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# The financial impact of welfare targeting in public housing

**GREATER TARGETING OF HOUSING AND GREATER ACCESS TO CONCESSIONAL RENTS COST PUBLIC HOUSING AUTHORITIES AROUND $200 MILLION IN 2004/05 COMPARED WITH THE MID-1990S.**

## KEY POINTS

- Changes in the socio-demographic profile of public housing tenants can have a significant impact on housing authority revenues. Rents for most public housing tenants are calculated as a fixed proportion of household income. If more tenants receive income support or are single, lower housing authority revenues occur, as both groups tend to have lower household incomes.
- Largely because of increased welfare targeting since the early 1990s, around 88% all public housing tenants in South Australia and Victoria pay concessional rents (compared to around 70% in the 1990s). This change has resulted in an annual cost to revenues (compared to 1990) of approximately $32 million in Victoria and $28 million in South Australia. This translates to $200 million for all public housing authorities Australia-wide.
- Between 2002/03 and 2004/05, changes in the socio-demographic characteristics of households in public housing had a negative impact on net rental revenues in Victoria but not in South Australia. The negative impact in Victoria was due to an increase in the proportion of single-person households.
- Revenues have not fallen as far as they might have, as state housing authorities (SHA) have increased rents, and reduced arrears and vacancies from 2002/03 in both jurisdictions. A further 5% increase in the proportion of public housing tenants receiving concessional rents in Victoria and South Australia would result in a further additional cost to revenues of $8 million and $6.5 million respectively, and $50 million nationwide.
- Small changes to the proportion of income paid by tenants with concessional rents would dramatically change annual revenue gained by SHA. For example, charging all rebated tenants rents of 25% of income would increase the annual rent received by the South Australian Housing Trust by $20 million and the Victorian Office of Housing by $24 million.

*Based on research by **Dr Jon Hall** and **Professor Mike Berry** at the AHURI RMIT-NATSEM Research Centre. The project analysed financial data provided by state housing authorities in South Australia and Victoria to understand the impact of changing socio-demographic profiles and other factors on the authorities' revenues.*

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# CONTEXT

Since the mid-1990s the proportion of households in public housing with low incomes or receiving rebates has fundamentally changed, in most Australian states. During the early part of that decade, the client base of most SHAs was dominated by couples with children, and a significant proportion were in work.

In the mid 1990s, the Commonwealth Government increased targeting of new public and community housing to tenants with the lowest incomes, with complex needs or in dire or emergency situations. Many SHAs responded by providing 'priority applicants' with the 'first call' on available allocations. These factors have reshaped the socio-demographic profile of public tenants for most SHAs in Australia. As the higher-income (predominantly two-income) households have left public housing, they have been replaced mostly by pension- and benefit-dependent, single-income households.

This targeting has had two key effects. First, those on single and the very lowest incomes now dominate new tenancies and so the real medium-term rent received per tenancy has fallen significantly, because most now qualify for concessional rents. Secondly, households receiving priority allocations have non-housing-related problems that require service support, adding to the average real costs per household of providing services to these clients. This research has focused on the first of these issues.

# RESEARCH METHODOLOGY

This research was made possible by the cooperation of the Office of Housing, Victoria and the Department of Families and Communities, South Australia.

The two participating housing authorities provided the researchers with a sample of their tenancy data base containing information including: rent policies, the current client profile with respect to the proportion of tenants receiving or not receiving concessional rents, and average tenant incomes by household type. The data and sampling process were agreed on with officers in the two participating agencies.

The researchers constructed a financial model to estimate the impact on the average and total net rental revenue of changes in: the mix of rebated and non-rebated rents; average tenant incomes by household type; the proportion of income paid in rent; and market rent levels. The model was used to estimate the effects on rental revenue of hypothetical changes to each of these underlying drivers, one at a time, between 2002/03 and 2004/05. The model can also be used to forecast the effect on revenues of movements in these drivers in a range of scenarios.

# FINDINGS

### *Trends in socio-demographic profiles and incomes paid*

From 2002/03 to 2004/05, changes in the socio-demographic profiles of public housing tenants in South Australia and Victoria differed between the two states. The amount of rent paid per tenancy depends on the household income, and whether concessional rents apply. Table 1 shows that, in Victoria, the proportion of all tenancies who were singles increased (from 46% to 48%) and the proportion who were couples declined slightly. There was a slight decrease in rebated tenancies (from 89% to 88%). In South Australia, single-income households declined from 78% to 71%, due to a decline in single person households (especially among unrebated tenancies). Households who were couples and those who were sharers both grew. Rebated tenancies remained stable.

### *Trends in rents*

Rent revenues also depend on the average net revenue per tenant (after arrears and vacancies). In South Australia, the average proportion of income paid by rebated tenants fell significantly for all household types except single youth, aged couples and other couples. The decline was as much as 10% for singles aged 21 to 24. By contrast, in Victoria, the average proportion of income paid in rent by rebated tenants increased substantially across all types, and by more than 6% for aged singles, couples, aged couples, and sharers.

### *Financial impact of changing client profiles*

The net impact of changing socio-demographic profiles in public housing tenancies from 2002/03 to 2004/05 (mainly the effects of increased numbers of single-income households) was a reduction in the average rents paid to SHAs. Table 2 shows that although actual rents per householder were $3,747 per annum in Victoria in 2002/03, they would have been only $3,717 per annum in 2002/03 had the socio-demographic profile been that of 2004/05. Thus the change in household structure had a small but negative impact (–$30 or –0.7%) on overall rents. This means that the total increase in average annual household rents over the period ($257) is accounted for by other factors such as changes in levels of rents charged (both market and rebated), changes in arrears and vacancy rates ($287).

By contrast, in South Australia, changing socio-demographic profiles made barely any difference to rents: the 2004/05 household structure would have reduced average annual rents by only $2.

The impact of changing socio-demographic profiles on SHA revenues is relatively slight in both jurisdictions. This reflects the stability in the proportion of all households in public housing on concessional rents (compared to the upward trend that occurred from the mid-1990s with increased targeting). Had the increased targeting been sustained, the revenue outcomes would have been much worse.

Increasing rebated tenants by 5% to 93% of the portfolio in South Australia would have reduced average rent for 2004/05 to $3,533, compared to the actual level of $3,685, a reduction in net rental income of approximately $6.5 million in a full year. In Victoria it would have reduced net rental income by approximately $8 million. The net revenue cost of moving from the situation prior to targeting (i.e. 70% on concessional rents) to the present situation has been approximately $28 million per annum in South Australia (approximately 25% of 2004/05 rents received) and $32 million in Victoria. This extrapolates to around $200 million for Australia.

***Impact of measures to improve revenue outcomes***

A number of measures to improve revenue outcomes were modelled for both states. The outcomes for average annual rent per tenant in South Australia are presented in Figure 1.

A 5% increase in market (non-concessional) rents would make only a marginal difference, because it would affect only a minority of tenants. A 5% increase in the income of tenants paying concessional rents, or maintaining the proportion of income paid in rent at 2002/03 levels, would each have increased average rental revenue per tenant by around $160 per year. Increasing the proportion of income paid in rent by rebated tenants to 25% or 30% would have increased revenue dramatically.

Increasing concessional tenant household income by 5%, or reverting to the (higher) 2002/03 average proportion of income in rent payments, would each have generated in excess of $7 million additional net rent per annum.

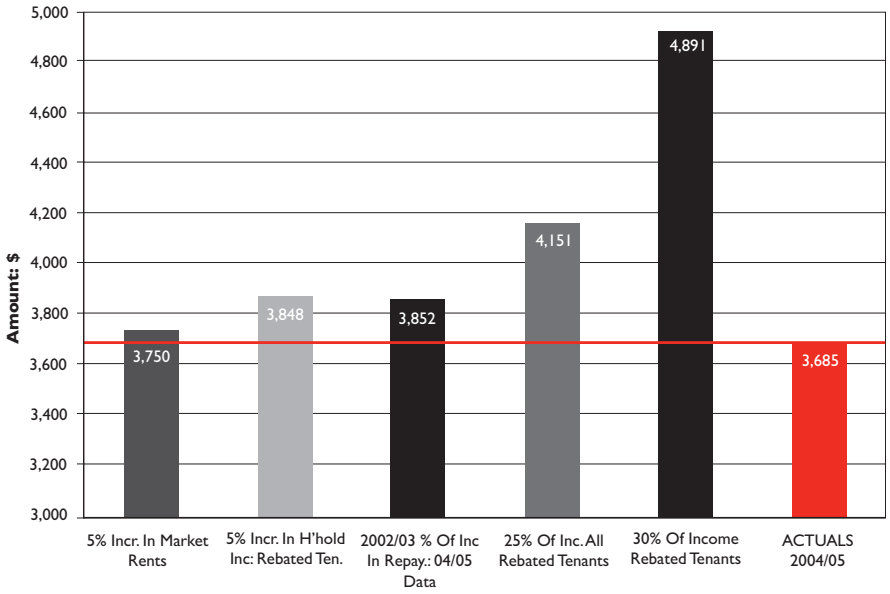
**TABLE 1: CHANGES IN CLIENT PROFILES OF PUBLIC HOUSING TENANTS BETWEEN 2002/03 AND 2004/05, IN VICTORIA AND SOUTH AUSTRALIA**

| Household type | Victoria | | | South Australia | | |
|---|---|---|---|---|---|---|
| | Proportion of all households | | | Proportion of all households | | |
| | 2002/03 (%) | 2004/05 (%) | Change | 2002/03 (%) | 2004/05 (%) | Change |
| Single | 46 | 48 | up | 64 | 57 | down |
| Sole parent | 26 | 26 | no change | 14 | 14 | no change |
| One income | 72 | 74 | up | 78 | 71 | down |
| Couple | 18 | 17 | down | 16 | 21 | up |
| Sharers | 10 | 10 | no change | 6 | 8 | up |
| Multiple income | 28 | 27 | down | 22 | 29 | up |
| Aged | 25 | 25 | no change | 31 | 28 | down |
| Rebated | 89 | 88 | down | 88 | 88 | no change |

**TABLE 2: AVERAGE ANNUAL HOUSEHOLD RENTS, HOUSEHOLDS IN PUBLIC HOUSING, VICTORIA AND SOUTH AUSTRALIA**

| | Average annual household rent | |
|---|---|---|
| | Victoria | South Australia |
| Actual 2002/03 | $3,747 | $3,421 |
| Applying 2004/05 socio-demographic profile on 2002/03 rents | $3,717 | $3,419 |
| Actual 2004/05 | $4,004 | $3,685 |
| Changes (2002/03 to 200/05) due to: | | |
| - changes in rents, arrears etc | $287 | $266 |
| - changing socio-demographic profile | –$30 | –$2 |
| Total change | $257 | $264 |

**FIGURE 1: AVERAGE ANNUAL RENT, SOUTH AUSTRALIA, IN DIFFERENT SCENARIOS**




Moving all concessional tenants to 25% of income would have added about $20 million to the existing net rental revenue, and moving to 30% of income would have added a very substantial $52.5 million.

Changes in rental arrears costs, market rents and vacancy costs would also have had only marginal individual effects on revenue.

Similar outcomes were apparent for Victoria, although if the Office of Housing had charged the same proportion of income in rent in 2004/05 as in 2002/03, average rent would have been 4% less than actually received – $3,863 compared to $4,004.

## POLICY IMPLICATIONS

The increased concentration of low-income welfare recipients in public housing that began with increased targeting in the 1990s did not occur to the same degree between 2002/03 and 2004/05. However, the modelling demonstrates that future increased targeting of public housing to tenants with concessional rents would jeopardise revenues. This might be countered effectively only through raising rents as a proportion of income, although this may be at the cost of broader social equity objectives.

The results presented in this bulletin indicate the scenarios that can be explored using the AHURI client profiles model. The model is a valuable resource in assisting housing authorities in all Australian jurisdictions to assess the likely revenue implications of alternative rent and allocations policies.

## FURTHER INFORMATION

This bulletin is based on AHURI project 30352, *Public Housing shifting client profiles and Public Housing revenues*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

The following document is available:

- Final Report

The model is available on request from AHURI.

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

AHURI

Australian Housing and Urban Research Institute

www.ahuri.edu.au

HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

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