*AHURI Research & Policy Bulletin*

# Housing affordability and Commonwealth rent assistance

**THE EFFECTIVENESS OF COMMONWEALTH RENT ASSISTANCE (CRA) ON HOUSING AFFORDABILITY IN HIGH RENT REGIONS CAN BE ACHIEVED BY ADJUSTING THE NATION WIDE SETTINGS OF CRA, AND DOES NOT REQUIRE THE DEVELOPMENT OF A 'REGIONAL FORMULA'.**

## KEY POINTS

- Commonwealth Rent Assistance (CRA) is important in improving housing affordability for approximately one million income support recipients in the private rental market. Using the commonly used benchmark for affordability (rent being less than 30% of income), CRA takes the proportion of households in affordable housing from one-third to two-thirds.

- Regional differences in rents, household incomes and household structures, interacting with the Australia-wide settings of CRA, result in regional variations in the impact of CRA upon housing affordability.

- By changing the nation-wide settings of CRA, policy makers can alter the geography of housing affordability. For example, a decrease in the minimum rent threshold of CRA would tend to improve affordability for those in regional Australia. An increase in the maximum rate of CRA would tend to improve affordability for those in metropolitan areas.

- This project helps to quantify the costs and benefits of such changes. For example, a 10% increase in the maximum rate of CRA would increase in net terms the number of income units in affordable housing in New South Wales by over 1600, predominantly in Sydney.

*This research, by **Tony Melhuish, Anthony King** and **Elizabeth Taylor** of the AHURI RMIT-NATSEM Research Centre, provides estimates of the impact that Commonwealth Rent Assistance makes on housing affordability at a small-area level, using innovative micro-simulation modelling techniques.*

## RESEARCH DESIGN

This project extends the Australian Housing and Urban Research Institute's capacity to construct micro-simulation models of housing policy and housing market change by adding a geographic component that assesses impacts at the sub-regional level (Statistical Local Areas – SLAs). Four scenarios of amended CRA settings are simulated and compared with the current settings with regard to the housing affordability outcomes by SLAs across Australia.

The dataset for the modelling combines data from different sources and applies a spatial microsimulation model to this dataset. Creation of the dataset has been a major data development task and a key element of the research in this study.

The spatial microsimulation technique used in this research combines small-area data (at the SLA level) from the 2001 Census of Population and
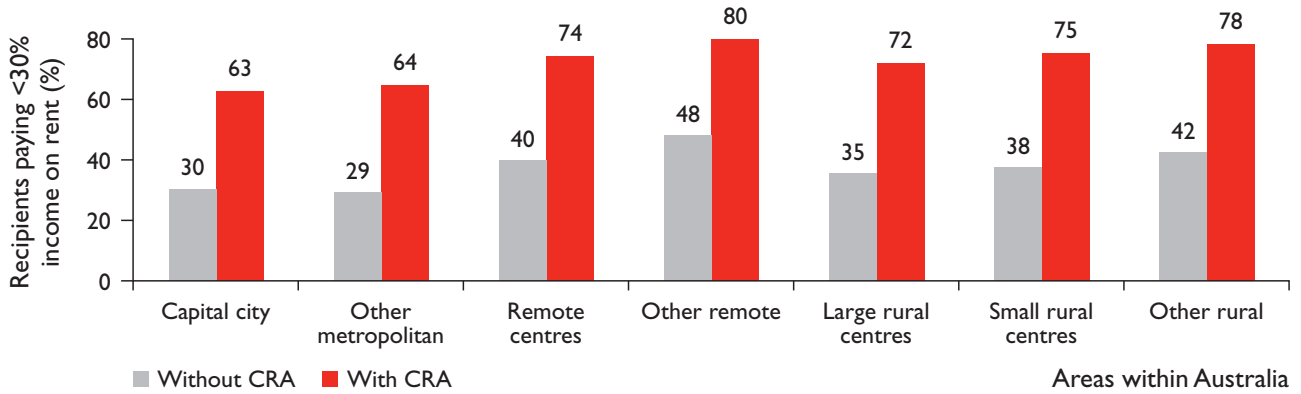
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**FIGURE 1. PROPORTION OF CRA RECIPIENTS WITH LESS THAN 30% OF INCOME SPENT ON RENT: AUSTRALIA BY TYPE OF REGION, NOVEMBER 2001**



Data source: Productivity Commission 2003, Table 16A.49

Housing (which has very good geographic detail, but limited detail on housing and other population characteristics), with data from the ABS 1998-99 Household Expenditure Survey (HES) (which has poor geographic detail, but very good detail on housing and other population characteristics). The National Centre for Social and Economic Modelling (NATSEM) has an already established static income micro-simulation model, STINMOD, which is also used to update the HES data from 1998-99 to 2001 and to impute CRA entitlements in the modelling exercise. To ensure that the baseline estimates reflect the actual level and distribution of CRA receipt, the initial estimates are calibrated to administrative data from the Commonwealth Housing Dataset.

## FINDINGS

CRA is important in improving housing affordability for approximately one million income support recipients in the private rental market. Using the commonly used benchmark for affordability (rent being less than 30% of income), CRA takes the proportion of households in affordable housing from one-third to two-thirds. Only 32% of CRA recipients paid rent less than 30% of their income at November 2001 – in the absence of their CRA payment. When the CRA payment is included in the calculation, the proportion rises considerably to 67% (see Figure 1).

CRA improves affordability outcomes but it varies between regions, with the average CRA entitlement per fortnight covering 32% of the average rent in Hobart, but only 25% in Sydney (see Figure 2).

Regional differences in rents in the private rental market, in household incomes and household structures, that interact with the Australia-wide settings of CRA, result in regional variations in the impact of CRA upon housing affordability. The key aspects of the CRA payment provisions that contribute to these outcomes are:

1. the CRA entitlement only covers 75% of rent paid above the minimum rent threshold;
2. CRA entitlements are constrained to maximum rates of payment; and
3. the rent levels at which maximum rates of payment apply are relatively low.

**FIGURE 2. AVERAGE RENT PAID AND CRA ENTITLEMENT: CRA RECIPIENTS, AUSTRALIAN CAPITAL CITIES, JUNE 2002 ($/FORTNIGHT)**
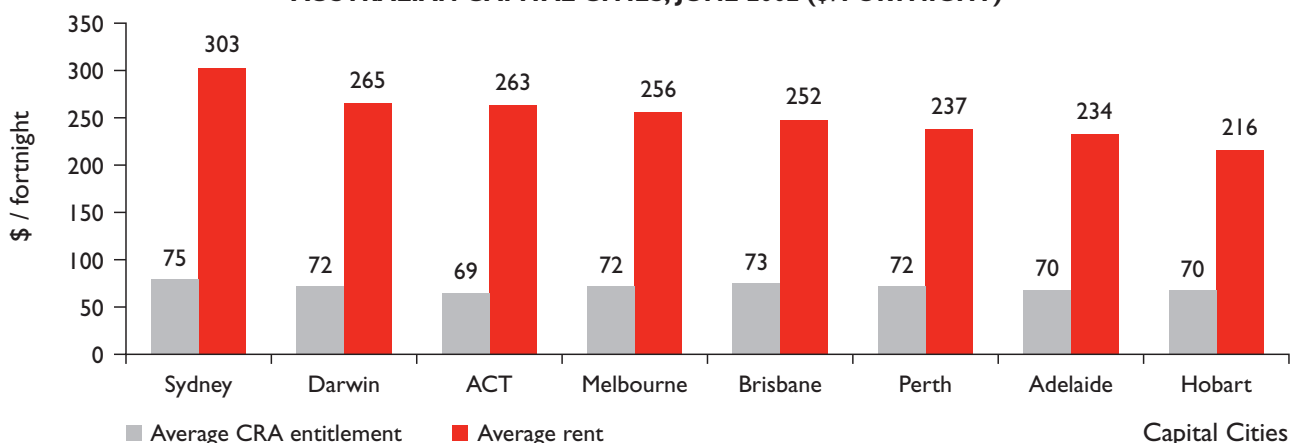


Data source: Productivity Commission 2003, Table 16A.56

Adjustment of these nation-wide settings for CRA can also alter the particular geography of housing afford-ability. The project models four scenarios under which various settings of CRA are varied and measures the impact upon housing affordability and the associated budget costs. Three of the four scenarios are defined as basic changes. The model not only measures the numbers of households whose housing affordability is assisted in such scenarios, it also assesses the costs and benefits of these changes. For example, scenario three (a 10% increase in the maximum rate of CRA) would increase the average amount of CRA received per income unit from $72.45 to $76.94 per fortnight and cost an additional $4.4 million, nationally, per fortnight. This would increase the numbers of income units in affordable housing in New South Wales alone by over sixteen hundred.

## POLICY IMPLICATIONS

The uneven regional effect of CRA on housing afford-ability should rightly be a concern of policy makers. The question has been how policy makers should appro-priately address it. Modelling in this project suggests, that to some degree, these concerns can be addressed by adjusting the nation-wide rules of CRA rather than developing complex regional formulae. Setting regional formulae is best avoided if possible as they set artificial boundaries to housing markets and assistance levels, and may compromise Australian government imperatives to provide nationally consistent assistance provisions.

This research also suggests that the demography of housing assistance in Australia – specifically who gets assisted by CRA – could be changed by adjustment of the nation-wide rules. For example, if policy sought to increase the proportion of Indigenous income units

| Scenarios | Outcomes |
|---|---|
| **Scenario one** – an increase in the taper rate (equating to a reduction in the rent level at which maximum rent assistance is paid, and greater assistance at rent levels between the minimum threshold and the maximum entitlement). | Results in no marked change in housing affordability between the base case and the increase in taper rate. The absence of any marked improvement in housing affordability is due to the majority of recipients already getting the maximum payment. These recipients do not receive any additional benefit under this option, and the taper change modelled does not result in any significant increase in the number of recipients getting maximum payment. |
| **Scenario two** – a reduction in the minimum rent threshold (a decrease in the minimum qualifying rent for receipt of CRA). | A decrease in the minimum rent threshold of CRA tends to improve housing affordability for those in regional Australia where rents are generally lower. With this scenario there is also likely to be an improvement in affordability outcomes in outer metropolitan areas of capital cities, where the rents are again generally lower. To illustrate the impact of scenario two in New South Wales; in the 'rest of New South Wales' this scenario increases the number of income units in affordable housing by 2054, whereas in metropolitan Sydney it increases the number of income units in affordable housing by 882. |
| **Scenario three** – an increase in the maximum level of assistance (an increase in the maximum amount of CRA payable). | An increase in the maximum rate of CRA would tend to improve housing affordability for those in metropolitan areas. To again illustrate the impact of this scenario in New South Wales; in metropolitan Sydney this scenario increases the number of income units in affordable housing by 1181, whereas in 'rest of NSW' it increases the number of income units in affordable housing by 481. |
| **Scenario four** is a more complex one – an increase in the maximum level of assistance combined with a decrease in the taper rate. | The lower taper rate results in some income units in regional areas (paying lower rents) receiving less CRA. However metropolitan areas and some regional areas (where there tend to be more income units paying rents higher than the maximum entitlement) receive more CRA. |

receiving CRA, then, assuming that those currently not receiving CRA are predominantly in regional and remote Australia, a reduction in the minimum rent threshold would tend to achieve such a policy objective.

Nevertheless, identifying where there are concentrations of particular groups who are not receiving CRA, and making the appropriate adjustment to the nation-wide rules that would benefit such a group and location, could similarly change the reach of CRA to other demographic groups. Furthermore, it should be recognised that adjusting the reach of CRA in this manner may be quite inefficient and other concerns such as awareness of eligibility need also to be considered (see Burke and Ralston *Entering Rental Housing*, AHURI Project 50142), in relation to indigenous awareness for example) to improve affordability for various demographic groups of private renters.

Finally, it is worth highlighting that the spatial micro-simulation model developed as part of this project is being further developed to consider public renters as well as private renters, and can be used by the policy community to consider the impact of a variety of mooted policy options on the housing market at a small-area level. The model can also incorporate a variety of assumptions – for example it is capable of examining effects of demand for housing assistance in regional areas under various scenarios, and projecting into the future taking account of higher economic growth or socio-demographic change (see Kelly, Phillips and Taylor 2005, AHURI project 30205).

## FURTHER INFORMATION

This bulletin is based on AHURI project 30147 *The Regional Impact of Commonwealth Rent Assistance.* Reports from this project can be found of the AHURI website (www.ahuri.edu.au) by typing the project number into the search function.

The following documents are available:
• Positioning Paper
• Final Report

A related project which utilizes the same micro-simulation technique is: Kelly, Phillips and Taylor (2005) *Baseline Small Area Projections of the Demand for Housing Assistance* (AHURI Project 30205) available on line by typing the project number into the search function.

Or contact the AHURI National Office on +61 3 9660 2300.

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