undermine this achievement. It implies that social housing will play the primary role in assisting households to achieve a minimum standard of living – it will ensure that a household's income is adequate by reducing the cost of housing to such a point that the standard can be achieved.

### Budget standard approach

This points to a larger issue. The achievement of housing affordability is quite complex. It is an issue that cannot be understood solely in terms of rent-to-income ratio. It must be addressed in the larger context of a minimum standard of living, with adequate and appropriate housing as one component.

Saunders et al. (1998: 4) in their discussion of a minimum standard of living define a budget standard as 'what is needed, in a particular place at a particular point in time, in order to achieve a specific standard of living'. They explore the conceptual and methodological issues involved in developing such a standard. Two things are of note in the relation to housing affordability. First, the specific standard of living incorporates housing. Second, the cost of the components of the standard of living will vary within each household type, but for most households these variations are not highly significant. The cost of housing, however, varies so significantly between households of the same type that it requires particular consideration in the development of the budget standard. Indeed, the cost of housing is such that it can undermine a household's capacity to achieve a specific standard of living. It is for this reason that housing affordability becomes an issue.

In this larger context of achieving a minimum standard of living, rent as a proportion of income is not relevant. It doesn't matter whether rent is 20% or 30% or 40% of income. What is relevant is whether a household has achieved a minimum standard of living and, thus as a proxy, whether it has sufficient income to achieve this standard.[37] In short, housing affordability is only really achieved when the standard of living is achieved. This standard of living is only achieved when a household's income is sufficient to meet both the cost of housing (rent) and its other costs.

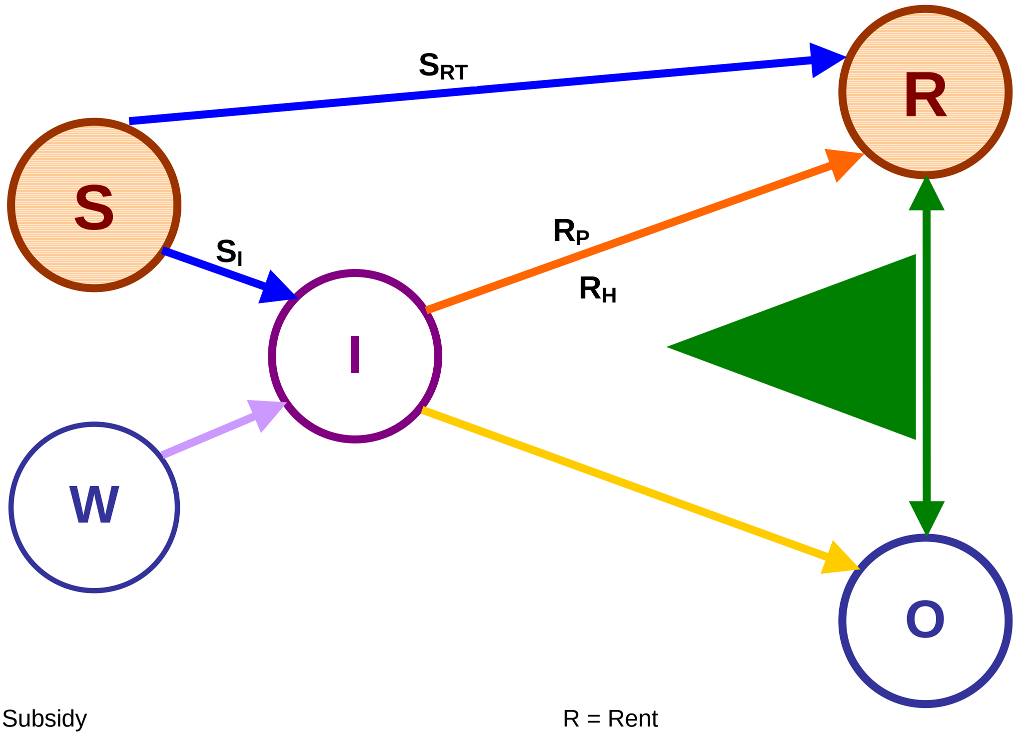
In this larger context, measures of housing affordability, which relate only income and household rent, are inadequate. Housing affordability is not a function of income and household rent, but of the complex interaction between three elements:

- A tenant's income;
- A tenant's rent (as one component within a specified standard of living);
- The cost of the remaining components within a specified standard of living.

The affordability of social housing can only be properly discussed and measured within this larger context. This relationship is illustrated in Diagram 14 below.

[37] This raises the issue of determining/measuring whether a household achieves a minimum standard of living. The standard way of doing this is by measuring whether the household has a level of income (budget standard) required to achieve this standard. The weakness of this approach is that some goods such as social housing may be provided at less than the rate allocated for this component.

**Diagram 14: Affordability and achieving a standard of living**




S = Subsidy
$S_I$ = subsidy paid to tenant as income for general purposes
$S_{RT}$ = subsidy paid to tenant as a rent supplement
W = Work income
I = Income

R = Rent
$R_P$ = Property rent
$R_H$ = Household rent
O = Other (non-housing) living costs

The key difficulty is the variability in the cost of housing (rents). As noted above, this can vary significantly according to location, size, type, style and materials etc. Of course, the cost of some of the other components will vary as the cost of housing varies, e.g. the cost of transport. This points to the complex relationship between these elements. In this larger context, a more sophisticated measurement of housing affordability is required.

### (iii) Why is affordability important?

As discussed above in Section 3.3(ii), the purpose of social housing is to ensure that all households have adequate and appropriate housing. This purpose does not mention affordability. So what is the relationship between the objective of social housing and affordability?

Having discussed in the previous sub-section what affordability means, we are now in a position to explore its relationship with the purpose of social housing. The provision of social housing is one component among many that constitutes a minimum standard of living. This standard of living has a cost, but with sufficient income it can be achieved by any household. But this does not draw attention to the complexity of the issue, viz. that the required income depends upon the cost of the components of this standard of living and that these costs (for the household) can be varied through the provision of various forms of subsidies to the provider. In short, the achievement of this minimum standard of living is a function of both income and costs and thus can be achieved either by increasing income or by reducing the costs of one or more components to the household. In Australia, New Zealand, Canada and the United States, household rents serve to reduce the cost of housing for households. In the United Kingdom, the

Netherlands, Sweden and many other European countries, housing subsidies serve to increase income so that tenants can pay property rents.

The overall goal in all countries is the achievement of a minimum standard of living. One of the critical components of this is housing. It is critical because it has the capacity to undermine the achievement of this standard of living. While households may have sufficient income to achieve this standard, particular housing situations can undermine it.

Within this context, measures of housing affordability can play a critical role as an indicator of whether the cost of housing is undermining this standard of living. Housing affordability operates within the framework of this standard of living. The measure of affordability is a function of income, the cost of housing (rent) and the cost of other components within the standard of living. Housing is affordable when a household has sufficient income to meet both the cost of housing and the cost of other components of this standard of living.

In summary, housing affordability is not an objective of social housing. Rather, it serves as a key indicator of whether a minimum standard of living is being achieved and of the extent to which the cost of housing is undermining the achievement of this standard.

## 6.2 Equity

Equity is a complex notion with a number of layers.

We have already discussed equity within the objective of social housing where it relates the standard of social housing and its comparability with general community standards. A second layer is the relationship between equity, rent and the objective of social housing. This section seeks to highlight some of this complexity in the notion of equity by:

- Outlining the various historical uses of the equity and their different meanings (based on the history of rental systems in Victorian public housing);
- Highlighting the scope and measures of equity within this history;
- Showing the relationship between equity and rents;
- Showing the relationship between affordability and equity.

### (i) Equity in the history of rental systems in Victorian public housing

The complexity of equity and its various meanings can be illustrated by reference to the history of rental systems in public housing in Victoria.

<u>1940s</u>
In the 1940s, the Housing Commission of Victoria (HCV) adopted a dwelling-based historic cost-rent system where rents were based on the costs of providing each particular housing project or dwelling. This established *historic equity* between public tenants and owner-occupiers acquiring or renting housing at a particular point of time. For example, if an owner-occupier and the SHA purchase the same type and quality of dwelling in the same location and raise a loan with similar terms and conditions, the housing costs of the owner-occupier and the rents of the public tenant will be similar.

<u>1960s</u>
In the 1960s, HCV introduced ‘rent averaging’ based on a pooled historic cost-rent system. Under this system, rents were distributed according to a limited number of factors: the type of dwelling (whether house or flat) and the number of bedrooms.

This system achieved *internal equity* between public tenants while maintaining some elements of *historic equity* between public tenants and owner-occupiers. It achieved *internal equity* because public tenants in the same size and type of dwelling paid the same rent whereas, under the previous rental system, rents varied according to when the dwelling was purchased. But rent averaging also maintained some elements of *historic equity*. Equity between public tenants and owner-occupiers was achieved for the stock as whole. Rather than a dwelling by dwelling comparison at the time it was acquired, the pooled historic cost-rent system compared the whole stock of dwellings. The costs of each dwelling continued to follow the same pattern as an owner-occupier purchasing at the same time. However, the benefits of the ownership of stock were spread throughout the rental pool.

<u>1970s to 1990s</u>

Rent averaging sought to achieve *internal equity*. However, it did not sufficiently differentiate between the location, quality and type of housing stock. While it achieved equity in terms of what tenants paid for housing, it only partly took account of the differences in housing services received by each tenant. The introduction of a market-related and market rental system in the late 1970s and early 1990s respectively and the introduction of a current cost-rent system in the early 1980s allowed HCV to take into account a larger number of factors. They both introduced *market equity* but in different ways.

With the current cost-rent system came depreciation and the opportunity cost of capital, both of which were related to the market value of the dwelling. *Market equity* involved equity between public tenants as rents were distributed among them based upon the capital improved value of each dwelling. Given the cost factors involved and the method of rent distribution, current cost-rents differed from market rents and thus did not explicitly involve equity with private tenants.

The market-related rental system, however, explicitly related public housing rents to private rents. *Market equity* involved not only equity between public tenants but also between public tenants and private tenants.

The introduction of market-related rents made a decisive break with *historic equity* between public tenants and owner-occupiers. No longer were rents based upon their historic costs but rather on market rents (and their current market value). *Market equity* shifted equity from comparability of public tenants with owner-occupiers to comparability of public tenants with private tenants.

<u>1990s</u>

The introduction of market-derived rents and a market framework for public housing has shifted the focus from rents paid and the outcomes for tenants to the level of subsidy provided to tenants. Market-derived rents highlighted the differences in subsidies received by public tenants and private tenants. They highlighted differences within public housing where tenants can pay the same rebated rent for dwellings with markedly different property (market-derived) rents (and thereby receive different levels of subsidy). Rather than focusing on the rent paid by public tenants, the focus shifted to the subsidy they received and whether the relative level of subsidy is equitable, i.e. *subsidy equity*.

*Subsidy equity* has driven recent changes in the rental rebate formulas where the rent-to-income ratio for rebated rents has increased from around 20% of income to 25% of income, on the grounds that it would reduce the difference in subsidy between public tenants and private tenants. A more radical version of *subsidy equity* would abolish rebated rentals altogether. For example, the Industry Commission (1993a) proposed that public housing tenants receive a subsidy based on a benchmark rental for a standard dwelling (see also McNelis and Burke 2004: 8 ff.). This rental would vary according to household type, region and income, with the tenant paying the difference between the subsidy and market rent. As a result, all public tenants would pay a market-related rent and their housing choices would be subject to market price signals.

The focus on *subsidy equity* marks a fundamental conflict within public housing rental policy. *Subsidy equity* focuses on the level of subsidy paid to a household, rather than on the outcome achieved or the capacity of tenants to pay rent or *outcome equity* (Yates c. 1994).

### (ii) What does 'equity' mean in relation to rents?

In its most common meaning, equity refers to the relative costs of housing between households and involves two principles referred to as horizontal equity and vertical equity. The principle of horizontal equity holds that households in similar circumstances should pay similar costs or rents for their housing. The principle of vertical equity holds that households with higher incomes should pay higher costs or rents (Flood and Yates 1987).

However, the brief history highlights the complexity and variations in the meaning of equity. Given these varying meanings, how do we decide among them? Why would one take precedence over another? What does equity mean in the context of housing policy?

The brief history of equity above reveals that the meaning of equity can vary by two particular characteristics:

- The scope of equity – whether it applies to all households or is limited to some households, i.e. equity between public tenants and owner-occupiers, between public tenants and private tenants, and among public tenants;
- The measure of equity – whether it is measured on the basis of outcomes or on the basis of subsidies.

It also highlights two trends: first, the narrowing of the scope of equity from equity between all households to equity between public tenants and private tenants; second, a change in the measure of equity from equitable outcomes to equity in the level of subsidies provided.

Further, we can note that the practical implementation of equity is complicated by:

- The preferences of households which can vary by location, style, quality and size of dwellings, with consequent variations in the standard of living;
- Variations in house prices and capital gains which reflect the historical and current preferences of a particular set of households – those with the financial capacity for effective demand;
- The differential impact on different subsidies, e.g. the capital required by SHOs to acquire new stock is higher than it otherwise would be because of dominance of owner-occupiers in the marketplace and the taxation subsidies they receive.

This does no more that demonstrate the complexity of trying to base housing policy on equity. It is this issue that requires further exploration. But in conclusion we can note one further dilemma. As a basis for housing policy, equity is relative – it is about comparing subsidies or outcomes between one household and another, and ensuring that one household does not receive a level of assistance beyond other comparable households. It is here that issues of the scope of equity and its measurement are points of debate. Equity is about relativities between households. However, the politics of equity is often about structuring the scope and measurement of equity in such a way that particular groups benefit while others do not. For example, the focus may be on the spread of a limited pool of funds/resources/assistance between households in the rental market (public and private). At the same time, a different tenure – owner-occupied housing – receives massive subsidies.

But in a context of limited resources, a further meaning relates equity to the level of subsidy received by households: households with similar income levels would receive similar levels of subsidy, households with higher incomes would receive low levels of subsidy.

### (iii) Equity and rent

The brief history of rental systems outlined above also illustrates how different rental systems can embody different meanings of equity, indeed, that a rental system as a whole can encompass complex equity objectives at different levels.

Broadly, an income-related rental system ensures that households with higher incomes pay higher rents. A property rental system usually ensures that better quality dwellings or better located dwellings have higher rents. The Industry Commission proposed a household rent where the level of subsidy was determined first according to the income of the household. The household rent was the difference between the property rent and the subsidy. Equity is understood in terms of subsidy rather than the costs of housing. A property rental system based on market rents provides equity between private tenants and social housing tenants.
A property rental system based on historic cost-rents tends to provide equity between social housing tenants and owner-occupiers. A discounted property rental system that recognises the taxation benefits provided to owner-occupiers (such as exemption from capital gains tax and the non-taxation of imputed rents) can promote subsidy neutrality between tenures.

### (iv) Affordability and equity

The foregoing has highlighted the strong relationship between affordability and rents, and between equity and rents. But what is the relationship between affordability and equity? Which should have priority? These questions are important if we are to determine what we want from a rental system, or more broadly from social housing?

Flood and Yates (1987: 7) describe equity as 'the principal reason that governments intervene in housing markets…and most housing policies are justified in terms of horizontal and vertical equity'.

What is most notable about the history of rental systems is that equity has taken precedence over issues of affordability.

In response to the failure of the private market, social housing has the primary purpose of providing a minimal standard of housing to those unable to attain it through 'mainstream' economic processes. Housing affordability is a key indicator as to whether this minimal standard is being achieved.

On the one hand, housing policies based on equity seek to relate the standard of living of one household with that of another. They recognise the stratification of society, the extent to which different households and different groups have different standards of living, and that households in similar circumstances should receive similar levels of assistance while those with higher incomes should receive relatively less. It is concerned with comparisons between households. Affordability, on the other hand, is 'absolute' in the sense that it relates a household to a minimum standard of living (which itself can differ from one country to another). Equity, then, is about a standard of living in one household compared with another. It operates at the level above a minimum standard of living and is concerned with the comparability between households. Affordability, as the indicator of whether the minimum standard of living is achieved, has priority over equity: it is only when affordability is already achieved that issues of equity begin to be considered.

The basic responsibility is to those who cannot attain a minimum standard of living. Policies based on equity relate to those who have already reached this minimum standard of living. Thus affordability has priority over equity.

## 6.3 Workforce incentives

The starting point for this exploration of workforce incentives and their relationship with rental policy is the recently completed work by Kath Hulse and Bill Randolph (Hulse et al. 2003; Hulse and Randolph 2004). This report, based on interviews with 400 private and social housing renters in Melbourne and Sydney, sought 'to fill a gap in our knowledge about the role of housing and housing assistance in contributing to disincentives to taking unpaid work or working more hours'. One particular aspect of this report is relevant to this paper, viz. the impact of rental policy within social housing as disincentives for work (Wulff et. al. 1995).

Before we explore this particular issue, it is important to locate a discussion of rental policy and workforce incentives within a larger context: first, to locate workforce incentives in relation to the objective of social housing; second, to locate the significance of rental policy as a disincentive for work among a range of other disincentives.

### (i) Workforce incentives as an objective of social housing

Workforce incentives relate to the objective of social housing, the provision of adequate and appropriate housing, insofar as the location of housing impacts on the opportunities of tenants to access employment, education, training and reskilling. Hulse and Randolph (2004: 47) refer to this when they note that many tenants face significant barriers to getting a job, particularly 'age discrimination, location of current residence relative to jobs, and lack of skills, education and poor health status'. Their findings indicated that SHOs can play a role in minimising work disincentives and 'that an integrated approach to policy and practice is required which includes: creating jobs in areas where unemployed renters currently live; addressing issues of transport and travel costs to assist people to commute to jobs; and enabling people to live in or move to areas with good job prospects' (Hulse and Randolph: 56).

The provision of adequate and appropriate housing incorporates those elements that provide opportunities for work, education, training and reskilling. The location of this housing, but also arrangements in regard to allocation of housing and transfers between dwellings, are important elements in achieving this aspect of the objective of social housing.

### (ii) Work disincentives and rental policies

At one level, the provision of such adequate and appropriate housing (incorporating the elements of opportunities for work, education, training and re-skilling) may require additional capital outlays with subsequent impacts on ongoing costs, subsidies and rent.

At another level, an income-related rental policy is perceived to play a particular role in encouraging or discouraging tenants into the workforce. In this view, rents are seen as an impediment to people seeking work because tenants recognise that, despite work and additional income, the net effect on their income and standard of living is marginal. Such a view focuses specifically on the immediate behavioural aspects at the point of a decision about whether to work or not. It overemphasises these aspects to the detriment of the deeper dynamics of human actions. This narrow view is based upon a utilitarian view of human responses, inadequate to the complexities of any situation. In this view, an income-related rental policy may be a significant workforce disincentive but it only operates at the margins.

This is highlighted in the research by Hulse and Randolph where many tenants were willing to work even though they knew that the net effect would be an income situation similar to or even worse than their situation without working. They conclude:

> These findings strongly imply that rent levels and housing assistance per se are only part of the picture. Instead, if we are really concerned about the barriers that their housing situation places on renters trying to find a job that will offer long-term financial rewards and security, then a range of interrelated initiatives to address both the supply and demand side of the equation need to be developed. Supply side measures will include programs to enable access to affordable housing in job rich areas, freeing up the lettings system to allow movement across areas, better RA to better meet the higher rents in some metropolitan areas…The point is, in order to break down the stubborn concentrations of unemployment in certain housing sub-markets, we need to be prepared to think well beyond current limited policy prescriptions and approaches (Hulse and Randolph 2004: 61).

Moreover, a focus on the impact of reduced income due to rental policy as workforce disincentives assumes both an impoverished view of work and a particular view of a tenant seeking work. In a more developed view, work is about participation in society, not simply in the paid workforce. The reasons why tenants do not seek work or do not participate in the workforce cannot be reduced to laziness. Rather, they relate to more complex issues of a person's history, the opportunities available and the skills required in an economy undergoing massive change and dislocation of its workforce.

## 6.4 Autonomy of State Housing Authorities

Section 5.3(ii) above has briefly outlined the changes in rental systems over the past 50 years within public housing. Section 6.1(i) and 6.2(i) also outlined these changes in relation to affordability and equity respectively. However, there is another dimension to this history, one which reflects the increasing control of Commonwealth and state governments over SHAs and changes in their autonomy as Australian public housing went from a historic cost-rent system to a current cost-rent system and then to a market-derived rent system.

This control is particularly reflected in the changing structure of SHAs as Commonwealth and state governments sought to maintain the financial viability of SHAs without additional subsidies. Their structure shifted from administrators of assets held in trust for tenants, to managers of assets for which Commonwealth and state governments were seeking adequate returns.

Under the 1945 CSHA, Commonwealth funds for public housing were provided as advances to the states. Within this framework of advances, SHAs were established and operated at arm's length from government, with an obligation to repay advances. In this way they acquired housing assets. The historic cost-rent system reflected a prevailing sense that SHAs held these assets in trust for the benefit of public tenants. Thus, all public tenants shared in any benefits derived from the ownership of these housing assets. It was as if public housing tenants collectively owned these assets and the benefits derived from them. While formal ownership or title to dwellings was vested in the Director of Housing, these assets were viewed as if they were 'owned' by public tenants. They were held 'in trust' and administered for the benefit of tenants.[38]

Over the 40 year period from 1956 to 1996, the notion of 'ownership' shifted from assets administered 'in trust' on behalf of tenants to 'equity' held by Commonwealth and state governments. Four particular events promoted this view: the sale of dwellings in the 1950s, 1960s and 1970s; the introduction of the market-related rental policy; the changing status of SHAs; and the shift from Commonwealth advances to capital grants.

The 1945 CSHA envisaged the ongoing ownership of dwellings by SHAs for rental purposes. The 1956 CSHA cleared the way for them to sell dwellings for owner-occupation, partly to ensure their financial viability. As the construction and sale of dwellings gathered pace, it was accompanied by a new attitude to SHA assets. They were for sale to owner-occupiers, rather than stock accumulated on behalf of tenants.

The reports of the early 1970s focused attention on the subsidies to public tenants (in relation to rents payable in the private rental market). The market framework established in the 1978 CSHA compared public housing with the private rental sector. In particular, public policy makers began to measure subsidies provided to public tenants against the benchmark of market rents. The Commonwealth government sought to minimise rental subsidies and maximise public housing revenue. It sought to use this revenue to maximise the number of people who would be subsidised. In this way, the Commonwealth could minimise its financial commitment to public housing through the budget. The controlling interest here was the Commonwealth government.

In the late 1970s and early 1980s, the legal status of most SHAs changed. For example, HCV was abolished in the early 1980s and was reorganised as a department of the state government.

In the late 1980s, the form of capital funds changed from advances to capital grants, again to ensure the financial viability of SHAs. As the financial relationship between SHAs and state governments changed, state and Commonwealth governments began to view capital grants then all public housing assets as their equity in public housing. The benefits of that ownership accrued to them. Thus, in the early 1990s, one of the performance measures for public housing became the rate of return, and the Commonwealth government floated proposals for a dividend payment from SHAs (Ecumenical Housing 1997).

## 6.5 Concluding comments

This section has focused on the relationship between rent and the objective of social housing, looking at four 'objectives' that are often associated with rental policy – affordability, equity, reduction of workforce disincentives and the autonomy of SHAs.

While affordability is often seen as a primary objective of social housing, here it is argued that rather than being an objective in itself, affordability is an indicator of whether the objective of social housing – providing adequate and appropriate housing – is being achieved.

Equity is complex, with many layers of meaning. It plays an important role in determining what adequate and appropriate housing is, and also in determining rents. But its particular role is secondary to that of affordability. It plays a role where affordability has already been achieved in ensuring equality between households. Adequate and appropriate housing incorporates housing that provides access to employment,

[38] A similar framework applied to other government enterprises such as the State Electricity Commission, Melbourne Board of Works and Australian Post Office.

education and training. Rental policies, particularly income-related ones, may deter tenants from seeking work. However, in the context of other policy parameters, they play a very limited role and tend to operate at the margins of choices.

Changes in the financial arrangements including the property rental systems have reflected the increasing control of SHAs by state government and the Commonwealth government with consequent loss of autonomy.

* * *

Rent is determined by a rental system. Yet the aggregate of this rent must not only ensure that social housing can meet its ongoing costs and be financially viable, in the context of the objective of social housing, it is a payment which provides the tenant with adequate and appropriate housing as one component of a minimum standard of living. As affordable, the level of rent indicates whether this standard is being achieved. As equitable, the level of rent indicates whether the standard of social housing is comparable with that enjoyed by other households. As properly located in relation to employment, education and training (and other services and amenities), the level of rent indicates whether social housing meets one particular standard.

Finally, we note the source of the misunderstanding that housing affordability and financial viability can be traded off. This arises because Australian social housing seeks to mesh two aspects of rental policy within one decision, viz. the decision about household rents. Household rents have to achieve two objectives: a price that is affordable to tenants for housing which is adequate and appropriate as a key component of an equitable standard of living; and the ongoing financial viability of social housing as the necessary prerequisite for the continued achievement of the objective of social housing. In other countries, these two aspects are dealt with in separate decisions (though they may be linked). In most countries, except the United States, as outlined above, financial viability is a function of the adequacy of property rents. In the United States, it is a function of the adequacy of the cost benchmarks as determined by HUD. While affordability in New Zealand, Canada and the United States is a function of the household rental system and internal to processes of SHOs, in most European countries affordability is a function of a decision regarding the level of rental subsidies to be provided to households. Such a decision is external to SHOs and places the responsibility for affordability in the hands of governments.

This highlights a unique aspect of Australia’s social housing finance system.

# PART C: RENTAL SYSTEMS IN AUSTRALIA: IMPLEMENTATION

In Part B, the analysis of rental systems distinguished between the process whereby rents are determined, the role the aggregate of rent plays within the social housing finance system and the role rent plays in relation to the objective of social housing.

While the focus of Part B is on an analysis of current rental systems, the focus of Part C is on the future – on implementing changes in rental policy and practice in a three step process. The analysis in Part B leads us to some particular policy positions which are summarised below in Section 7. It is on this basis that we can evaluate rental policy options and propose changes. But such changes must mesh with other aspects of social housing. This is discussed below in Section 8, while Sections 9 and 10 move toward particularisation by outlining a range of options to achieve specific objectives and their respective policy parameters and by modelling two of the rental options.

## 7. POLICY PARAMETERS[39]

This paper has been working towards a context within which to frame directions for rental policy in Australia. By seeking to understand the role of rental systems within the social housing finance system and in relation to the objective of social housing more thoroughly, it has developed some policy positions on rental systems which can be used to frame some future directions for rental policy and practice in Australia. The following briefly summarises these policy positions under four headings: the objective of social housing, rental systems, rental systems within the social housing finance system, and rental systems and the objective of social housing.

**The objective of social housing**

Social housing has a single objective: to provide adequate and appropriate housing as one component of an equitable standard of living. This objective has many different dimensions and our understanding of these dimensions and their interrelationship evolves over time. The assumed diversity of objectives enter into social housing through the particular, varied and often contradictory interests of the participants: tenants, providers, government, local communities etc. It is at this level that objectives have to be 'balanced'. It is at this level that trade-offs can be made provided that they are consistent with the objective of social housing. Insofar as an organisation is not achieving the objective of social housing, it is not providing social housing.

Financial viability is not an objective of social housing. Rather, as argued in Section 5, it is the specific objective of the social housing finance system and a necessary prerequisite for the ongoing provision of social housing;

[39] Policy is being used in a technical sense here, not the usual sense of a position agreed within an organisation or by government, but rather as what normatively emerges from an analysis.

Affordability is not an objective of social housing. Rather, as argued in Section 6.1, it is a key indicator as to whether the objective of adequate and appropriate housing is being achieved;

The brief report on findings from the interviews, forums and surveys in Section 2 noted that the tension between financial viability for SHOs and affordability for tenants is the key unresolved issue for rental systems. The foregoing analysis, however, argues that both affordability (as a key indicator as to whether social housing is achieving its objective) and financial viability (as the specific objective of the finance system and a necessary precondition for the ongoing provision of social housing) are constitutive of social housing and, as such, cannot be traded off. However, there is a tension between affordability and financial viability and any rental policy must resolve this.

This tension within rental policy and the view that rental policy must trade off housing affordability and financial viability arises within Australian social housing because decisions about household rents must achieve both housing affordability and financial viability. In other finance systems, decisions regarding housing affordability and financial viability are separated.

### Rental systems

The purpose of a rental system is to determine a rent. Section 4 outlined different types of rental systems (through which a rent could be determined) and raised the question as to which was the most appropriate for social housing. This shifted the context of discussion and recognised that the rental system operates within the broader context of the social housing finance system and the objective of social housing. It is these contexts that provide the basis for assessing different rental systems.

In relation to the social housing finance system, aggregate rent is the revenue required to meet the ongoing costs of providing social housing and ensure financial viability. In relation to the objective of social housing, rent is the payment that provides the tenant with adequate and appropriate housing as one component of an equitable standard of living.

### Rental systems within social housing finance systems

A unique aspect of Australia’s social housing finance system is that household rents have to serve two functions: achieving the purpose of social housing by providing housing at an affordable price, and ensuring the ongoing financial viability of social housing as the necessary prerequisite for the continued achievement of this purpose. In other countries, these two aspects of rental policy are dealt with in separate decisions (though they may be linked).

### Rental systems and the objective of social housing

Affordability is a function of income, rent and other costs required for a minimum standard of living. Moreover, it functions at the household level rather than at an aggregate level where rent revenue operates within a social housing finance system.

The current mechanism whereby affordability is achieved within social housing in Australia is through household rents. However, this is not the only mechanism through which affordability can be achieved.

As affordable, the level of rent indicates whether the tenant is achieving an equitable standard of living. As equitable, it indicates whether the standard of social housing is comparable with that enjoyed by other households in the community.

Affordable rents have priority over equitable rents because affordability relates to a minimum standard of living while equity operates above this minimum standard of living and is concerned with the comparability between households.

Where social housing is properly located in relation to employment, education and training (and other services and amenities), the level of rent indicates that social housing is achieving one aspect of its objective of providing adequate and appropriate housing as key component of an equitable standard of living.

* * *

These are the findings and policy positions resulting from the analysis of rental systems. They provide some key guidelines to inform any changes in rental policies and practices. However, while they provide some of the essential ingredients of rental policies and practices, they are not the only guidelines. Rental policies and practices must also mesh with other systems within social housing. It is to these issues that we now turn.

# 8. PLANNING: MESHING THE RENTAL SYSTEM AND OTHER ELEMENTS OF SOCIAL HOUSING

As noted previously, planning meshes the rental system and other elements of social housing. Planning is essential if we are to avoid bright ideas that address one particular issue only to create disasters in other areas. The history of public housing is replete with such bright ideas.

Planning is the process whereby the policy positions within rental systems are meshed, and rental systems are meshed with other systems within social housing (and their policy positions), with other systems external to social housing and institutionalised within an organisational structure.

Section 3.3(i) discussed an explanatory definition of social housing and referred to other systems within social housing including eligibility/allocations, housing acquisition, asset management, property management, tenancy management and finance.

Adequate meshing of the rental system with the systems within social housing, with other external systems and within an organisational structure depends upon the adequate development of research in other areas. The complexities of such work and the complexities of planning are beyond the scope of this research.

The following sections, then, are indicative of the work that still needs to be done. Section 8.1 begins with a further expansion of the social housing finance system to highlight the links between this system and other elements within and external to social housing. Sections 8.2 to 8.6 outline five examples of how such meshing may occur in relation to some of the issues raised in the interviews, forums and surveys in Section 2: affordability and financial viability; financial viability and work incentives; administrative efficiency and rent-setting; property rents and equity; and household rents and equity. These examples have relevance for particular options proposed in Section 9.

The focus of this section is on meshing the rental system with other systems within the parameters of the policy positions outlined in previous section (Section 7). The focus then is on how these systems can work in a way that maintains or even assists in the achievement of these policy positions. But it would be amiss not to note that, within these policy positions for rental systems, there is much flexibility such that the particular rental system can work to assist the achievement of the specific objective of other systems, just as other systems can work to assist the achievement of the specific objective of the finance system.

## 8.1 A social housing finance system: a third expansion

The rental system does not stand alone. In order to achieve the objective of social housing, it has to mesh with other systems both within and external to social housing.

Diagram 15 below, based on Diagram 11, illustrates these broader connections around the four elements: rent, ongoing costs, capital arrangements and subsidies.

### Internal systems

Rent within the social housing finance system links with the <u>eligibility/allocations system</u>. Eligibility/allocations are a function of a tenant's income – access is restricted to

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rent
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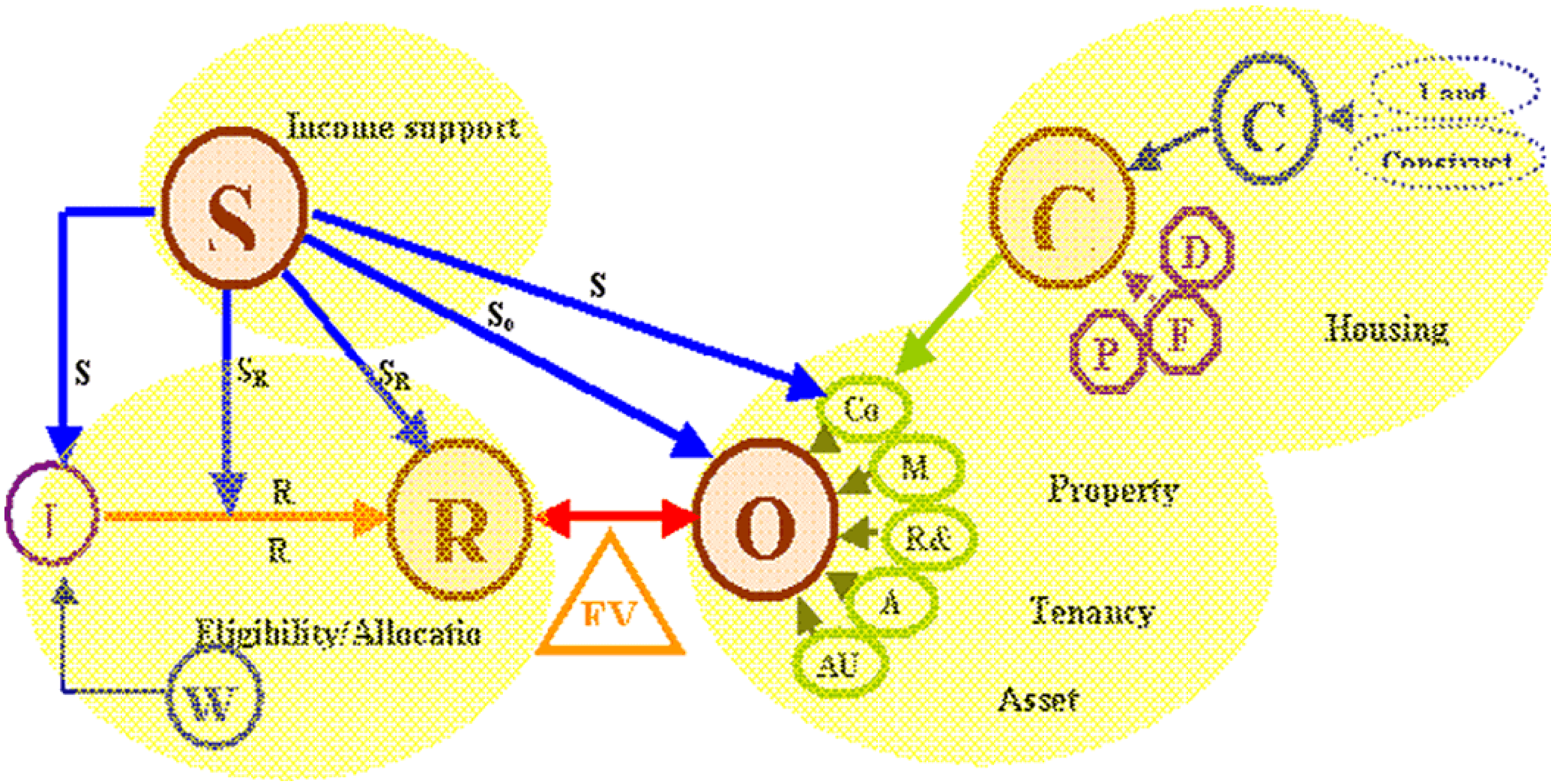
S = subsidy
SI = subsidy paid to tenant for general purposes
SRT = subsidy paid to tenant as a rent supplement
SRS = subsidy paid to SHO as a rent supplement to compensate for reduced rental revenue
SOC = subsidy paid to SHO to reduce ongoing costs
SC = subsidy paid to SHO to reduce the cost of capital
I = Income
W = Wages, salaries and other sources of income

C = Capital
CR = Capital Requirement
DF = Debt finance (including borrowi debentures)
FE = Free equity
PE = Private or other equity

particular income groups and priority is given to households with the lowest incomes. The tighter the income restrictions and the stricter the priority given to households on the lowest incomes, the lower the level of aggregate rent will be. Where the rental system is a function of income (for example, a 25% rent-to-income ratio), the lower the average income of tenants, the lower the level of aggregate rent. In this way, the eligibility/allocations system plays a significant role in the financial viability of social housing. One way of assuring this financial viability is to manipulate the eligibility and allocations system.

**Diagram 15: Social housing finance system and its links with other elements of social housing**




R = Rent
- $R_P$ = Property rent
- $R_H$ = Household rent

OC = ongoing costs of providing housing
- CoC = Cost of capital
- M = Maintenance
- R&I = Rates and insurance
- A = Adminstration
- AU = Asset utilisation/depreciation

FV = Financial viability

S = subsidy
- $S_I$ = subsidy paid to tenant for general purposes
- $S_{RT}$ = subsidy paid to tenant as a rent supplement
- $S_{RS}$ = subsidy paid to SHO as a rent supplement to compensate for reduced rental revenue
- $S_{OC}$ = subsidy paid to SHO to reduce ongoing costs
- $S_C$ = subsidy paid to SHO to reduce the cost of capital

I = Income

W = Wages, salaries and other sources of income

C = Capital

CR = Capital Requirement

DF = Debt finance (including borrowings, bonds and debentures)

FE = Free equity

PE = Private or other equity

Ongoing costs link to the costs of tenancy management, asset management and property management, as well as indirectly to housing acquisition through the cost of capital. Ongoing costs are a function of the cost of these systems.

**External systems**

Capital links with housing acquisition, and thus with broader systems of production, exchange and consumption of housing. This includes raising the capital (from various sources and under various conditions) required to acquire adequate and appropriate housing.

Subsidies link income support and the broader government policies that redistribute income and provide other services at a particular cost to tenants.

Such meshing is not limited to these elements only. There are broader dimensions that have to be considered. For example, a social housing rental system has to be institutionalised within an organisation. Thus, it has to mesh with organisational requirements, with the tasks and skills of housing practitioners and with administrative efficiency.

The proper operation of each of these systems with its specific objective will impact on each of the elements of the social housing finance system. Each system has its own dynamics. Each has its own imperatives or policy positions. Each has its own standard for measuring whether it is achieving its specific objective. Each is necessary for the functioning of social housing. Each is necessary for social housing to achieve its objective.

## 8.2 Meshing affordability and financial viability

One of the key issues raised in the findings of Section 1 is the tension between housing affordability for tenants and financial viability for social housing. A resolution of this issue is important to the future of Australian social housing, and this section seeks to mesh these two aspects of the rental system. The question here is: under what conditions can each tenant achieve affordability while social housing achieves financial viability?

As noted above, we are dealing with two aspects of rent: affordability relates to a specific household rent for each tenant; financial viability relates to an aggregate of rent, i.e. household rents and property rents. What we are seeking to achieve is a meshing or an integration of financial viability such that household rents are affordable for tenants. Both affordability and financial viability can be achieved where the aggregate of affordable household rents is sufficient to cover the ongoing costs of providing social housing. As the above analysis of both the social housing finance system and affordability indicates, each can be achieved in many possible ways and so too can their integration.

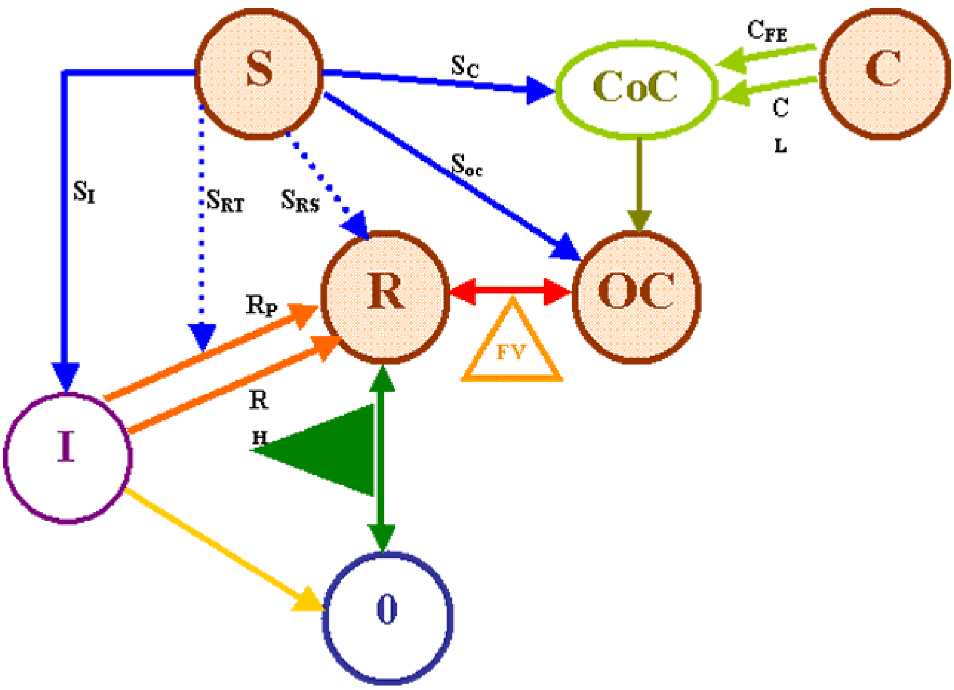
The relationship between the four core elements of the public housing finance system in Australia was illustrated in Diagram 3 above. This framework was extended further in Diagram 11 that integrated various alternatives from a range of countries. Affordability as the relationship between income, rent and other costs within a minimum standard of living was illustrated in Diagram 14 above.

While the discussion of the social housing finance system has referred to the SHO as a whole, including rental revenue as an aggregate of the rents charged to tenants, the discussion of affordability and the relationship between income, rent and other costs within a minimum standard of living has referred to the individual household. Diagram 16 puts these two diagrams together such that income, rent and the other costs within a minimum standard of living are the aggregate for all tenants.

The critical point here is whether rental revenue is equal to the aggregate of affordable rents for all tenants. It is at this point that both affordability and financial viability are achieved. But, as illustrated in the diagram, such a point is the complex function of capital, ongoing costs, subsidies, income, rent and other costs within a minimum standard of living. If both affordability and financial viability are to be achieved, then at a minimum tenants require incomes sufficient to pay a rent which covers the ongoing costs of providing social housing. In particular, their incomes should be sufficient to cover operating costs (administration, maintenance, rates and insurance) and the cost of asset utilisation.

One further policy implication of this position is the need for Australian and state governments to adopt a benchmark for affordability. The most appropriate benchmark is one which locates affordability in the larger context of achieving a minimum standard of living where affordability is understood not simply as a function of a rent-to-income ratio, but as a function of income and the costs to a household of a minimum standard of living where adequate and appropriate housing is but one component of this standard.

**Diagram 16: Affordability within the social housing finance system in Australia**




I = Income
O = Other (non-housing) living costs purposes
R = Rent
$R_P$ = Property rent compensate
$R_H$ = Household rent
OC = Ongoing costs
CoC = Cost of capital
FV = Financial viability

S = Subsidy
$S_I$ = subsidy paid to tenant as income for general
$S_{RT}$ = subsidy paid to tenant as a rent supplement
$S_{RS}$ = subsidy paid to SHO as a rent supplement to
for reduced rental revenue
$S_{OC}$ = subsidy paid to SHO to reduce ongoing costs
$S_C$ = subsidy paid to SHO to reduce the cost of capital
C = Capital
$C_{FE}$ = Free equity
$C_L$ = Loans

## 8.3 Meshing financial viability and work incentives

Section 2 noted that the structure of the current income-related rental system potentially created work disincentives for tenants as 25% of any income earned was then paid in rent. Section 6.3 related work incentives to the rental system and the objective of social housing.

But the key issue confronting the implementation of these options is the meshing of work incentives for tenants and the financial viability of SHOs. Already we have noted that financial viability is a necessary precondition for the continuation of social housing and that it requires a delicate balance between rent, ongoing costs, capital and subsidies. An SHO could only introduce such options where they could maintain their financial viability and, in the current environment, where the major SHOs (the SHAs) are approaching or have already reached deficits on their operations, this seems unlikely. The extent of this reduction would be limited, as any initiative would potentially apply to less than 10% of public tenants who are unemployed and could be seeking work.[40]

But an SHO could consider another possibility. It is unclear whether the reduction in rental revenue will be a short-term impact or whether it will be revenue neutral or even positive over the long term as more tenants enter the workforce and their average income increases.

In the United States where the federal government under the *Quality Housing and Work Responsibility Act 1998* introduced earned income disregards, the responsibility for meeting the cost of this scheme has been effectively picked up by the federal government through their subsidy arrangements with public housing authorities. In some states, state-based schemes, which operated prior to federal legislation, were funded by the state government.

The most likely way in which options to reduce workforce incentives can be introduced is through additional subsidies to SHOs.

## 8.4 Meshing administrative efficiency and rent-setting

Again Section 2 highlighted the complex administrative arrangements around rent-setting: it required regular income reviews, extensive documentation from tenants and intensive administration from housing providers. This was particularly so for those tenants who worked variable hours and those who were self-employed. Such a system was intrusive. It produced conflicts between tenants and housing workers, particularly where rents were backdated.

When adopting or changing a rental system, such changes also need to take account of the organisational structure and its administrative efficiency. Thus the rental system must be introduced in such a way that it accords with good management and organisational principles. The complex administrative arrangements around rent-setting are not so much rental issues as issues stemming from its administration. Section 9.4 below outlines some options for addressing such issues.

## 8.5 Meshing property rents and equity

Section 4.1 above outlined four different types of property rental systems: historic cost-rent, current cost-rent, market rent and market-derived rent.

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[40] It may also potentially apply to other tenants who are of working age and not in the labour force – people receiving the Disability Pension or the Sole Parents benefit – and those aged 65 years and over.

The history of property rental systems in Australia indicates that they are adopted on the basis of equity. In summary:

- The historic cost-rent system sought to provide equity between public tenants and, between public tenants and owner-occupiers based upon the historic value of dwellings;
- The current cost-rent system sought to provide equity between public tenants based upon the current value of dwellings;
- The market-derived rent system sought to provide equity between public tenants and between public tenants and private renters based upon the assessed market rent of equivalent dwellings in the private rental market.

This history also reveals that the notion of equity has been variously understood and requires further elaboration and definition. It also reveals that the driving force behind changes in rental systems was the SHAs' regular financial crises. These changes resulted in increased rents justified by an appeal to a changing notion of equity.

In most European social housing finance systems, property rents are set in such a way that they cover the ongoing costs of providing social housing. In New Zealand and Canada, they are used as the basis for calculating rental subsidies payable directly to the SHO ($S_{RS}$). This contrasts with property rents in Australia: few tenants are charged property rents (only around 10%) and the major source of revenue is household rents. Historically, property rents were a significant source of rental revenue but with the targeting of social housing their significance has reduced markedly. Currently, property rents, in the form of market-derived rents, serve three purposes: to provide equity between public tenants (those paying property rents), to provide equity between public tenants and private tenants, and to provide a benchmark for the financial performance of social housing. While market-derived rents could be used as a benchmark for measuring the financial performance of social housing, this does not provide a basis for charging tenants market-derived rents.

So the primary reason for charging market-derived rents in Australia relates to equity and not to covering the costs of providing social housing.

Already it has been noted that the primary notion of equity is incorporated within the objective of social housing through setting the standard for what is adequate and appropriate housing. But equity also informs the adoption of a rental system for social housing. It is here that questions arise in regard to our understanding of equity, its scope and its measurement. It is here that questions arise as to the basis for charging market-derived rents.

If equity is the basis for setting property rents, then the implementation of a property rental system is subject to further work on the meaning of equity. This would involve at least two related considerations.

First, Yates (2003) in her study of indirect housing assistance in Australia highlights the relatively high levels of subsidy provided to owner-occupiers through the taxation system. She estimates that in 2001, owner-occupied households received on average $4,200 arising principally from capital gains tax exemption and the net effect of the non-taxation of imputed rent. Further, 'on average outright owners received more than five times the amount of assistance provided to purchasers' and 'high-income outright owners receive a total tax benefit of close to $9,000 per household'. This contrasts with the very low level of subsidy, if any, available to public tenants paying market-derived rents.

Second, owner-occupiers are the dominant traders in housing markets and these indirect housing subsidies have a particular flow-on effect, viz. an increase in the price of housing. As a consequence, SHOs are acquiring dwellings at prices higher than they otherwise would, with subsequent impacts on market-derived rents and their ongoing costs.

## 8.6 Meshing household rents and equity

Section 6.1 and Section 8.2 above discussed household rents in the context of affordability. The previous section discussed property rents in the context of equity. There should, however, be a transition between the two. As households move beyond the context of affordability (where affordability has priority over equity), they move into a context where the primary consideration is whether rent is equitable. Property rents represent the outside limit of this equity. This transition raises some particular issues. How can the rental system effect the transition from rents as affordable to rents as equitable? If a rent-to-income ratio (such as 25% household income) is adopted to ensure affordability or some other method, does it have broader relevance?

# 9. OPTIONS FOR CHANGE

While the previous section provided some indication of how rental systems need to be meshed and can be meshed with other systems, this section moves a further step towards implementation by outlining the options for changes in rental systems. They also serve to highlight that changes in the rental system are not the only ways in which specific objectives can be achieved.

## 9.1 Options for achieving affordability

Section 6.1(ii) showed how housing affordability is not simply a function of a rent-to-income ratio but of the more complex interrelation of income, rent and other living costs (see Diagram 14). In this context, housing affordability is not achieved simply by a change in the rent-to-income ratio, but through some combination of a range of strategies as outlined in Table 2 below.

**Table 2: A range of options for achieving affordability**

| System | Parameter | Options |
|---|---|---|
| **Increase income** | | |
| Income support | Ensure sufficient income to achieve a minimum standard of living, and meet the ongoing costs of providing social housing | Increase income subsidies so that households have sufficient income to meet both the ongoing cost of providing social housing and the cost of other components of a minimum standard of living |
| | Supplement income so that housing costs are a reasonable proportion of total household costs | Provide rental subsidies (traditionally this has been the mechanism used in Europe) |
| **Reduce housing costs** | | |
| Household rental system | Aggregate rent is sufficient to maintain financial viability | A household rental system which ensures housing affordability (traditionally this has been the mechanism used in Australia) |
| **Reduce the cost of other non-housing goods and services** | | |
| Economic system | Maintain a minimum standard of living | Minimising the costs of other non-housing components of a minimum standard of living |
| Eligibility/ allocations | Dwellings are allocated to eligible households | Allocation of tenants to dwellings which are appropriate to household needs |
| Housing acquisition/ asset management | An evolving dwelling standard is achieved | Dwellings which reduce the cost of living: utility costs, easy access to services |

## 9.2 Options for achieving financial viability

Section 5 above showed that financial viability is the complex function of four interrelated elements of the social housing finance system: aggregate rent, ongoing costs, capital arrangements and subsidies. Within this context, Table 3 below outlines a range of options where financial viability can be achieved.

**Table 3: A range of options for achieving financial viability**

| System | Parameter | Options |
|---|---|---|
| **Strategies to increase rental revenue** | | |
| Income support | Households have sufficient income to achieve a minimum standard of living | Increase subsidy paid to tenant for general purposes so that tenants can pay higher household rents which meet the ongoing costs of providing social housing |
| Subsidy | Housing costs are a reasonable proportion of total household costs | Provide/increase subsidy to tenant as a rent supplement so that tenants can pay higher household rents |
| | SHOs receive sufficient subsidies to maintain financial viability | Provide/increase subsidy paid to SHO as a rent supplement to compensate for reduced rental revenue |
| Household rental system | Rents are affordable and equitable^ | Increase household rents |
| Property rental system | Rents are equitable* | Increase property rents |
| Eligibility/ allocation | Dwellings are allocated to eligible households | Allocate housing to households with higher incomes using one of two strategies:<br>▸ Segment allocations such that a specified proportion of stock is allocated to one or more higher income groups<br>▸ Allocate stock in such a way that an average household income profile is maintained |
| | | Adopt strategies to re-allocate stock to reduce under-occupancy |
| **Strategies to reduce ongoing costs** | | |
| Tenancy management | A standard of service is achieved | Increased efficiency (same standard achieved at less cost) |
| Property management | A standard of maintenance is achieved | Increased efficiency |
| Asset management | An evolving dwelling standard is achieved | Increased efficiency |
| Housing acquisition | A dwelling standard is achieved | Increased efficiency |
| Capital arrangements | The cost of capital accords with rental revenue | Reduce borrowings and private sector equity |
| Subsidies | SHOs receive sufficient subsidies to maintain financial viability | Increase subsidy paid to SHO to reduce ongoing costs |
| | | Increase subsidy paid to SHO to reduce the costs of capital |

Notes:
^ See Section 8.6 above for a further elaboration
* See Section 8.5 above for a further elaboration.

## 9.3 Options for reducing work disincentives

In their discussion of work disincentives, Hulse and Randolph (2004) proposed a number of options in relation to rent-setting in social housing. These are the first four options included in Table 4 below, which outlines a range of options both internally and externally.

**Table 4: A range of options to reduce work disincentives**

| System | Parameter | Options |
|---|---|---|
| Rental system | Household rents are affordable<br>Household rents and property rents are equitable<br>Financial viability: aggregate rent covers the ongoing costs of providing housing | Change the definition of assessable income, for example, assess rent on after tax rather than before tax income |
| | | Disregard some or all earned income in assessing rents, possibly as a short-term measure to assist the transition to work or over a longer time period |
| | | Mutual obligation packages: offer arrangements in which the rent increases that would have been charged due to increased earnings from work are deposited in a savings account |
| | | Place-based approaches, including making changes to rent-setting selectively in targeted areas where unemployment among public tenants is high to encourage participation |
| | | Move away from setting rents based on incomes to property based rents that do not change whether the renter is in or out of work. This would need underwriting though an effective rent assistance scheme |
| Eligibility/ allocation | Dwellings are allocated to eligible households | Facilitate the transfer/relocation of tenants into areas with proximity to employment opportunities |
| Income support | | Reduce the taper rate on additional income |
| Other entitlements | | Reduce the impact of |
| Taxation system | | Increase the tax free area |

Already three of the rental system options have been adopted by an SHA: Queensland, to some extent, now bases income assessments on taxable rather than gross income; Western Australia makes a deduction of a 'working allowance' from assessable income; while New South Wales provides a grace period of up to 12 weeks. Victoria is piloting a scheme whereby they provide a grace period of 16 weeks in designated neighbourhood renewal areas.

## 9.4 Options for administrative efficiency

As outlined previously in Section 8.4, the rental system must be meshed with an organisational structure in a way which accords with principles of good management and organisation. Table 5 outlines a range of options.

**Table 5: A range of options for administrative efficiency**

| System | Parameters | Options |
|---|---|---|
| Rental system | Household rents are affordable | Introduce flat rents |
| | Household rents and property rents are equitable<br>Financial viability: aggregate rent covers the ongoing costs of providing housing | Assess rents every six months and use this assessment to set them for the next six months |

## 9.5 Modelling options

Sections 9.1 to 9.4 have outlined a range of options to achieve different purposes. The following section models two of these options.

The first combines an option from 'affordability' and from 'financial viability'. This is the option of increasing income so that both the objective of social housing (affordability for tenants) and the objective of the finance system (financial viability for SHOs) are achieved. An increase in income such that household rents could be determined with reference to the ongoing costs of providing social housing would place a floor under household rents. Section 10.2 below models this proposal. Based on some assumptions regarding operating costs and the cost of asset utilisation, it calculates the rent required to achieve financial viability. Further, based on this rent and other costs based on the budget standard, it calculates the income required for tenants to achieve affordability and compares this with their current incomes.

The second combines an option from 'work disincentives' and 'administrative efficiency'. This is the option of a flat rent that does not change immediately when the tenant commences work and is more administratively efficient because it does not require ongoing rent assessments. The modelling evaluates the extent to which aggregate rent will be financially viable.

# 10. MODELLING RENTAL SYSTEMS

One of the objectives of this study was to model the effects of modified forms of rent-setting practice for SHOs and tenants. For a whole host of reasons that are documented in this report, the current dual rental system with a market rent and a household rent based around a 25% rent-to-income ratio is problematic.

## 10.1 Data requirements for modelling options

The previous section outlined a range of options to meet varying objectives (affordability, financial viability, reducing work disincentives and administrative efficiency). These suggest a broad range of options that could be modelled. However, the extent of modelling has to qualify by two necessary requirements. First, as outlined in previous sections, additional work still needs to be done in particular areas in order that rental systems are meshed with administrative efficiency (Section 8.4) and equity (Section 8.5 in relation to property rents and Section 8.6 in relation to household rents). But this could be extended further to other systems internal and external to social housing. Second, any model is limited by the data (or some proxy) that is readily available.

Table 6 below outlines some of the data required to model particular options outlined in the previous section.

**Table 6: Some data requirements for modelling options**

| Option | Data requirements |
|---|---|
| **Affordability:** | |
| Income support | Budget standard less housing costs by household<br>Ongoing costs of providing social housing by dwelling size<br>SHO stock profile |
| Allocation of tenants to dwellings which are appropriate to household needs | SHO household profile<br>Reduction in household costs attributed to good allocation of tenants by household type |
| Dwellings which reduce the cost of living: utility costs, easy access to services | SHO household profile<br>Reduction in household costs attributed to dwellings designed to facilitate utility savings (energy and water) and with easy access to services by household type |
| **Financial viability** | |
| Allocate housing to households with higher incomes using one of two strategies:<br>▸ Segment allocations such that a specified proportion of stock is allocated to one or more higher income groups<br>▸ Allocate stock in such a way that an average household income profile is maintained | Ongoing costs of providing social housing by dwelling size<br>Average assessable income by dwelling size |
| Adopt strategies to re-allocate stock to reduce under-occupancy | Ongoing costs of providing social housing by dwelling size, dwelling type and dwelling age<br>Average assessable income by dwelling size, dwelling type and dwelling age |
| **Work disincentives** | |

| Option | Data requirements |
|---|---|
| Change the definition of assessable income, for example, assess rent on after tax rather than before tax income | Ongoing costs of providing social housing by dwelling size<br>Number of tenants receiving taxable incomes |
| Disregard some or all earned income in assessing rents, possibly as a short-term measure to assist the transition to work or over a longer time period | Ongoing costs of providing social housing by dwelling size<br>Number of tenants receiving taxable incomes<br>Average earned household income and period over which it is earned<br>SHO household income profile |
| Mutual obligation packages: offer arrangements in which the rent increases that would have been charged due to increased earnings from work are deposited in a savings account | Ongoing costs of providing social housing by dwelling size<br>Number of tenants receiving taxable incomes<br>Average earned household income and period over which it is earned<br>SHO household income profile |
| Place-based approaches, including making changes to rent-setting selectively in targeted areas where unemployment among public tenants is high to encourage participation | Ongoing costs of providing social housing by dwelling size<br>Number of tenants receiving taxable incomes<br>Average earned household income and period over which it is earned<br>SHO household income profile |
| Move away from setting rents based on incomes to property based rents that do not change whether the renter is in or out of work. This would need underwriting though an effective rent assistance scheme | SHO household income profile<br>Ongoing costs of providing social housing by dwelling size |
| **Administrative efficiency** | |
| Introduce flat rents | SHO household income profile<br>Ongoing costs of providing social housing by dwelling size<br>Administrative costs of rent assessments |
| Assess rents every six months and use this assessment to set them for the next six months | Ongoing costs of providing social housing by dwelling size<br>Average variation in household income between six-monthly assessments<br>Administrative costs of rent assessments |

One of the constraints in testing alternative models is the lack of data, as SHA client databases are either not accessible or not in a form that provides the basis for modelling. With some constraints, two options are modelled below: a budget standard for each household type with minimum rents to ensure the financial viability of SHOs, and a flat rent for each household and dwelling type.

To overcome the constraints, a range of assumptions are made and outlined below so that the modelling can be adjusted according to specific requirements. The assumptions in the modelling generally are conservative and the results of the modelling are only meant to be indicative.

## 10.2 Budget standard model

### (i) Overview

In Section 6.2(iii), it was argued that housing affordability is a key indicator of whether a household was achieving a minimum standard of living. Such a standard is achieved when a household has sufficient income to meet both the cost of housing and the cost of other components of this standard of living.

Based on budget standards work of Saunders et al. (1998), this first model seeks to work out a budget standard for public housing tenants, i.e. the income that different types of households require to achieve a minimum standard of living. It will further identify the gap between current incomes and a budget standard for public housing tenants.

This model uses the budget standard as the basis for determining living costs for different household types. The costs of housing as estimated by the Budget Standard Project, however, are not included in these living costs. These are calculated separately and are based upon the operating costs (administration, maintenance, rates and insurance) and the cost of asset utilisation. They exclude the cost of capital.

What is being sought here is the meshing of affordability for tenants and financial viability for SHOs as outlined in Section 7.4. The current Australian public housing financial system largely operates on the basis of free equity and the cost of capital is zero. Furthermore, it establishes a benchmark and expectation that public tenant incomes should be sufficient to achieve a minimum standard of living and that their rental payments in aggregate should, at a minimum, cover the operating costs of an SHO.

As noted in Section 7.5, neither the Australian nor the states have adopted a benchmark for affordability. The Budget Standard Project, then, is currently the best available estimate of the minimum costs of living for different household types in Australia.

Table A5-15 to

Table A5-18 in Appendix 5 outlines the budget standard for 12 types of households and compares this with the current incomes from Centrelink payments (both Newstart and pension) with two scenarios across two different housing options (public housing and community housing), as follows:

- Public housing rents that cover the current operating and asset utilisation costs of Victorian public housing (Table A5-15);
- Public housing rents that cover the operating and asset utilisation costs of newly constructed public housing dwellings (Table A5-16);
- Community housing rents that cover the current operating and asset utilisation costs of Victorian public housing and tenant incomes supplemented by Commonwealth Rent Assistance (Table A5-17);
- Community housing rents that cover the operating and asset utilisation costs of newly constructed community housing dwellings and tenant incomes supplemented by Commonwealth Rent Assistance (
- Table A5-18).

### (ii) Assumptions

The assumptions for each scenario are outlined in Appendix 5. Table A5-10 to Table A5-14 outline the different bases on which rents are determined.

Victorian public housing was chosen as the basis for operating and asset utilisation costs for two reasons:

- It has the lowest operating and asset utilisation costs per dwelling of all states (Victoria $5,267, Queensland $5,634, South Australia $5,640, Western Australia $6,085, New South Wales $6,611, Tasmania $7,275, Australian Capital Territory $8,937, Northern Territory $12,493 and Australia $6,233);
- It is one of few states where publicly available information provides a profile of the dwelling stock.

Sufficient work has not yet been undertaken to develop appropriate benchmarks for public housing operating costs or asset utilisation. Similarly, appropriate benchmarks for average construction costs of dwellings are also lacking. Thus, the modelling of these costs is based upon some reasonable assumptions given the current state of our knowledge.

### (iii) Results

#### Income shortfalls

The purpose of this modelling exercise is to assess whether households have sufficient income to meet a minimum standard of living in social housing. It is assumed that social housing rents will be the minimum to ensure the financial viability of the SHOs and thus at least cover their operating costs and their asset utilisation cost.

The general results indicate that most households require an income higher than their current Centrelink entitlements in order to have sufficient income to meet a minimum standard of living. All households receiving Newstart require higher incomes. Only some pensioner households achieved the low-cost budget standard: a ‘couple aged’ household living in public housing and paying rents based on public housing costs, and a ‘couple’, ‘couple aged’, ‘single plus 1 child’ and ‘couple plus 1 child’ living in community housing, getting rent assistance and with rents based on public housing operating costs. Unless households achieve at least the low-cost budget standard, then housing is not affordable and SHOs will not remain financially viable.

Table 2 below outlines, for one of the rent scenarios (operating and asset utilisation costs of Victorian public housing), the surplus (shortfall) in income for different household types in public housing and community housing if they are to meet the low-cost budget standard. Two types of Centrelink payments – Newstart and pension – are used.

Rent as proportion of income

The current rent-to-income ratio for social housing is 25% of assessable income. Table A5-15 to

Table A5-18 outline this proportion based upon the low-cost budget standard. Rent as proportion of income ranges from a low of 15% for a ‘couple plus 4 children’ household (occupying a 4-bedroom dwelling) to 33% for a ‘single aged’ household (occupying a 1-bedroom dwelling). For households occupying the same size dwelling, rent as a proportion of income varies quite dramatically:

- 1-bedroom: from 23% (couple) to 33% (single aged);
- 2-bedroom: from 19%(couple plus 1 child) to 27% (single plus 1 child);
- 3-bedroom: from 16% (couple plus 3 children) to 24% (single plus 2 children).

The key factor in this range of proportions is the other living costs of households.

**Table 7: Surplus (shortfall) in income to meet the 'public housing' low-cost budget standard and the 'community housing' low-cost budget standard for different household types and Centrelink payments***

| Household type | | Household type descriptors | Public housing | | Community housing | |
|---|---|---|---|---|---|---|
| | | | Newstart | Pension | Newstart | Pension |
| H1 | Single | female 35 years | ($102) | ($61) | ($65) | ($24) |
| H5 | Single aged | female 70 years | n.a. | ($41) | n.a. | ($4) |
| H2 | Couple | male 40 years, female 35 years | ($50) | ($10) | ($33) | $7 |
| H6 | Couple aged | both 70 years | n.a. | $14 | n.a. | $31 |
| H4 | Single plus 1 child | female 35 years girl 6 years | n.a. | ($15) | n.a. | $16 |
| H12 | Single plus 2 children | female 35 years, girl 6 years, boy 10 years | n.a. | ($49) | n.a. | ($10) |
| H7 | Couple plus 1 child | male 40 years, female 35 years, girl 6 years | ($63) | ($23) | ($53) | ($13) |
| H8 | Couple plus 1 child | male 40 years, female 35 years, boy 14 years | ($75) | ($35) | ($65) | ($25) |
| H9 | Couple plus 1 child | male 40 years, female 35 years, girl 3 years | ($42) | ($2) | ($32) | $8 |
| H3 | Couple plus 2 children | male 40 years, female 35 years, girl 6 years, boy 14 years | ($94) | ($55) | ($76) | ($36) |
| H10 | Couple plus 3 children | male 40 years, female 35 years, girls 3 & 6 years, boy 14 years | ($97) | ($57) | ($78) | ($39) |
| H11 | Couple plus 4 children | male 40 years, female 35 years, girls 3 & 6 years, boy 10 & 14 years | ($129) | ($89) | ($103) | ($63) |

**Source:**
Table A5-15 and Table A5-17

**Notes:**
(i) Income for 'community housing tenants' includes their entitlement to Commonwealth Rent Assistance.
(ii) Rent for both the 'public housing' low-cost budget standard and the 'community housing' low-cost budget standard is based on the operating and asset utilisation costs of Victorian public housing (see Table A5-10).
(iii) Other living costs are based upon the overall low-cost budget standard as determined by the Budget Standard Project less housing costs (see Saunders et al. 1998, Table 12.3, p. 441).

## 10.3 Flat rents model

The current system of household rents is very complex, with the rent of each household having to be calculated and with different households paying different rents according to their income. As a result of this complexity, it is costly and difficult to administer and tenants are often unsure of their rent. One way in which this might be addressed is through the introduction of 'flat rents', which would apply across a large number of households regardless of the differences in income. Such a system limits the number of rents and rental calculations.

Flat rents pose two issues. For tenants, it is a move away from income-related rents where rent is determined according to a rent-to-income ratio such as 25%. Depending on where the flat rent, is struck some tenants will be paying more and some less. For

SHOs, flat rents may change their aggregate rent and thus impact on their financial viability.

As noted above, the lack of data imposes some constraints on modelling flat rents. To overcome this problem a 'model' housing agency has been created based on the 1998-99 ABS household expenditure survey (HES) data indexed to 2004. The ABS HES data is the only ABS survey that provides the details on income and income source to be able to construct such a model and even then requires certain assumptions to be made.

Table 3 outlines the number and proportion of households within HES that selected 'Rented Government Housing Authority' as the nature of their housing occupancy. This is approximately 0.1% of Australian public housing households. These figures are then weighted to reflect a housing agency with 50,000 households.

**Table 8: Household Expenditure Survey 1998, nature of housing occupancy as 'Rented Government Housing Authority' by household types, raw and weighted data***

| | Households raw | | Households weighted | |
|---|---|---|---|---|
| **Household type** | **#** | **%** | **#** | **%** |
| Couple only | 46 | 12% | 5,991 | 12% |
| Couple with 1 dependant child | 14 | 3% | 1,653 | 3% |
| Couple with 2 dependant children | 17 | 4% | 1,929 | 4% |
| Couple with 3 dependant children | 10 | 2% | 1,081 | 2% |
| Couple with 4 or more dependant children | 9 | 2% | 994 | 2% |
| Couple non-dependant children only | 12 | 4% | 2,238 | 4% |
| Couple with dependant and non-dependant children | 7 | 2% | 962 | 2% |
| One parent with 1 child | 32 | 8% | 4,060 | 8% |
| One parent with 2 children | 25 | 6% | 3,063 | 6% |
| One parent with 3 or more dependant children | 28 | 7% | 3,264 | 7% |
| Other one family household | 21 | 5% | 2,684 | 5% |
| Multiple family with dependant children | 3 | 1% | 709 | 1% |
| Lone person | 141 | 42% | 20,969 | 42% |
| Group household | 2 | 1% | 403 | 1% |
| **Total** | **367** | **100%** | **50,000** | **100%** |

### (i) Overview

'Flat rents' could be introduced in a number of ways. As a household rent, it would be generally related to the incomes of households. However, it could so in three ways: the flat rent could be determined for each dwelling size according to the incomes of the households eligible for that size dwelling (referred to below as a 'dwelling flat rent'); the flat rent could be based upon the income of a particular type of household (referred to below as a 'household flat rent'); or the flat rent could be based upon some combination of these.

The following section models these three different methods of determining a flat rent. It compares aggregate rent from each method with current aggregate of public housing rents based upon the 1998 HES and compares these rents with current rents in public housing. Two versions of each method are modelled, the first based on a 'midpoint' rent and the second based on a 'lowpoint' rent.

Already one version of flat rents has been outlined above, based on the budget standard with a flat rent based upon operational and asset utilisation costs of a SHA. The implementation of such a model required an increase in most Centrelink incomes to ensure housing affordability for tenants. The following flat rent models are based on current Centrelink payments.

### (ii) Assumptions

The assumptions for modelling flat rents are outlined in Appendix 5.

### (iii) Results

#### Comparison with current rents

Table A5-22 outlines the range of household rents for different household types used in the modelling of flat rents. The table also outlines the midpoint rent as a proportion of both the minimum rent and maximum rent for each household type. While the lowpoint dwelling flat rent and the lowpoint household rent guarantee that no tenant is worse off because it is based on the lowest or lowpoint rent, the midpoint rent will mean that some tenants are worse off and some better off. For example, the current rent of a single person can range from $40 to $59 per week. With a midpoint household flat rent of $49, this change can range from an increase of 24% for those on the minimum rent of $40 to a reduction of 16% for those on the maximum rent of $59. With a midpoint dwelling flat rent of $69, the increase can range from 74% for those on the minimum rent of $40 to 17% for those on the maximum rent of $59.

With the introduction of a midpoint *household* flat rent, rent increases for those on the current minimum can range from 3% for a sole parent with one child to 42% for a sole parent with four children; rent decreases for those on the current maximum can range from 3% for a sole parent with one child to 23% for a sole parent with four children.

With the introduction of a midpoint *dwelling* flat rent, for those on the current minimum rent, increases can be up to 74% for a single person (a young person) and 71% for a sole parent with four children, while some would receive decreases of up to 18% (for four singles sharing) and 13% for a couple; for those on the current maximum rent, increases can be up to 27% for a sole parent with one child and 25% for a sole parent with two children, while some would receive decreases of up to 44% (for four singles sharing) and 30% for a couple.

#### Rent revenue

The annual rental revenue of the scaled-up fictional housing authority was $219 million, with an average annual rental of $4,386 per tenant (or $84 per week). Table A5-23 to Table A5-30 present the overall results and the results for different household types of different scenarios:

- Table A5-23: Midpoint dwelling flat rent;
- Table A5-24: Lowpoint dwelling flat rent;
- Table A5-25: Midpoint household flat rent;
- Table A5-26: Lowpoint household flat rent;
- Table A5-27: Midpoint dwelling flat rent/actual aged household rent;
- Table A5-28: Lowpoint dwelling flat rent/actual aged household rent;
- Table A5-29: Midpoint household flat rent/ actual aged household rent;
- Table A5-30: Lowpoint household rent/ actual aged household rent.

A summary of the results of these different scenarios is presented in Table 9 below.

**Table 9: Summary of the impact of flat rent scenarios on rental revenue**

| Scenario | Average annual rent | Total annual rent | Difference from HES | % Difference |
|---|---|---|---|---|
| HES | $4,386 | $219,288,948 | | |
| Midpoint dwelling flat rent | $4,763 | $238,153,292 | $18,864,344 | 9% |
| Lowpoint dwelling flat rent | $2,938 | $146,886,215 | ($72,402,733) | (33%) |
| Midpoint household flat rent | $4,357 | $217,872,558 | ($1,416,390) | (1%) |
| Lowpoint household flat rent | $3,732 | $186,610,610 | ($32,678,338) | (15%) |
| Midpoint dwelling flat rent/actual aged household rent | $4,728 | $236,410,382 | $17,121,434 | 8% |
| Lowpoint dwelling flat rent/actual aged household rent | $3,253 | $162,646,622 | ($56,642,326) | (26%) |
| Midpoint household flat rent/actual aged household rent | $4,470 | $223,491,879 | $4,202,931 | 2% |
| Lowpoint household flat rent/actual aged household rent | $3,959 | $197,936,111 | ($21,352,837) | (10%) |

All the midpoint models (except the midpoint household flat rent model marginally) would increase the SHA's rental revenue. The lowpoint household models provide greater rental revenue than the lowpoint dwelling models.

# 11. SUMMARY AND CONCLUSION

This summary and conclusion provides an overview of the report, addresses the research questions with which the project began and summarises the findings.

## 11.1 Overview

This report began in Section 2 with a summary of the interviews, forums and surveys, which outlined the strengths, and weaknesses of Australian rental systems. It noted that the key strength of current rental systems is the benefits for tenants derived from income-related rents. It also noted the ongoing tension between affordability and financial viability and the pressure on SHOs to trade off affordability for financial viability, the complexity and problems created by income-related rental systems, the irrelevance of market-derived rents, the implications of complex administrative systems, and the multiple objectives that SHOs sought to achieve through the rental systems. The weaknesses indicated those areas where reforms in the rental systems could be considered.

Part B began by outlining the analytical approach of this report as the basis for considering particular policy changes. In particular it proposed a shift from a descriptive framework to an explanatory framework as the basis for developing rental policy. It outlined an explanatory framework for social housing based upon the functional relationships between elements, rather than the institutional relationships. On this basis, it distinguished between particular objectives of particular systems that constitute social housing and the overall objective of the whole system. Moreover, it proposed that the objective of social housing is 'to ensure that all households have access to housing which is adequate and appropriate as a key component of an equitable standard of living'. Such an objective may appear somewhat arbitrary yet it is the best available formulation of an objective that unifies the different systems that constitute social housing.

The purpose of a rental system is simply to determine a rent. Based on the material from the Positioning Paper and the descriptions of rental systems historically in Australia and overseas, Section 4 outlined four types of property rental systems and three types of household rental systems. Most Australian and overseas rental systems adopt one or more of these, with some variations for local circumstances.

While the purpose of a rental system is simple, the analysis of rent within different contexts concludes that this rent must have certain properties. The first set of properties relates to rent as a financial transaction. In this context of the financial system, aggregate rent must be sufficient to cover the ongoing costs of providing social housing. From this basis, the report expanded on this relationship. A first expansion located aggregate rent within the social housing finance system operating in different forms of social housing in Australia and overseas around four interrelated elements: rent, ongoing costs, subsidies and capital. This highlighted the similarities and differences between social housing finance systems, and the unique aspects of the Australian social housing finance system.

Based on an analysis of finance systems in Australia and overseas, a second expansion generalised the social housing finance system. This expansion indicated a system that is dynamic with each element changing with changes in the other elements such that the whole system continues to maintain the financial viability of social housing. In addition this systematic analysis can be the basis for understanding the historical changes in social housing finance systems in Australia and overseas. The analysis makes it clear that financial viability is the specific objective of the social housing finance system, not of social housing as a whole. Moreover, this specific objective is a necessary precondition for the ongoing provision of social housing.

A third expansion, in Section 8.1, outlined the links between the social housing finance system and other systems both internal and external to social housing.

The second set of properties relates rent to the objective of social housing. Given the one objective proposed above, Section 6 explored the links between rent and affordability, equity, work disincentives and the autonomy of State Housing Authorities. In particular, this exploration indicates that affordability is not an objective of social housing. Rather, it is a key indicator as to whether this objective is being achieved.

The analysis of Part B is based on functional relationships and this established the basis for some policy positions in relation to rental systems. Rather than the usual economic analysis which focuses on the difference between rental revenue and ongoing costs, the analysis expanded outwards in order to understand the relationship between the rental systems with other elements of the social housing systems This analysis serves to broaden the range of possible options. However, this is a long way from implementation which is the concern of Part C. Section 8 highlights the complexity of this process as it seeks: to mesh the different policy positions for rental systems outlined in Section 7, to mesh rental systems with other systems within social housing, and to mesh rental systems with other systems external to social housing. On this basis, Section 9 outlines some particular options for implementation, while Section 10 models two of these options.

## 11.2 The research questions

But let us return to the four research questions outlined in the Introduction in the light of the analysis undertaken in the report.

> ***To what degree has an increasingly complex and dynamic social housing environment changed the nature of how we think about the best methods of setting social housing rents?***

In the past two decades, the management of social housing has changed significantly:

- Housing officers require a greater range and level of skills;
- Eligibility/allocation systems, asset management systems, finance systems, income support systems etc. are becoming increasingly complex;
- SHOs are subject to more extensive accountability and reporting requirements;
- SHOs are planning their activities more extensively and examining the implication of these activities on their future;
- SHOs are developing activities around agreed outputs;
- The legal responsibilities of housing managers have increased with new legislation such as residential tenancies law, planning and building codes, occupational health and safety, fire safety requirements, privacy and the new taxation system;
- Many SHOs, particularly community housing organisations, are seeking to become accredited organisations meeting specific standards of services. Some have introduced customer service charters;

- Some SHOs raise funds through private sector arrangements and this requires greater skills and knowledge of financial arrangements, housing markets and their related risks;
- Tenancy management has become more complex as social housing has become increasingly residualised. Housing officers are dealing with greater numbers of people who are struggling to cope financially, socially and emotionally, whose primary language is not English and who require ongoing support to maintain their housing.

The history of rental systems within public housing (Section 5.3(ii) in relation to financial viability, Section 6.1(i) in relation to affordability, Section 6.2(i) in relation to equity and Section 6.4 in relation to the autonomy of State Housing Authorities) highlights how our thinking has changed in response to this increasingly complex and dynamic social housing environment.

The implications of these changes for social housing and for its different systems have not always been thought through. Any reforms to the current rental systems must be consistent with and take account of this complexity within contemporary social housing management. This points to the increasing demand for better planning and integration of a range of policy positions in a broad range of systems. The meshing of these systems will only occur through an understanding of the policy positions of each area individually, their relationship to and contribution to the objective of social housing, and separating out the ways in which implementation in one area can impact positively on other areas.

***What are the practices of social housing rent-setting in other countries and are any of the ideas relevant to Australia?***

Section 2.3 of the Positioning Paper described the rental system (within the context of social housing) in seven countries: New Zealand, United States, Canada, United Kingdom, Germany, Sweden and the Netherlands. Section 5.5 places these rental systems within an explanatory framework that enabled a comparison of different social housing finance systems with that in Australia. This comparison highlighted some unique characteristics of the Australian system:

- The Australian social housing finance system, unlike other countries, is and will continue to be vulnerable and unstable because its financial viability depends upon the income of tenants, most of whose incomes are determined with reference to low levels of Centrelink payments;
- Australia is the only country where the SHO carries rental subsidies (through rental rebates), and while affordability for tenants and financial viability for SHOs are the main drivers underlying rental systems in all countries, decisions regarding these in Australia are incorporated into one decision about the household rental system, whereas in other countries these decisions are separated.

Some overseas practices are relevant to Australia. These include:

- The practice in the New Zealand and Canada of directly subsidising social housing organisations, the difference between household rents and property rents;
- The practice in the United States of directly subsidising social housing organisations, the difference between household rents and agreed cost benchmarks;
- The practice in most European countries of providing rental subsidies directly to tenants by extending rent assistance to public tenants. Given current levels of

rent assistance, rents would only be affordable if State Housing Authorities continued to charge household rents incorporating rent assistance into their income-related rent formulas. Only with significant increases in the level of rent assistance would property rents based on market-derived rents become affordable.

***What is the current state of rent-setting practice in Australia for both the public and community housing sectors and what initiatives or pilots of reform, e.g. local variations to allow for different housing markets, are being discussed or implemented?***

Section 2.2(iii) of the Positioning Paper described rental systems in five social housing sectors in Australia: public housing, Indigenous housing, community housing, affordable housing, aged housing (ILUs) and disability housing. Section 5.4 placed two of these (community housing and affordable housing) within an explanatory framework which enabled a comparison of these social housing finance systems with other systems in Australia and overseas. The combination of the different elements of community housing and affordable housing, in particular, the eligibility of tenants for rent assistance and the different financial requirements stemming from different cost structures and private sector borrowings, points to the need for local variations in rents based on the twin policy positions of affordability for tenants and financial viability for SHOs.

***If there are different but potentially appropriate rent-setting practices, can they be modelled to ascertain the effects for social housing agencies and clients, e.g. implications for workforce incentives and disincentives, affordability, equity, efficiency and financial viability?***

Within the constraints of further work in other areas and of data, Section 10 modelled two options, the budget standard option and the flat rent option.

The budget standard option sought to determine the level of income households require in order to meet both the cost of housing (with a rent based upon the operating costs and the cost of asset utilisation within public housing) and the cost of other components of a standard of living. As such it achieved both the specific objective of financial viability for an SHO and affordability for tenants. Four versions of the budget standard option were modelled, distinguishing between public housing and community housing and between the current ongoing costs of Victorian public housing and the estimated ongoing costs of newly constructed dwellings. The modelling calculated the gap between current incomes and a budget standard for public housing tenants. In the most conservative version (public housing households with rents based on the current ongoing costs of Victorian public housing), it found that most households require an income higher than their current Centrelink entitlements in order to have sufficient income to meet a minimum standard of living, ranging from an additional $2 per week for a pensioner couple with a child to $129 per week for an unemployed couple with four children (see Table 7 for more details). One further finding was that rent as a proportion of income varies dramatically between household types, ranging from 16% for a couple with three children to 33% for a single aged pensioner.

The flat rent option sought to determine whether particular types of flat rents would increase or decrease the rental revenue of a proxy State Housing Authority (derived from the Household Expenditure Survey 1998). Eight versions of the option were modelled, distinguishing between flat rents based on dwelling and household, based on the midpoint or the lowpoint, and based on a flat rent for all households and aged households. All midpoint models of flat rent (except the midpoint household flat rent version) would increase SHA rental revenue. The lowpoint household models provide greater rental revenue than the lowpoint dwelling models.

## 11.3 Findings

In addition to the findings outlined above, other findings of the report are in two parts. Section 2 summarises the strengths and weaknesses of Australian rental systems as viewed by those who participated in the interviews, forums and surveys. Section 7 outlines the findings of the analysis of rental systems as they relate to the social housing finance system and to the objective of social housing.

But the key finding relates to recent work by Hall and Berry (2004) that highlighted the current financial crisis facing SHAs in Australia. This paper has shown that this financial crisis is endemic to the Australian social housing finance system, with responses to that crisis over the past 50 years based on changes in rental policy: first, with changes predominantly in property rents justified with appeals to equity; then with changes in the benchmark for household rents again justified with appeals to equity and giving equity priority over affordability; and finally, progressively allocating capital funds to operational purposes.

The Australian social housing finance system is inherently unstable because, unlike all others, it relies solely upon rent for its revenue base. The level of household rents depends upon the income of tenants, now largely determined by Centrelink payments (income subsidies). Consequently, as public housing has become increasingly targeted, revenue per dwelling has declined.

The Australian social housing finance system is now facing a new crisis. The analysis of this finance system indicates a number of possible responses:

- SHAs can increase their rental revenue by either increasing rents (and compromising the affordability of social housing) or changing the income profile of tenants by allocating housing to higher income groups;
- The Australian government can increase income subsidies (Centrelink payments) in such a way that a specified proportion of income relates to the operating costs of providing social housing, indeed, of any housing;
- The Australian government can introduce a general housing subsidy, a specific rental subsidy for social housing tenants, or extend rent assistance to social housing tenants;
- The Australian and/or state governments can introduce a subsidy for SHOs which supplements SHO revenue or meets the gap between their revenue and operating costs or, indeed, meets the gap between household rents and market rents.

In the long term, it is clear that social housing in Australia requires a more stable social housing finance system, one that provides SHOs with a stable revenue base regardless of changes to the income profile of tenants.

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# APPENDIX 1: PEOPLE INTERVIEWED

| | |
|---|---|
| Peter Leigh and Cameron Baddeley | Victorian Office of Housing |
| Maryanne Lewis | Tasmania Department of Community Services |
| Warren Smith and Peter Fitzgerald | South Australia Department of Human Services |
| Alan Shaw and Wayne Ah Boo | Queensland Department of Housing |
| Ian Hafekost and Angela Hayman | Western Australia Department of Housing |
| Sally Gibson, Bernadette Maher and Geoff McDonald | ACT Housing |
| Fiona Chamberlain | NT Housing |
| Andrew Lambert | South Australian Community Housing Authority |
| Richard Perkins | City West Housing |
| Adam Farrar | NSW Federation of Community Housing Associations |
| Mike Myers | Queensland Community Housing Coalition |
| John Eastgate | Brisbane Housing Company |
| Pauline Kennedy | Queensland Department of Housing |
| Wal Ogle | Brisbane Boarders |
| Tim Goulding | Queensland Public Tenants Association |

# APPENDIX 2: SEMI-STRUCTURED INTERVIEW QUESTIONNAIRE

In Australia we have a dual rental system: a property rent based on a market-derived rental policy; and a household rent based on an income-related rental policy.

### (1) Overview of rent-setting policies and practices (community housing organisations only)

Rental systems within many community housing organisations (CHOs) are similar but also incorporate a range of variations.

(1) What type of rental systems does your organisation use?
- A dual rental system?
- A property rental system only?
- A household rental system only?

*Property rents (if applicable)*

(2) How does your organisations determine its property rents?
- Cost-rents?
- Market-derived rents?
- How are these determined where there is equivalent private rental stock?
- How are these determined where there is no equivalent private rental stock?

(3) What characteristics of the dwelling are taken into account in assessing property rents?
- Location?
- Type of dwelling?
- Material of outer walls – brick, weatherboard, concrete etc.?
- Internal facilities and their quality?

(4) How often are property rents increased? On what basis are they increased?

*Household rents: (if applicable)*

(5) How does your CHO determine its household rents?
- Relationship to SHA formula
- Tenant (spouse)
- Family Tax Benefit
- Treatment of Commonwealth Rent Assistance
- Children/other residents
- Other differences from the SHA
- Why differences from the SHA and other CHOs?

### (2) Current rental system: overview of strengths and weaknesses

Recently we ran some panels with housing workers and tenants ands have identified a number of issues with the current rent system.

(6) What is your overall view of the current rental system?
- The degree to which the system creates workforce disincentives
- Is an administrative burden
- Is complicated for tenants
- Does or does not achieve affordability.

- Does or does not enable financial viability
- Does or does not send any incentive for better use of properties
- Creates inequities between tenants in terms of location or different house types
- Whether it matters that market-derived rent is unrelated to the actual costs of provision

(7) Overall what do you see as the strengths and weaknesses of the current rental system?

(8) If there are problems with the system which part do your see as most problematic, market-derived rents or rebated rents?

(9) How do you think the public housing rental system compares with other rental systems In community housing? Overseas?

**(3) Rental policy and the achievement of the objectives of social housing**

(10) What do you think is the impact of the current rental system on financial viability?

- To what extent does rent revenue cover the costs of providing public housing?
  - What costs are covered? What are not?
  - Major upgrading/refurbishment fund/depreciation
  - Reliance on CHSA for operating funds
- Under what conditions can rental revenue cover the short term and long-term costs of providing social housing?

(11) Do you think that the current rental system can achieve both affordability and financial viability?

(12) What other objectives can a rental policy realistically achieve?

- equity?
- workforce disincentives?
- social cohesion?
- targeting?
- administrative simplicity?

**(4) Speculating on rents**

(13) If you were developing a social housing system from scratch, what sort of rental system would you put in place?

**(5) Looking to the future**

(14) What reforms/pilots/initiatives have you introduced or considering?

(15) Work incentives: Are you considering any proposals? What will be their financial impact? Who should meet the cost of these incentives? What role do you see the Commonwealth playing in introducing these proposals?

(16) Do you think public tenants should be eligible for Commonwealth Rent Assistance – what changes would you consider introducing if this happened?

(17) In many European countries, tenants pay a property rent usually based on a cost-rent. Governments provide tenants with a housing allowance which enables them to afford this rent. What are your views on such a system compared to ours?

**(6) Analysis of rents**

(18) Trends

- What proportion of market-derived rent do you collect? How has this changed over the past 5 years/decade?
- What is the average rent collected? Has this changed over the past 5 years/decade?

(19) Have you undertaken any analysis of rents in the past couple of years, such as:
- Average and/or range in property rents by:
  - dwelling size (1-Br, 2-Br, 3-Br)
  - region
  - region and dwelling size
- Average and/or range in household rents by:
  - dwelling size (1-Br, 2-Br, 3-Br)
  - household type (single person, couple, aged single, aged couple, family type)
  - region
  - region, household type and dwelling size

**(7) Property rents: details (SHAs only)**

(20) How are market-derived rents determined?
- How is it determined where there is equivalent private rental stock?
- How is it determined where there is no equivalent private rental stock?

(21) What characteristics of the dwelling are taken into account in assessing the market-derived rent?
- Location?
- Type of dwelling?
- Material of outer walls – brick, weatherboard, concrete etc.?
- Internal facilities and their quality?

(22) How often are market-derived rents increased? On what basis are they increased?

(23) Do you allow market clearing rents i.e. reducing rents to ensure that a vacant dwelling becomes occupied?

(24) Do you think market-derived rents are better than a full cost-rent system?

(25) How do you think market-derived rents could be improved?

(26) How have property rents evolved in your state? When were the key changes? What was the nature of the change? Why did the change occur?

**(8) Household rents: details (SHA only)**

(27) How are household rents determined?
- Confirm general formula as outlined in Housing Assistance Annual report (Table G6)
- Rationale for differences between different sources of income
- Why differences from other states?

(28) What issues arise in relation to your household rent system?
- Affordability
- Equity between tenants – different quality and type housing, location etc.
- Workforce disincentives
  - to what proportion of your tenants would this be applicable?
  - Is rent the major factor in workforce disincentives? What role do lack of employment prospects, public transport, discrimination, education play relative to rent?
- Administrative complexity
- Future trends in tenant profile (household incomes)

- Stock usage
  - Extent to which rents impact on stock usage – is it relevant?
  - Rent as part of strategy to maximise stock usage
- Neighbourhood renewal – social cohesion – tenant stability

*Development of household rents*

(29) How have household rents developed in your State? When were the key changes? What was the nature of these key changes? Why did they occur?

*Rent arrears*

(30) To what extent do you think that rent arrears are related to (i) backdating of rent assessments (ii) regular changes in rents?

*Assessment of income of other residents*

Note: assessment of other groups will be included in a supplementary survey. This group is discussed here because of the complexity among States.

(31) Up to what age is the income of other residents not assessed for rent purposes?
(32) Is income of children of the tenant assessed differently from that of other residents?
(33) Is income of other residents assessed differently according to age? What are the age groupings?

Group 1: Children of tenant (if applicable)

| Age grouping | Rent assessment |
|---|---|
| | |
| | |

Group 2: All other residents/non-child residents

| Age grouping | Rent assessment |
|---|---|
| | |
| | |

**(9) Property rents: further details (community housing organisations only)**

(34) Do you reduce rents to ensure that a vacant dwelling becomes occupied?
(35) How do you think your property rents could be improved?
(36) How have property rents evolved in your CHO? When were the key changes? What was the nature of the change? Why did the change occur?

**(10) Household rents: details (community housing organisations only)**

(37) What issues arise in relation to your household rent system?
- Affordability
- Equity between tenants – different quality and type housing, location etc.
- Workforce disincentives
  - to what proportion of your tenants would this be applicable?
  - Is rent the major factor in workforce disincentives? What role do lack of employment prospects, public transport, discrimination, education play relative to rent?

- Administrative complexity
- Future trends in tenant profile (household incomes)
- Stock usage
  - Extent to which rents impact on stock usage – is it relevant?
  - Rent as part of strategy to maximise stock usage
- Neighbourhood renewal – social cohesion – tenant stability

(38) How have household rents developed in your CHO? When were the key changes? What was the nature of these key changes? Why did they occur?

(39) To what extent do you think that rent arrears are related to (i) backdating of rent assessments (ii) regular changes in rents (iii) tenants not knowing or unsure of their rent?

# APPENDIX 3: BACKGROUND PAPER FOR AHI FORUMS

**AUSTRALASIAN HOUSING INSTITUTE**

# Rent setting policies and practices: Background paper

**Prepared by**

**Swinburne Institute for Social Research**

**October 2003**

### (1) Background

Swinburne Institute for Social Research (SISR) has received funding from the Australian Housing and Urban Research Institute (AHURI) to review rent setting policy and practice in social housing and to develop future options for rent setting in the Australian social housing sector.

The Australasian Housing Institute (AHI) has also identified rent policy as a priority issue for consideration and development among its membership.

In view of their mutual interest in this topic, SISR and AHI have agreed to work together to identify key issues in rent setting in Australia and New Zealand among housing practitioners through the development of this background paper and a series of forums in Sydney, Melbourne, Auckland and Brisbane among AHI members.

### (2) Purpose of the forums

The purpose of the forums is twofold: first, to enable AHI to provide information to its members about this core social housing issue and to develop its own position on future rent setting options; second, to inform the AHURI research project being conducted by the Swinburne AHURI Research Centre.

### (3) This background paper

This brief paper serves to introduce the issue of rent setting policies and practices in Australia and New Zealand. It:

- outlines some key questions for discussion
- highlights the importance of rent setting policies
- provides a brief overview and history of rent setting policies and practices
- as a contrast provides a brief introduction to the key elements of rent setting policies in other countries, and finally
- proposes some key issues for consideration with a particular focus on housing practitioners.

### (4) Key questions for discussion

Key questions for discussion at the forums are:

- What are your views, as practitioners, on current rent setting policies and practices?
- What management and operational issues arise from current approaches – both of a general nature or specific to certain practices or client groups?
- What impact do rent setting policies and their administration have on provider-tenant relationships?
- As practitioners, what are your views on and experience of alternative models or approaches to rent setting and what are their likely impact on housing workers and their relationship with tenants?

### (5) The importance of rent setting policies

The purpose of social housing is to provide good quality, secure and appropriate housing that is affordable for tenants. Along with eligibility/allocations policy and supply of housing stock, rent setting policy is one of the constitutive elements of social housing and critical to the achievement of its purposes.

But rent setting policies not only have to achieve the single goal of affordability for tenants, they also have to achieve a number of other goals. Rent revenue is the primary source of income for social housing organisations. Thus, rent setting policies can affect their financial viability. Rent setting policies can create poverty traps for tenants. They can create inequities between tenants when some pay more for their housing than others or, when tenants pay the same for their housing regardless of its quality, its location and its appropriateness to their circumstances. Rent setting policies can impact on how stock is utilised: whether it is wanted by tenants; whether is under-occupied or over-occupied, and; whether it is hard-to-let and vacant.

### (6) Rent setting in Australia

Social housing in Australia consists of three major sectors: public housing, community housing and Indigenous housing. While there are many differences in rent setting practices among organisations in these sectors, rent setting policies in Australia are broadly similar.

Most Australian social housing organisations operate a dual rental system whereby they determine both a rent for each property (the property rent) and a rent for each household (the household rent). The property rent is a ceiling or maximum rent payable on each property. Most organisations derive the property rent from the rent paid for an equivalent dwelling in the private rental market, i.e. a market rent or market-derived rent. The household rent is based on the income of each tenant.[i] Most organisations now calculate the household rent based on a formula of 25% of household income. The tenant pays the household rent where it is calculated below the property rent.[ii]

Since 1945, Australia has had three types of property rent systems: historic cost rents (based on the historic cash costs of providing housing), current cost rents (based on the short and long-term costs of providing housing) and, market or market-derived rents.

Property rents have largely become irrelevant to public housing operations and are generally used for reporting purposes only: property rents are paid by less than 10% tenants, and; unlike New Zealand, State Housing Authorities carry the cost of rebates internally with neither the Commonwealth nor State Governments reimbursing them for the difference between property rents and household rents.[iii]

While each of these rent systems has a different underlying philosophy, the long-term trend has seen rents increasing in real terms. Property rents reached their limit with the introduction of market-derived rents in the early 1990s. Household rents have increased from a benchmark rent of less than 20% income up until the 1970s to a benchmark rent of 20% income in the 1980s and 25% income in the 1990s.

The driving force behind real increases in rents has been twofold: first, the reluctance of Commonwealth and State Governments to provide either rent subsidies directly to tenants or operating subsidies to State Housing Authorities, i.e. to reduce or to subsidise the level of rental rebates provided to tenants, and; second, the requirement that SHAs maintain their financial viability through rental revenue.

For SHAs, revenue from household rents is just under half that of market-derived rents.

### (7) Rent setting in New Zealand

New Zealand also operates a dual rent system with a property rent and a household rent. The property rent is a market-derived rent. The household rent is generally 25% of household income.iv The cost of household rents is, however, not borne by the housing organisation (Housing New Zealand Ltd.). NZ Treasury reimburses Housing NZ the difference between market-derived rents and households rents. Less than 10% of tenants pay property rents. Rental revenue comprises just under half market-derived rents with subsidies from Treasury comprising just over half market-derived rents.

New Zealand did not always have a dual rent system. From the late 1930s, all tenants paid a property rent which was based on the current costs of providing housing. Where ‘needy families’ were judged unable to meet this property rent, a separate process provided them with an income supplement. By the 1960s, NZ had adopted a limited dual rent system with some households receiving rebated rents. In the early 1970s, household rents were based on 17% household income. By the late 1980s, this had risen to 25% of net income. In 1991 NZ introduced a single rent system whereby all tenants paid a market-derived property rent. In addition, where a tenant paid more than 25% of their income in rent, they were eligible for an ‘accommodation supplement’. This supplement paid only part of the difference between the property rent and 25% income. The current dual rent system was introduced in December 2000.

### (8) Rent setting in other countries

Social housing rent setting policies and practices in other countries vary considerably from that in Australia and NZ. Apart from the USA, Australia and NZ are the only countries operating a household rent. They are the only countries which base property rents on market-derived rents. In Europe, most social housing tenants pay a property rent based upon the costs of providing housing. Low income tenants receive allowances, benefits or supplements which ensure that these property rents are affordable. The following examples illustrate some alternative rent setting policies and practices.

#### *United States of America*

Two elements distinguish the rent system of Public Housing Authorities (PHAs) in the United States. First, they operate a single rent system by charging only household rents. For their housing and utilities, most public housing tenants pay 30% of their monthly adjusted income. Second, unlike Australia, PHA revenue is supplemented by operational subsidies from the Federal Government. Unlike NZ, these operational subsidies are not the difference between the household rent and the market-derived rent. Rather they meet the difference between a PHA’s rental revenue and their operating expenses.

One further element of the current rent system in the USA is of particular interest. In 1998, Congress passed federal housing legislation designed to promote work among residents of public housing. The legislation requires that an ‘earned income disregard’ be applied in calculating the rent charged that some public housing tenants must pay, so that rents do not jump substantially when a resident goes to work or increases their work hours. Thus, families who are receiving or have recently received benefits through the Temporary Assistance to Needy Families (TANF) programs pay no additional rent for 12 months after their earnings increase. In the second 12-month period, only half of the household’s increased earnings are considered in calculating rent. The disregard is a once-in-a-lifetime benefit for each individual in a household.

#### United Kingdom

All social housing tenants in the UK, whether in council housing or a housing association, pay a property rent. There is no household rent. Over the past two decades, social housing rents have been the centre of an ongoing debate with numerous changes. A recent major review has resulted in the progressive implementation of a new uniform rent system. The review sought to address the large differences in rents between council housing and housing associations, between similar dwellings in the same area and between different but similar locations. The new rent system seeks to relate property rents to earnings in each region, property values and size of dwellings. Rather than a once-off change, rents will incrementally move to new levels over the next 10 years.

Social housing tenants may be entitled to a housing benefit payment. Those with a net income below an applicable amount (usually the same as the income support and jobseeker's allowance benefit rates which vary by household size and type) receive a housing benefit payment equal to their property rent, i.e. the housing benefit meets the full cost of their housing. For those with a net income above the applicable amount their housing benefit is reduced at the rate of 65p for each £1 of additional income. Housing benefit also continues to be paid for 4 weeks after the tenant begins work.

### Netherlands

All social housing tenants in the Netherlands pay a property rent. Again there is no household rent. For most dwellings, this property rent is determined through a dwelling appraisal system which establishes the rent by reference to quality indicators. In a country where social housing is owned and managed by housing associations and municipal authorities, rent increases (for both social housing and the low rent private sector) are regulated by the central Government.

Social housing tenants are also eligible for a housing allowance which is payable to social housing tenants with income less than a specified maximum and paying rent within a specified band. It is a standard amount based on household size, household type and rent band.

The housing allowance allows low and moderate income earners a wide choice of social and private rental housing. It is administered by the national Ministry responsible for housing policy (rather than social security). This enables close links with other aspects of housing policy such as rent increases and operating subsidies for new dwellings.

## (9) Issues for housing practitioners

About 90% of public tenants in both Australia and New Zealand pay a household rent as do most tenants of CHOs and IHOs in Australia. For the most part, then, property rents are irrelevant to housing practitioners and the major issues centre on household rents. Five particular issues are outlined below:

- **Understanding how income-related rents are calculated:** to what extent do housing officers and tenants understand how rents are calculated and can housing officers satisfactorily explain rent calculations to tenants?
- **Administration of income-related rents:** A key issue for housing practitioners is the time involved in the administration of income-related rents. Housing officers provide application forms to tenants, explain and answer their questions and provide advice on the documentation required to support applications. They calculate income-related rents

distinguishing the various components of income – assessable income, non-assessable income and family payments – and apply the different rates to different types of incomes. They regularly adjust these rents when Government payments are increased and when tenants inform them of changes in their circumstances etc.

- **Rent arrears and income-related rents:** Rent arrears is an issue for many tenants. For both the tenant and the housing officer knowing the income-related rent at any one time is one complicating factor. Sometimes arrears accrue because a tenant does not seek a recalculation of their rent due to changing circumstances (beginning work, a resident moving into or leaving the dwelling, changes to Government entitlements, irregular or casual work, lump sum payments etc.). Sometimes arrears accrue because the tenant becomes confused about the rent they are expected to pay.
- **Documentation:** Sometimes housing officers have difficulties assessing rents because the tenant is unable to provide the required documentation or they have difficulties gaining information and documentation about the income of other residents in the dwelling.
- **Relationship with tenants:** to what extent do rent assessments complicate relationships with tenants particularly in relation to rent arrears.

### (10) Other issues

The previous section raised issues which are of particular interest to housing practitioners. However, rent-setting raises a broad range of other issues:

- **Housing affordability:** to what extent are current household rents affordable for tenants? Are they affordable for all household types or only some? To what extent should the social housing organisation take responsibility for housing affordability?
- **Equity between social housing tenants:** current arrangements are based predominantly on household income. To what extent should household rents take account of different household types (such as number of children) or different dwelling characteristics (such as location, quality and type of dwelling)?
- **Financial viability:** Despite increases in both property rents and household rents, State Housing Authorities continue to struggle to maintain their financial viability. In particular, they continue to rely upon CSHA funds to meet the costs of major upgrading and debt repayments. Is there a better way of ensuring their financial viability without relying predominantly on rental revenue from household rents?
- **Workforce incentives:** Notions of mutual obligation and the need to encourage greater workforce participation among social housing tenants raises issues of how rents can be structured to minimise work disincentives. This could include waiving a rent increase for a period for certain types of work (for example, casual employment) or channelling additional income from employment into a saving account for which there is a rent increase exemption.
- **Under-occupancy of dwellings:** Allocation policies are mechanism by which social housing organisations ensure that their dwellings are fully-utilised. Over time, however, tenant circumstances change, household members leave and the dwelling become under-occupied. With their focus on income, household rents provide no incentives for tenants to move – they will pay the same household rent whether they stay where they are or move into a smaller dwelling. Should rent policy be used to encourage a better utilisation of stock or should this be left to other policies?
- **Social cohesion:** current rent policies, in particular the way in which property rents are determined, may serve to encourage tenants to move out as their income increases. Alternatively, rent policy could be used to encourage tenants to remain in their dwelling even if their income increases and they pay a property rent. Longer tenure among tenants adds to the social cohesion of a local area. Should rent policy be used as mechanism for enhancing social cohesion in local areas?

The AHI workshops will explore these issues further with housing practitioners.

## (11) Further information

The following publications provide further information on rent issues and are available on the Australasian Housing Institute website at: www.housinginstitute.org/policy/rent.php

National Community Housing Forum (2002) *Rent Structures: A Discussion Paper*

National Community Housing Forum (2003) *The CSHA, workforce disincentives, rents and private finance*

Commonwealth Department of Family and Community Services 2003 *Housing Assistance Act 1996 Annual Report 2000-2001* - comparison of household rents in each State/Territory – see Table G6 p.169f

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[i] Household rent is usually referred to as a 'rebated rent' or an 'income-related rent'.

[ii] There are many variations to these practices even among State Housing Authorities (SHAs). For example, public housing in both Tasmania and Queensland operate only a single household rent system. The benchmark rent of 25% can also vary between SHAs. In addition, both family payments and income from other residents are subject to different rates. For a brief overview of the differences between SHAs see DFACS 2003 Table G6 p.169ff.

[iii] There is, however, some limited provision for reimbursement within the CSHA as SHAs can use CSHA funds for recurrent rather than capital purposes.

[iv] Where household income is above a threshold level, the rate is increased to 50% for income above that threshold. Thus, some tenants pay more than 25% household income.

# APPENDIX 4: SURVEY OF PUBLIC HOUSING TENANT ORGANISATIONS IN QUEENSLAND

(Developed and administered by Queensland Public Tenants Association)

Please fill in the answers in the spaces below the questions or, if you need more room, please attach your answers on a separate piece of paper.

**(1) Housing affordability**

How affordable are current rents for public housing tenants?

Are they affordable for all household types or only some (eg single person v. sole parent with 1 child v. person on a disability support pension)?

**(2) Fairness between public housing tenants:**

To what extent should rents take account of different household types (such as number of children)?

To what extent should rents take account of differences between homes (such as location, quality and type of dwelling)?

**(3) Workforce incentives**

Do you think the current Department rent policy discourages people from finding work?

How do you think rent policy could be changed to encourage people to find work?

**(4) Under-occupancy of dwellings:**

*(sometimes tenant circumstances change, household members leave and the house becomes under-occupied. Department rents provide no incentives for tenants to move because they will usually pay the same rent whether they stay where they are or move into a smaller dwelling).*

Should changes in rent be used to encourage people to move to smaller houses when the number of people living in the house falls? Or should this be left to other policies?

**(5) Social cohesion and stronger communities:**

*(because rent increases the more that tenants earn, some tenants move out as their rents go up. This can lead to the breaking down of strong ties amongst tenants and with their community.)*

Because it is good for the community, should the Department of Housing encourage people through their rent policy to stay in their homes even though their income increases?

**(6) Relationships between tenants and the Department of Housing:**

To what extent do tenants find the current process of providing the Department with information about their income as an intrusion on their privacy?

What do tenants think about the rent paperwork they have to provide to the Department?

Do tenants have difficulty working out how their rents are calculated?

Are rent calculations explained well enough by Department staff?

Do tenants become confused about what rent to pay because of regular changes in their rent?

# APPENDIX 5: RENTAL SYSTEMS MODELLING

## 11.4 Model 1: Budget standard model assumptions and results

The assumptions in the budget standard model are:

- The budget standard for each household is divided into two components which are calculated separately: other living costs and rent;
- 'Other living costs' is based on the overall low-cost budget standard as determined by the Budget Standard Project less housing costs (See Table 12.3, p. 441). This has been updated by CPI to December 2004. The 12 household types are those for which the Budget Standard Project determined budget standards;
- 'Rent' is based on the average operating costs for different size dwellings;
- Current income is based on Centrelink entitlements as at December 2004. These vary according to type of payment (Newstart or disability pension, age pension or parenting payment), type of household, age of children and eligibility for rent assistance;
- In Table A5-15 rent is calculated on the basis of operating and asset utilisation[41] costs for Victorian public housing stock for the 2003-04 year.[42] As outlined in Table A5-10, these costs are distributed across different size dwellings on the basis of an estimated cost differential between dwelling sizes (the benchmark for the purposes of this cost differential is the 3-bedroom dwelling, with operating and asset utilisation costs of 2-bedroom dwellings 10% less, of 1-bedroom 15% less, of bedsitters 20% less and of 4-bedroom 10% more). Costs are then distributed according to the stock profile of Victorian public housing, viz. bedsitters 2.4%, 1-bedroom 25.6%, 2-bedroom 28.9%, 3-bedroom 38.6% and 4+-bedroom 4.5%. The rent is the average operating and utilisation cost for each size of dwelling;
- In Table A5-16 rent is calculated on the basis of estimated operating and asset utilisation costs for newly constructed dwellings. These costs will generally vary according to capital costs (land, construction and construction-related costs). Table A5-11 outlines average capital costs for different size dwellings and Table A5-12 outlines the average rents for different size dwellings;
- In Table A5-17 rent is calculated on the same basis as in Table A5-15 (the operating and asset utilisation costs for Victorian public housing stock for the 2003-04 year, as outlined in Table A5-10). In addition to the usual Centrelink payments, it is further assumed that tenants are eligible for rent assistance;
- In
- Table A5-18 rent is also calculated on the basis of estimated operating and asset utilisation costs for newly constructed dwellings. However, as outlined in Table A5-13, capital costs are slightly lower as CHOs (provided they are charities

[41] Asset utilisation is sometimes referred to as depreciation. However, depreciation is used in a number of contexts. The term asset utilisation points to the basis for the cost, viz. that over time the structure of the building is used up.

[42] As outlined in Table 16A.6 'Financial indicators of public housing 2003-2004' in Attachment 16A, Steering Committee for the Review of Government Service Provision, *Report on Government Services 2005*, Productivity Commission, Canberra.

charging less than 70% market rent) can claim input tax credits (on GST free supply), and rents are slightly lower, as outlined in Table A5-14;

- In Table A5-15 and Table A5-16, it is assumed that public housing tenants are not eligible for rent assistance;
- In Table A5-17 and
- Table A5-18, community housing tenants are eligible for rent assistance. Thus, rent as proportion of total costs is calculated on the basis of net rent, i.e. rent after deducting rent assistance.

### Table A5-10: Victorian public housing operating and asset utilisation costs

| | |
|---|---|
| **Operating costs** | |
| Average | $3,515 |
| Total operating costs: | 227,995,000 |
| **Asset Utilisation (Depreciation)** | |
| Average | $1,752 |
| Total asset utilisation | 113,625,960 |
| | |
| **Number of dwellings** | 64,855 |

| **Profile of stock** | | | **Operating costs** | | **Asset Utilisation** | | |
|---|---|---|---|---|---|---|---|
| **Size of dwelling** | **% stock** | **Estimated cost differential** | **Average cost** | **Total cost** | **Average cost** | **Total cost** | **Total average cost** |
| Bedsitter | 2.4% | -20% | $3,016 | $4,694,878 | $1,503 | $2,339,788 | $4,519 |
| 1-bedroom | 25.6% | -15% | $3,205 | $53,208,614 | $1,597 | $26,517,599 | $4,802 |
| 2-bedroom | 28.9% | -10% | $3,393 | $63,600,922 | $1,691 | $31,696,817 | $5,084 |
| 3-bedroom | 38.6% | 0% | $3,770 | $94,386,604 | $1,879 | $47,039,490 | $5,649 |
| 4+-bedroom | 4.5% | 10% | $4,147 | $12,103,982 | $2,067 | $6,032,266 | $6,214 |
| | 100.0% | | | $227,995,000 | | $113,625,960 | |

Sources:
Table 16A.6 Financial indicators of public housing 2003-2004 in Attachment 16A SCRGSP (Steering Committee for the Review of Government Service Provision) 2005 Report on Government Services 2005 Productivity Commission, Canberra

Victoria. Department of Human Services. Office of Housing 2004 *Summary of Housing Assistance Programs 2003-2004* Table 5.12: Summary of Stock, p.54

**Table A5-11: Estimated construction costs and land costs for public housing dwellings**

| Size of dwelling | Land costs: Land area $m^2$ | Land costs: Total cost* | Construction costs: Floor space $(m^2)$# | Construction costs: Construction cost per $m^2$ | Construction costs: Total construction costs | Other costs @35%^ | Total cost |
|---|---|---|---|---|---|---|---|
| Bedsitter | 80 | $24,000 | 25 | $2,000 | $50,000 | $17,500 | $67,500 |
| 1-bedroom | 120 | $36,000 | 50 | $1,900 | $95,000 | $33,250 | $128,250 |
| 2-bedroom | 200 | $60,000 | 65 | $1,800 | $117,000 | $40,950 | $157,950 |
| 3-bedroom | 250 | $75,000 | 85 | $1,750 | $148,750 | $52,063 | $200,813 |
| 4+-bedroom | 300 | $90,000 | 105 | $1,700 | $178,500 | $62,475 | $240,975 |

* assumes an average land cost of $300 per $m^2$
# Based on Queensland Department of Housing Affordable Housing Design Guidelines, September 2004, p. 26,
<http://www.housing.qld.gov.au/new_approaches_to_housing/pdf/aff_hsg_des_guidelines.pdf>
^Other costs include:
(i) 10% Professional costs: architect, soil and engineer reports, environmental reports, surveying
(ii) 10% Contingencies and other miscellaneous costs: land preparation, demolition, removal of rubbish etc., contamination of site, fees and charges, planning application, land transfer costs, stamp duty
(iii) 5% Project management
(iv) 10% GST (SHAs are unable to claim input tax credits on input tax supply)

**Table A5-12: Estimating public housing operating costs for newly constructed dwellings**

| | Rate | Bedsitter | 1-br | 2.br | 3-br | 4-br |
|---|---|---|---|---|---|---|
| Land value | | $24,000 | $36,000 | $60,000 | $75,000 | $90,000 |
| Construction cost | | $50,000 | $95,000 | $117,000 | $148,750 | $178,500 |
| Other costs | | $17,500 | $33,250 | $40,950 | $52,063 | $62,475 |
| **Total project cost** | | $91,500 | $164,250 | $217,950 | $275,813 | $330,975 |
| *Annual market rent (% of project cost)* | *6.50%* | $5,948 | $10,676 | $14,167 | $17,928 | $21,513 |
| **Tenancy management** | | $416 | $747 | $992 | $1,255 | $1,506 |
| Administration (% market rent) | 7.00% | | | | | |
| Vacancy costs (% market rent) | 3.00% | $178 | $320 | $425 | $538 | $645 |
| Bad debts (% market rent) | 2.00% | $119 | $214 | $283 | $359 | $430 |
| **Property management** | | | | | | |
| Rates (% project cost) | 0.50% | $458 | $821 | $1,090 | $1,379 | $1,655 |
| Insurance (% construction and other costs) | 0.15% | $101 | $192 | $237 | $301 | $361 |
| Responsive maintenance (% construction and other costs) | 0.50% | $338 | $641 | $790 | $1,004 | $1,205 |
| Planned maintenance (% construction and other costs) | 0.70% | $473 | $898 | $1,106 | $1,406 | $1,687 |
| **Asset utilisation** (% construction and other costs) | 2.00% | $1,350 | $2,565 | $3,159 | $4,016 | $4,820 |
| **Total operating and asset utilisation costs** | | **$3,432** | **$6,399** | **$8,081** | **$10,258** | **$12,309** |

| | Range for different size dwelling | | |
|---|---|---|---|
| Operating and asset utilisation costs as % market rent | 57% | - | 60% |
| Building value as % market value of property | 72% | - | 78% |
| Land value as % market value of property | 22% | - | 28% |

**Table A5-13: Estimated construction costs and land costs for community housing dwellings**

| Size of dwelling | Land costs: Land area $m^2$ | Land costs: Total cost* | Construction costs: Floor space $(m^2)$# | Construction costs: Construction cost per $m^2$ | Construction costs: Total construction costs | Other costs @25%^ | Total cost |
|---|---|---|---|---|---|---|---|
| Bedsitter | 80 | $24,000 | 25 | $2,000 | $50,000 | $12,500 | $62,500 |
| 1-bedroom | 120 | $36,000 | 50 | $1,900 | $95,000 | $23,750 | $118,750 |
| 2-bedroom | 200 | $60,000 | 65 | $1,800 | $117,000 | $29,250 | $146,250 |
| 3-bedroom | 250 | $75,000 | 85 | $1,750 | $148,750 | $37,188 | $185,938 |
| 4+-bedroom | 300 | $90,000 | 105 | $1,700 | $178,500 | $44,625 | $223,125 |

* assumes an average land cost of $300 per $m^2$

\# Based on Queensland Department of Housing Affordable Housing Design Guidelines, September 2004, p. 26, <http://www.housing.qld.gov.au/new_approaches_to_housing/pdf/aff_hsg_des_guidelines.pdf>

^Other costs include:

(i) 10% Professional costs: architect, soil and engineer reports, environmental reports, surveying

(ii) 10% Contingencies and other miscellaneous costs: land preparation, demolition, removal of rubbish etc., contamination of site, fees and charges, planning application, land transfer costs, stamp duty

(iii) 5% Project management

Note: CHOs can claim input tax credits on input tax supply

## Table A5-14: Estimating community housing operating costs for newly constructed dwellings

| | Rate | Bedsitter | 1-br | 2.br | 3-br | 4-br |
|---|---|---|---|---|---|---|
| Land value | | $24,000 | $36,000 | $60,000 | $75,000 | $90,000 |
| Construction cost | | $50,000 | $95,000 | $117,000 | $148,750 | $178,500 |
| Other costs | | $12,500 | $23,750 | $29,250 | $37,188 | $44,625 |
| **Total project cost** | | $86,500 | $154,750 | $206,250 | $260,938 | $313,125 |
| *Annual market rent (% of project cost)* | *6.80%* | $5,882 | $10,523 | $14,025 | $17,744 | $21,293 |
| **Tenancy management** | | | | | | |
| Administration (% market rent) | 7.00% | $412 | $737 | $982 | $1,242 | $1,490 |
| Vacancy costs (% market rent) | 3.00% | $176 | $316 | $421 | $532 | $639 |
| Bad debts (% market rent) | 2.00% | $118 | $210 | $281 | $355 | $426 |
| **Property management** | | | | | | |
| Rates (% project cost) | 0.50% | $433 | $774 | $1,031 | $1,305 | $1,566 |
| Insurance (% construction and other costs) | 0.15% | $94 | $178 | $219 | $279 | $335 |
| Responsive maintenance (% construction and other costs) | 0.50% | $313 | $594 | $731 | $930 | $1,116 |
| Planned maintenance (% construction and other costs) | 0.70% | $438 | $831 | $1,024 | $1,302 | $1,562 |
| **Asset utilisation** (% construction and other costs) | 2.00% | $1,250 | $2,375 | $2,925 | $3,719 | $4,463 |
| **Total operating and asset utilisation costs** | | **$3,232** | **$6,015** | **$7,614** | **$9,663** | **$11,595** |

| | Range for different size dwelling | | |
|---|---|---|---|
| Operating and asset utilisation costs as % market rent | 54% | - | 57% |
| Building value as % market value of property | 71% | - | 77% |
| Land value as % market value of property | 23% | - | 29% |

**Table A5-15: Budget standards based on rents that cover the operating and asset utilisation costs of Victorian public housing stock**

| Code | Household type | Household type descriptors | BR | Other living costs* | Rent # | Total cost | Rent as % total costs | Newstart Current income | Newstart Income surplus (shortfall) | Pension Current income | Pension Income surplus (shortfall) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| H1 | Single | female 35 years | 1 | $207 | $92 | $299 | 31% | $197 | ($102) | $238 | ($61) |
| H5 | Single aged | female 70 years | 1 | $187 | $92 | $279 | 33% | n.a. | n.a. | $238 | ($41) |
| H2 | Couple | male 40 years, female 35 years | 1 | $314 | $92 | $406 | 23% | $356 | ($50) | $396 | ($10) |
| H6 | Couple aged | both 70 years | 1 | $290 | $92 | $382 | 24% | n.a. | n.a. | $396 | $14 |
| H4 | Single plus 1 child | female 35 years, girl 6 years | 2 | $263 | $97 | $360 | 27% | n.a. | n.a. | $345 | ($15) |
| H12 | Single plus 2 children | female 35 years, girl 6 years, boy 10 years | 3 | $352 | $108 | $460 | 24% | n.a. | n.a. | $412 | ($49) |
| H7 | Couple plus 1 child | male 40 years, female 35 years, girl 6 years | 2 | $389 | $97 | $486 | 20% | $423 | ($63) | $463 | ($23) |
| H8 | Couple plus 1 child | male 40 years, female 35 years, boy 14 years | 2 | $418 | $97 | $516 | 19% | $441 | ($75) | $481 | ($35) |
| H9 | Couple plus 1 child | male 40 years, female 35 years, girl 3 years | 2 | $368 | $97 | $465 | 21% | $423 | ($42) | $463 | ($2) |
| H3 | Couple plus 2 children | male 40 years, female 35 years, girl 6 years, boy 14 years | 3 | $494 | $108 | $602 | 18% | $507 | ($94) | $547 | ($55) |
| H10 | Couple plus 3 children | male 40 years, female 35 years, girls 3 & 6 years, boy 14 years | 3 | $563 | $108 | $671 | 16% | $574 | ($97) | $614 | ($57) |
| H11 | Couple plus 4 children | male 40 years, female 35 years, girls 3 & 6 years, boy 10 & 14 years | 4 | $651 | $119 | $770 | 15% | $641 | ($129) | $681 | ($89) |

**Table A5-16: Budget standards based on rents that cover the operating costs of newly constructed public housing stock**

| Code | Household type | Household type descriptors | BR | Other living costs* | Rent# | Total cost | Rent as % total costs | Newstart Current income | Newstart Income surplus (shortfall) | Pension Current income | Pension Income surplus (shortfall) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| H1 | Single | female 35 years | 1 | $207 | $123 | $330 | 37% | $197 | ($132) | $238 | ($91) |
| H5 | Single aged | female 70 years | 1 | $187 | $123 | $310 | 40% | n.a. | n.a. | $238 | ($71) |
| H2 | Couple | male 40 years, female 35 years | 1 | $314 | $123 | $436 | 28% | $356 | ($80) | $396 | ($40) |
| H6 | Couple aged | both 70 years | 1 | $290 | $123 | $412 | 30% | n.a. | n.a. | $396 | ($16) |
| H4 | Single plus 1 child | female 35 years, girl 6 years | 2 | $263 | $155 | $417 | 37% | n.a. | n.a. | $345 | ($72) |
| H12 | Single plus 2 children | female 35 years, girl 6 years, boy 10 years | 3 | $352 | $197 | $549 | 36% | n.a. | n.a. | $412 | ($137) |
| H7 | Couple plus 1 child | male 40 years, female 35 years, girl 6 years | 2 | $389 | $155 | $543 | 28% | $423 | ($121) | $463 | ($81) |
| H8 | Couple plus 1 child | male 40 years, female 35 years, boy 14 years | 2 | $418 | $155 | $573 | 27% | $441 | ($133) | $481 | ($93) |
| H9 | Couple plus 1 child | male 40 years, female 35 years, girl 3 years | 2 | $368 | $155 | $522 | 30% | $423 | ($100) | $463 | ($60) |
| H3 | Couple plus 2 children | male 40 years, female 35 years, girl 6 years, boy 14 years | 3 | $494 | $197 | $690 | 28% | $507 | ($183) | $547 | ($143) |
| H10 | Couple plus 3 children | male 40 years, female 35 years, girls 3 & 6 years, boy 14 years | 3 | $563 | $197 | $759 | 26% | $574 | ($185) | $614 | ($145) |
| H11 | Couple plus 4 children | male 40 years, female 35 years, girls 3 & 6 years, boy 10 & 14 years | 4 | $651 | $236 | $887 | 27% | $641 | ($246) | $681 | ($206) |

**Table A5-17: Budget standards based on rents that cover the operating and asset utilisation costs of current Victorian public housing stock (including additional income from rent assistance)**

| | | | | | | | | Newstart | | Pension | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Code | Household type | Household type descriptors | BR | Other living costs* | Rent# | Total cost | Net Rent as % total costs | Current income (incl RA) | Income surplus (shortfall) | Current income (incl RA) | Income surplus (shortfall) |
| H1 | Single | female 35 years | 1 | $207 | $92 | $299 | 18% | $234 | ($65) | $275 | ($24) |
| H5 | Single aged | female 70 years | 1 | $187 | $92 | $279 | 20% | n.a. | n.a. | $275 | ($4) |
| H2 | Couple | male 40 years, female 35 years | 1 | $314 | $92 | $406 | 19% | $372 | ($33) | $412 | $7 |
| H6 | Couple aged | both 70 years | 1 | $290 | $92 | $382 | 20% | n.a. | n.a. | $412 | $31 |
| H4 | Single plus 1 child | female 35 years, girl 6 years | 2 | $263 | $97 | $360 | 19% | n.a. | n.a. | $376 | $16 |
| H12 | Single plus 2 children | female 35 years, girl 6 years, boy 10 years | 3 | $352 | $108 | $460 | 15% | n.a. | n.a. | $450 | ($10) |
| H7 | Couple plus 1 child | male 40 years, female 35 years, girl 6 years | 2 | $389 | $97 | $486 | 18% | $433 | ($53) | $473 | ($13) |
| H8 | Couple plus 1 child | male 40 years, female 35 years, boy 14 years | 2 | $418 | $97 | $516 | 17% | $451 | ($65) | $491 | ($25) |
| H9 | Couple plus 1 child | male 40 years, female 35 years, girl 3 years | 2 | $368 | $97 | $465 | 19% | $433 | ($32) | $473 | $8 |
| H3 | Couple plus 2 children | male 40 years, female 35 years, girl 6 years, boy 14 years | 3 | $494 | $108 | $602 | 15% | $526 | ($76) | $566 | ($36) |
| H10 | Couple plus 3 children | male 40 years, female 35 years, girls 3 & 6 years, boy 14 years | 3 | $563 | $108 | $671 | 13% | $593 | ($78) | $632 | ($39) |
| H11 | Couple plus 4 children | male 40 years, female 35 years, girls 3 & 6 years, boy 10 & 14 years | 4 | $651 | $119 | $770 | 12% | $667 | ($103) | $707 | ($63) |

**Table A5-18: Budget standards based on rents that cover the operating costs of newly constructed community housing dwellings (including additional income from rent assistance)**

| | | | | | | | | Newstart | | Pension | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Code | Household type | Household type descriptors | BR | Other living costs* | Rent# | Total cost | Net Rent as % total costs | Current income (incl RA) | Income surplus (shortfall) | Current income (incl RA) | Income surplus (shortfall) |
| H1 | Single | female 35 years | 1 | $207 | $114 | $321 | 20% | $246 | ($76) | $287 | ($35) |
| H5 | Single aged | female 70 years | 1 | $187 | $114 | $301 | 22% | n.a. | n.a. | $287 | ($14) |
| H2 | Couple | male 40 years, female 35 years | 1 | $314 | $114 | $428 | 19% | $389 | ($39) | $429 | $1 |
| H6 | Couple aged | both 70 years | 1 | $290 | $114 | $404 | 20% | n.a. | n.a. | $429 | $25 |
| H4 | Single plus 1 child | female 35 years, girl 6 years | 2 | $263 | $144 | $407 | 22% | n.a. | n.a. | $402 | ($5) |
| H12 | Single plus 2 children | female 35 years, girl 6 years, boy 10 years | 3 | $352 | $183 | $536 | 24% | n.a. | n.a. | $469 | ($67) |
| H7 | Couple plus 1 child | male 40 years, female 35 years, girl 6 years | 2 | $389 | $144 | $533 | 19% | $468 | ($65) | $508 | ($25) |
| H8 | Couple plus 1 child | male 40 years, female 35 years, boy 14 years | 2 | $418 | $144 | $563 | 18% | $486 | ($77) | $526 | ($37) |
| H9 | Couple plus 1 child | male 40 years, female 35 years, girl 3 years | 2 | $368 | $144 | $512 | 19% | $468 | ($44) | $508 | ($4) |
| H3 | Couple plus 2 children | male 40 years, female 35 years, girl 6 years, boy 14 years | 3 | $494 | $183 | $677 | 19% | $564 | ($113) | $604 | ($73) |
| H10 | Couple plus 3 children | male 40 years, female 35 years, girls 3 & 6 years, boy 14 years | 3 | $563 | $183 | $746 | 16% | $639 | ($108) | $678 | ($68) |
| H11 | Couple plus 4 children | male 40 years, female 35 years, girls 3 & 6 years, boy 10 & 14 years | 4 | $651 | $220 | $871 | 18% | $705 | ($166) | $745 | ($126) |

## 11.5 Model 2: Flat rents assumptions and results

### Household Expenditure Survey data

Table A5-19 outlines the number and proportion of those households within HES that selected 'Rented Government Housing Authority' as the nature of their housing occupancy. This is approximately 0.1% of Australian public housing households. The table also includes the minimum and maximum rents paid within each household type, along with the median and mean for each household type.

Table A5-20 upscales the HES data to a medium-sized Australia-wide housing authority of 50,000 dwellings, thus providing an easier sense of the impact of flat rents on a housing authority. For each household type, the table outlines the mean weekly and annual rent, the total rent revenue from each household type and this revenue as a proportion of total rental revenue.[43] The table indicates the most important groups for rental revenue:

- The most predominant group are single person households. While they constitute 42% households, only 30% rental revenue is from these households;
- Couple households constitute 12% households but 14% rental revenue;
- Single parent households with children constitute 21% households and 19% rental revenue;
- Couple households constitute 11% households but 17% rental revenue.

The annual rental revenue for this fictional housing authority is $219 million.

### Centrelink

Given the high and increasing proportion of public housing tenants on Centrelink incomes, this modelling is based on Centrelink incomes only.

The income of tenants receiving Centrelink incomes varies quite extensively depending upon the age of the tenant, the age of their children, the basis for their Centrelink payment (unemployment, disability, age or single parent) and the type of household. Table A5-21 outlines the range of incomes for different types of households. Of particular concern to SHAs is the income range in relation to those households eligible to occupy a particular size dwelling. Table A5-22 outlines the range of rents for different size dwellings and household types.[44]

The extensive range of rents highlights the difficulty of establishing a flat rent, whether based on dwelling size or household type.

[43] Rents have been indexed using the CPI to December 2004 values.
[44] Rents are based on the Victorian rental rebate formula, viz. 25% adult incomes and 11% family tax benefit.

**Table A5-19: Household Expenditure Survey 1998, nature of housing occupancy as 'Rented Government Housing Authority' by household types, raw data**

| Household type | Households # | Households % | Weekly rent range Min | Weekly rent range Max | Median weekly rent | Mean weekly rent |
|---|---|---|---|---|---|---|
| Couple only | 46 | 13% | $36 | $167 | $90 | $100 |
| Couple with 1 dependant child | 14 | 4% | $51 | $192 | $103 | $109 |
| Couple with 2 dependant children | 17 | 5% | $64 | $183 | $126 | $120 |
| Couple with 3 dependant children | 10 | 3% | $70 | $192 | $162 | $145 |
| Couple with 4 or more dependant children | 9 | 2% | $60 | $198 | $150 | $134 |
| Couple non-dependant children only | 12 | 3% | $78 | $197 | $121 | $132 |
| Couple with dependant and non-dependant children | 7 | 2% | $85 | $176 | $96 | $103 |
| One parent with 1 child | 32 | 9% | $47 | $150 | $61 | $70 |
| One parent with 2 children | 25 | 7% | $39 | $117 | $68 | $71 |
| One parent with 3 or more dependant children | 28 | 8% | $52 | $150 | $82 | $91 |
| Other one family household | 21 | 6% | $42 | $241 | $94 | $107 |
| Multiple family with dependant children | 3 | 1% | $72 | $185 | $185 | $161 |
| Lone person | 141 | 38% | $19 | $228 | $49 | $60 |
| Group household | 2 | 1% | $115 | $120 | $120 | $118 |
| **Total** | **367** | **100%** | **$19** | **$241** | **$75** | **$84** |

**Note:**
Rents have been indexed using the CPI to December 2004 values.

**Table A5-20: Rental revenue based on the Household Expenditure Survey 1998 by household type**

| Household Type | # | % | Mean weekly rent | Annual mean rent | Total annual rent | % rent |
|---|---|---|---|---|---|---|
| Couple only | 5,991 | 12% | $100 | $5,220 | $31,273,020 | 14% |
| Couple with 1 dependant child | 1,653 | 3% | $109 | $5,690 | $9,404,894 | 4% |
| Couple with 2 dependant children | 1,929 | 4% | $120 | $6,255 | $12,066,553 | 6% |
| Couple with 3 dependant children | 1,081 | 2% | $145 | $7,568 | $8,181,396 | 4% |
| Couple with 4 or more dependant children | 994 | 2% | $134 | $6,987 | $6,944,671 | 3% |
| Couple non-dependant children only | 2,238 | 4% | $132 | $6,890 | $15,420,715 | 7% |
| Couple with dependant and non-dependant children | 962 | 2% | $103 | $5,377 | $5,172,289 | 2% |
| One parent with 1 dependant child | 4,060 | 8% | $70 | $3,653 | $14,832,371 | 7% |
| One parent with 2 dependant children | 3,063 | 6% | $71 | $3,716 | $11,381,368 | 5% |
| One parent with 3 or more dependant children | 3,264 | 7% | $91 | $4,750 | $15,504,653 | 7% |
| Other one family household | 2,684 | 5% | $107 | $5,585 | $14,991,214 | 7% |
| Multiple family with dependant children | 709 | 1% | $161 | $8,404 | $5,958,578 | 3% |
| Lone person | 20,969 | 42% | $60 | $3,132 | $65,674,908 | 30% |
| Group household | 403 | 1% | $118 | $6,160 | $2,482,319 | 1% |
| **Total** | **50,000** | **100%** | **$84** | **$4,386** | **$219,288,948** | **100%** |

**Table A5-21: Centrelink income by dwelling size for various household types**

| Dwelling type/Household type | Range of incomes at full pension/ allowance | |
|---|---|---|
| | **Minimum** | **Maximum** |
| **One bedroom** | | |
| Single person | $159.25 | $238.25 |
| Couple | $318.50 | $395.90 |
| ***Minimum/maximum for 1-bedroom dwelling*** | ***$159.25*** | ***$395.90*** |
| **Two bedroom** | | |
| Couple | $318.50 | $395.90 |
| Sole parent with 1 child | $300.60 | $362.92 |
| Couple with 1 child | $422.78 | $483.05 |
| Two singles sharing | $318.50 | $476.50 |
| ***Minimum/maximum for 2-bedroom dwelling*** | ***$300.60*** | ***$483.05*** |
| **Three bedroom** | | |
| Sole parent with 2 children | $387.75 | $450.07 |
| Sole parent with 3 children | $474.90 | $537.22 |
| Couple with 2 children | $489.56 | $570.20 |
| Couple with 3 children | $556.34 | $657.35 |
| Three singles sharing | $477.75 | $714.75 |
| ***Minimum/maximum for 3-bedroom dwelling*** | ***$387.75*** | ***$714.75*** |
| **Four bedroom** | | |
| Sole parent with 3 children | $474.90 | $537.22 |
| Sole parent with 4 children | $398.92 | $624.37 |
| Couple with 3 children | $556.34 | $657.35 |
| Couple with 4 children | $623.12 | $744.50 |
| Four singles sharing | $637.00 | $953.00 |
| ***Minimum/maximum for 4-bedroom dwelling*** | ***$398.92*** | ***$953.00*** |

**Table A5-22: Range of household rents for public housing by dwelling size for various household types#**

| Dwelling type/Household type | Range of rents | | | Midpoint *household* rent as proportion of | | Midpoint *dwelling* rent as proportion of | |
|---|---|---|---|---|---|---|---|
| | Minimum | Maximum | Midpoint rent | Minimum rent | Maximum rent | Minimum rent | Maximum rent |
| **One bedroom** | | | | | | | |
| Single person | $40 | $59 | $49 | 124% | 84% | 174% | 117% |
| Couple | $80 | $98 | $89 | 112% | 91% | 87% | 70% |
| ***Minimum/maximum for 1-bedroom dwelling*** | **$40** | **$98** | **$69** | | | | |
| **Two bedroom** | | | | | | | |
| Couple | $80 | $98 | $89 | 112% | 91% | 120% | 97% |
| Sole parent with 1 child | $71 | $75 | $73 | 103% | 97% | 135% | 127% |
| Couple with 1 child | $96 | $120 | $108 | 112% | 90% | 99% | 79% |
| Two singles sharing | $80 | $118 | $99 | 124% | 84% | 120% | 81% |
| ***Minimum/maximum for 2-bedroom dwelling*** | **$71** | **$120** | **$95** | | | | |
| **Three bedroom** | | | | | | | |
| Sole parent with 2 children | $78 | $97 | $88 | 112% | 90% | 155% | 125% |
| Sole parent with 3 children | $85 | $119 | $102 | 120% | 86% | 142% | 102% |
| Couple with 2 children | $104 | $142 | $123 | 118% | 87% | 116% | 85% |
| Couple with 3 children | $111 | $164 | $137 | 124% | 84% | 109% | 74% |
| Three singles sharing | $119 | $177 | $148 | 124% | 84% | 101% | 68% |
| ***Minimum/maximum for 3-bedroom dwelling*** | **$78** | **$164*** | **$121** | | | | |

| Dwelling type/Household type | Range of rents | | Midpoint rent | Midpoint *household* rent as proportion of | | Midpoint *dwelling* rent as proportion of | |
|---|---|---|---|---|---|---|---|
| | Minimum | Maximum | | Minimum rent | Maximum rent | Minimum rent | Maximum rent |
| **Four bedroom** | | | | | | | |
| Sole parent with 3 children | $85 | $119 | $102 | 120% | 86% | 154% | 110% |
| Sole parent with 4 children | $77 | $141 | $109 | 142% | 77% | 171% | 93% |
| Couple with 3 children | $111 | $164 | $137 | 124% | 84% | 118% | 80% |
| Couple with 4 children | $118 | $185 | $152 | 128% | 82% | 111% | 71% |
| Four singles sharing | $159 | $235 | $197 | 124% | 84% | 82% | 56% |
| ***Minimum/maximum for 4-bedroom dwelling*** | **$77** | **$185*** | **$131** | | | | |

# Rents are based on the Victorian rental rebate formula, viz. 25% adult incomes and 11% family tax benefit.
* This midpoint does not include ‘singles sharing’.

**Table A5-23: Rental revenue based on midpoint dwelling flat rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only | 1 | $69 | $3,607 | $21,609,657 | 9% | ($9,663,363) | (31%) |
| Couple with 1 dependant child | 2 | $95 | $4,980 | $8,231,742 | 3% | ($1,173,152) | (12%) |
| Couple with 2 dependant children | 3 | $121 | $6,306 | $12,163,811 | 5% | $97,258 | 1% |
| Couple with 3 dependant children | 4 | $131 | $6,838 | $7,392,094 | 3% | ($789,302) | (10%) |
| Couple with 4 or more dependant children | 4 | $131 | $6,838 | $6,797,171 | 3% | ($147,500) | (2%) |
| Couple non-dependant children only | 3 | $121 | $6,306 | $14,112,291 | 6% | ($1,308,424) | (8%) |
| Couple with dependant and non-dependant children | 4 | $131 | $6,838 | $6,578,348 | 3% | $1,406,059 | 27% |
| One parent with 1 dependant child | 2 | $95 | $4,980 | $20,218,313 | 8% | $5,385,942 | 36% |
| One parent with 2 dependant children | 3 | $121 | $6,306 | $19,314,543 | 8% | $7,933,175 | 70% |
| One parent with 3 or more dependant children | 4 | $131 | $6,838 | $22,319,885 | 9% | $6,815,232 | 44% |
| Other one family household | 3 | $121 | $6,306 | $16,924,660 | 7% | $1,933,446 | 13% |
| Multiple family with dependant children | 4 | $131 | $6,838 | $4,848,284 | 2% | ($1,110,294) | (19%) |
| Lone person | 1 | $69 | $3,607 | $75,635,602 | 32% | $9,960,694 | 15% |
| Group household | 2 | $95 | $4,980 | $2,006,892 | 1% | ($475,427) | (19%) |
| **Total** | | **$91** | **$4,763** | **$238,153,292** | **100%** | **$18,864,344** | **9%** |

**Table A5-24: Rental revenue based on the lowpoint dwelling flat rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only | 1 | $40 | $2,078 | $12,450,571 | 8% | ($18,822,449) | (60%) |
| Couple with 1 dependant child | 2 | $71 | $3,684 | $6,090,108 | 4% | ($3,314,785) | (35%) |
| Couple with 2 dependant children | 3 | $78 | $4,068 | $7,846,645 | 5% | ($4,219,908) | (35%) |
| Couple with 3 dependant children | 4 | $77 | $3,994 | $4,317,389 | 3% | ($3,864,007) | (47%) |
| Couple with 4 or more dependant children | 4 | $77 | $3,994 | $3,969,921 | 3% | ($2,974,750) | (43%) |
| Couple non-dependant children only | 3 | $78 | $4,068 | $9,103,572 | 6% | ($6,317,143) | (41%) |
| Couple with dependant and non-dependant children | 4 | $77 | $3,994 | $3,842,117 | 3% | ($1,330,172) | (26%) |
| One parent with 1 dependant child | 2 | $71 | $3,684 | $14,958,161 | 10% | $125,790 | 1% |
| One parent with 2 dependant children | 3 | $78 | $4,068 | $12,459,447 | 8% | $1,078,079 | 9% |
| One parent with 3 or more dependant children | 4 | $77 | $3,994 | $13,036,039 | 9% | ($2,468,613) | (16%) |
| Other one family household | 3 | $78 | $4,068 | $10,917,779 | 7% | ($4,073,435) | (27%) |
| Multiple family with dependant children | 4 | $77 | $3,994 | $2,831,664 | 2% | ($3,126,914) | (52%) |
| Lone person | 1 | $40 | $2,078 | $43,578,038 | 30% | ($22,096,870) | (34%) |
| Group household | 2 | $71 | $3,684 | $1,484,763 | 1% | ($997,556) | (40%) |
| **Total** | | **$56** | **$51,450** | **$146,886,215** | **100%** | **($72,402,733)** | **(33%)** |

**Table A5-25: Rental revenue based on household midpoint flat rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only | 1 | $89 | $4,646 | $27,832,988 | 13% | ($3,440,032) | (11%) |
| Couple with 1 dependant child | 2 | $108 | $5,648 | $9,336,210 | 4% | ($68,684) | (1%) |
| Couple with 2 dependant children | 3 | $123 | $6,410 | $12,365,199 | 6% | $298,646 | 2% |
| Couple with 3 dependant children | 4 | $137 | $7,172 | $7,753,235 | 4% | ($428,162) | (5%) |
| Couple with 4 or more dependant children | 4 | $152 | $7,929 | $7,881,605 | 4% | $936,934 | 13% |
| Couple non-dependant children only | 3 | $138 | $7,224 | $16,168,386 | 7% | $747,671 | 5% |
| Couple with dependant and non-dependant children | 4 | $172 | $8,989 | $8,647,264 | 4% | $3,474,975 | 67% |
| One parent with 1 dependant child | 2 | $73 | $3,805 | $15,449,843 | 7% | $617,472 | 4% |
| One parent with 2 dependant children | 3 | $88 | $4,568 | $13,990,253 | 6% | $2,608,884 | 23% |
| One parent with 3 or more dependant children | 4 | $102 | $5,324 | $17,378,842 | 8% | $1,874,189 | 12% |
| Other one family household | 3 | $122 | $6,384 | $17,134,817 | 8% | $2,143,603 | 14% |
| Multiple family with dependant children | 4 | $210 | $10,978 | $7,783,161 | 4% | $1,824,583 | 31% |
| Lone person | 1 | $49 | $2,579 | $54,072,341 | 25% | ($11,602,567) | (18%) |
| Group household | 2 | $99 | $5,157 | $2,078,416 | 1% | ($403,903) | (16%) |
| **Total** | | **$83** | **$86,814** | **$217,872,558** | **100%** | **($1,416,390)** | **(1%)** |

**Table A5-26: Rental revenue based on lowpoint household flat rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only | 1 | $80 | $4,156 | $24,901,142 | 13% | ($6,371,878) | (20%) |
| Couple with 1 dependant child | 2 | $96 | $5,029 | $8,313,352 | 4% | ($1,091,542) | (12%) |
| Couple with 2 dependant children | 3 | $104 | $5,413 | $10,441,101 | 6% | ($1,625,452) | (13%) |
| Couple with 3 dependant children | 4 | $111 | $5,796 | $6,265,641 | 3% | ($1,915,756) | (23%) |
| Couple with 4 or more dependant children | 4 | $118 | $6,180 | $6,142,525 | 3% | ($802,145) | (12%) |
| Couple non-dependant children only | 3 | $119 | $6,235 | $13,953,119 | 7% | ($1,467,596) | (10%) |
| Couple with dependant and non-dependant children | 4 | $144 | $7,491 | $7,206,259 | 4% | $2,033,970 | 39% |
| One parent with 1 dependant child | 2 | $71 | $3,684 | $14,958,161 | 8% | $125,790 | 1% |
| One parent with 2 dependant children | 3 | $78 | $4,068 | $12,459,447 | 7% | $1,078,079 | 9% |
| One parent with 3 or more dependant children | 4 | $85 | $4,451 | $14,528,643 | 8% | ($976,009) | (6%) |
| Other one family household | 3 | $110 | $5,762 | $15,466,519 | 8% | $475,306 | 3% |
| Multiple family with dependant children | 4 | $182 | $9,480 | $6,721,624 | 4% | $763,046 | 13% |
| Lone person | 1 | $40 | $2,078 | $43,578,038 | 23% | ($22,096,870) | (34%) |
| Group household | 2 | $80 | $4,156 | $1,675,039 | 1% | ($807,280) | (33%) |
| **Total** | | **$71** | **$73,980** | **$186,610,610** | **100%** | **($32,678,338)** | **(15%)** |

**Table A5-27: Rental revenue based on midpoint dwelling flat rent/actual aged household rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only under 65 years | 1 | $69 | $3,607 | $13,912,276 | 6% | ($6,221,264) | (31%) |
| Couple only 65 years or more | 1 | $98 | $5,129 | $10,944,539 | 5% | ($194,941) | (2%) |
| Couple with 1 dependant child | 2 | $95 | $4,980 | $8,231,742 | 3% | ($1,173,152) | (12%) |
| Couple with 2 dependant children | 3 | $121 | $6,306 | $12,163,811 | 5% | $97,258 | 1% |
| Couple with 3 dependant children | 4 | $131 | $6,838 | $7,392,094 | 3% | ($789,302) | (10%) |
| Couple with 4 or more dependant children | 4 | $131 | $6,838 | $6,797,171 | 3% | ($147,500) | (2%) |
| Couple non-dependant children only | 3 | $121 | $6,306 | $14,112,291 | 6% | ($1,308,424) | (8%) |
| Couple with dependant and non-dependant children | 4 | $131 | $6,838 | $6,578,348 | 3% | $1,406,059 | 27% |
| One parent with 1 dependant child | 2 | $95 | $4,980 | $20,218,313 | 8% | $5,385,942 | 36% |
| One parent with 2 dependant children | 3 | $121 | $6,306 | $19,314,543 | 8% | $7,933,175 | 70% |
| One parent with 3 or more dependant children | 4 | $131 | $6,838 | $22,319,885 | 9% | $6,815,232 | 44% |
| Other one family household | 3 | $121 | $6,306 | $16,924,660 | 7% | $1,933,446 | 13% |
| Multiple family with dependant children | 4 | $131 | $6,838 | $4,848,284 | 2% | ($1,110,294) | (19%) |
| Lone person under 65 years | 1 | $69 | $3,607 | $42,036,211 | 18% | $5,535,883 | 15% |
| Lone person 65 years or more | 1 | $59 | $3,071 | $28,609,323 | 12% | ($565,257) | (2%) |
| Group household | 2 | $95 | $4,980 | $2,006,892 | 1% | ($475,427) | (19%) |
| **Total** | | **$91** | **$4,728** | **$236,410,382** | **99%** | **$17,121,434** | **8%** |

**Table A5-28: Rental revenue based on lowpoint dwelling flat rent/actual aged household rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only under 65 years | 1 | $40 | $2,078 | $8,015,666 | 5% | ($12,117,874) | (60%) |
| Couple only 65 years or more | 1 | $98 | $5,129 | $10,944,539 | 7% | ($194,941) | (2%) |
| Couple with 1 dependant child | 2 | $71 | $3,684 | $6,090,108 | 4% | ($3,314,785) | (35%) |
| Couple with 2 dependant children | 3 | $78 | $4,068 | $7,846,645 | 5% | ($4,219,908) | (35%) |
| Couple with 3 dependant children | 4 | $77 | $3,994 | $4,317,389 | 3% | ($3,864,007) | (47%) |
| Couple with 4 or more dependant children | 4 | $77 | $3,994 | $3,969,921 | 3% | ($2,974,750) | (43%) |
| Couple non-dependant children only | 3 | $78 | $4,068 | $9,103,572 | 6% | ($6,317,143) | (41%) |
| Couple with dependant and non-dependant children | 4 | $77 | $3,994 | $3,842,117 | 3% | ($1,330,172) | (26%) |
| One parent with 1 dependant child | 2 | $71 | $3,684 | $14,958,161 | 10% | $125,790 | 1% |
| One parent with 2 dependant children | 3 | $78 | $4,068 | $12,459,447 | 8% | $1,078,079 | 9% |
| One parent with 3 or more dependant children | 4 | $77 | $3,994 | $13,036,039 | 9% | ($2,468,613) | (16%) |
| Other one family household | 3 | $78 | $4,068 | $10,917,779 | 7% | ($4,073,435) | (27%) |
| Multiple family with dependant children | 4 | $77 | $3,994 | $2,831,664 | 2% | ($3,126,914) | (52%) |
| Lone person under 65 years | 1 | $40 | $2,078 | $24,219,488 | 16% | ($12,280,840) | (34%) |
| Lone person 65 years or more | 1 | $59 | $3,071 | $28,609,323 | 19% | ($565,257) | (2%) |
| Group household | 2 | $71 | $3,684 | $1,484,763 | 1% | ($997,556) | (40%) |
| **Total** | | **$62** | **$3,253** | **$162,646,622** | **111%** | **($56,642,326)** | **(26%)** |

**Table A5-29: Rental revenue based on midpoint household flat rent/actual aged household rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only under 65 years | 1 | $89 | $4,646 | $17,918,851 | 8% | ($2,214,689) | (11%) |
| Couple only 65 years or more | 1 | $98 | $5,129 | $10,944,539 | 5% | ($306,336) | (3%) |
| Couple with 1 dependant child | 2 | $108 | $5,648 | $9,336,210 | 4% | ($68,684) | (1%) |
| Couple with 2 dependant children | 3 | $123 | $6,410 | $12,365,199 | 6% | $298,646 | 2% |
| Couple with 3 dependant children | 4 | $137 | $7,172 | $7,753,235 | 4% | ($428,162) | (5%) |
| Couple with 4 or more dependant children | 4 | $152 | $7,929 | $7,881,605 | 4% | $936,934 | 13% |
| Couple non-dependant children only | 3 | $138 | $7,224 | $16,168,386 | 7% | $747,671 | 5% |
| Couple with dependant and non-dependant children | 4 | $172 | $8,989 | $8,647,264 | 4% | $3,474,975 | 67% |
| One parent with 1 dependant child | 2 | $73 | $3,805 | $15,449,843 | 7% | $617,472 | 4% |
| One parent with 2 dependant children | 3 | $88 | $4,568 | $13,990,253 | 6% | $2,608,884 | 23% |
| One parent with 3 or more dependant children | 4 | $102 | $5,324 | $17,378,842 | 8% | $1,874,189 | 12% |
| Other one family household | 3 | $122 | $6,384 | $17,134,817 | 8% | $2,143,603 | 14% |
| Multiple family with dependant children | 4 | $210 | $10,978 | $7,783,161 | 4% | $1,824,583 | 31% |
| Lone person under 65 years | 1 | $49 | $2,579 | $30,051,937 | 14% | ($6,448,391) | (18%) |
| Lone person 65 years or more | 1 | $59 | $3,071 | $28,609,323 | 13% | ($1,051,500) | (4%) |
| Group household | 2 | $99 | $5,157 | $2,078,416 | 1% | ($403,903) | (16%) |
| **Total** | | **$86** | **$4,470** | **$223,491,879** | **103%** | **$4,202,931** | **2%** |

**Table A5-30: Rental revenue based on lowpoint household flat rent/actual aged household rent by household type**

| Household Type | Br | Weekly rent | Annual rent | Total annual rent | % rent | Difference | % difference |
|---|---|---|---|---|---|---|---|
| Couple only under 65 years | 1 | $80 | $4,156 | $16,031,331 | 9% | ($4,102,209) | (20%) |
| Couple only 65 years or more | 1 | $98 | $5,129 | $10,944,539 | 6% | ($306,336) | (3%) |
| Couple with 1 dependant child | 2 | $96 | $5,029 | $8,313,352 | 4% | ($1,091,542) | (12%) |
| Couple with 2 dependant children | 3 | $104 | $5,413 | $10,441,101 | 6% | ($1,625,452) | (13%) |
| Couple with 3 dependant children | 4 | $111 | $5,796 | $6,265,641 | 3% | ($1,915,756) | (23%) |
| Couple with 4 or more dependant children | 4 | $118 | $6,180 | $6,142,525 | 3% | ($802,145) | (12%) |
| Couple non-dependant children only | 3 | $119 | $6,235 | $13,953,119 | 7% | ($1,467,596) | (10%) |
| Couple with dependant and non-dependant children | 4 | $144 | $7,491 | $7,206,259 | 4% | $2,033,970 | 39% |
| One parent with 1 dependant child | 2 | $71 | $3,684 | $14,958,161 | 8% | $125,790 | 1% |
| One parent with 2 dependant children | 3 | $78 | $4,068 | $12,459,447 | 7% | $1,078,079 | 9% |
| One parent with 3 or more dependant children | 4 | $85 | $4,451 | $14,528,643 | 8% | ($976,009) | (6%) |
| Other one family household | 3 | $110 | $5,762 | $15,466,519 | 8% | $475,306 | 3% |
| Multiple family with dependant children | 4 | $182 | $9,480 | $6,721,624 | 4% | $763,046 | 13% |
| Lone person under 65 years | 1 | $40 | $2,078 | $24,219,488 | 13% | ($12,280,840) | (34%) |
| Lone person 65 years or more | 1 | $59 | $3,071 | $28,609,323 | 15% | ($1,051,500) | (4%) |
| Group household | 2 | $80 | $4,156 | $1,675,039 | 1% | ($807,280) | (33%) |
| **Total** | | **$76** | **$3,959** | **$197,936,111** | **106%** | **($21,352,837)** | **(10%)** |

## Notes to Table A5-23 to Table A5-30

Within HES, some of the specified household types are collections of a number of different household types. For the purposes of this analysis, the household type is assumed to be the one with the highest number as follows:

| HES household type | Household type for analysis |
|---|---|
| Couple non-dependant children only | Couple with 1 non-dependant child |
| Couple with dependant and non-dependant children | Couple with 2 dependant children and 1 non-dependant |
| Other one family household | One parent with 1 child plus related adult |
| Multiple family with dependant children | Couple with 3 children and Single person with 1 child |
| Group household | Two adults |

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