

Appendix 2 – Modelling the impact of the Commission’s recommended increase to Commonwealth Rent Assistance

We have modelled the Commission’s recommendation to increase the CRA using the Victorian data from Anglicare Australia’s 2017 Rental Affordability Snapshot. By running the updated income figures through a set of more than 14,000 rental listings of a given weekend we aimed to get an idea of the impact the Commission’s recommendations would have on overall affordability.

The results indicate that lifting CRA as proposed will have a negligible impact on affordability. They demonstrate how an increase to the CRA doesn’t necessarily result in a corresponding increase to income, pointing to the structural issues in the payment itself. We hope that this is a useful resource for the Commission in understanding the nature and extent of the issues of rental affordability and in refining its recommendations around payment reform.

Methodology

This year our Rental Affordability Snapshot was undertaken over the weekend of 1-2 April 2017. Anglicare Australia again partnered with REA Group (who operate the realestate.com.au website) to collect data on rental listings across Australia.

Our Snapshot assesses how many properties would be affordable for 14 different household types. For the purposes of this analysis we have focused on the first ten households whose base income comes exclusively from government income support payments, as these are consistently the most vulnerable in terms of rental affordability.

The Snapshot establishes the maximum affordable rent (R) for each household which is defined as 30% of the household’s total income. Household incomes are derived from the maximum rate of Centrelink pensions, allowances or net minimum wage combined with the Commonwealth Rent Assistance (CRA) and Family Tax Benefits (FTB) where applicable. All payment rates, income tests and eligibility criteria are taken from the information provided on the Centrelink website (20 March 2017).

This maximum affordable rent is based on the 30:40 measure of rental stress which is widely accepted and used for public policy analysis and development. Given how widely used and accepted this measure is in economic and social policy analysis, we are surprised that its relevance was so readily dismissed in the Commission’s Draft report. It is used frequently in academic work (see AHURI 2016, Vu 2007, HIA 2007, Yates and Gabriel 2006), and is an accepted definition for government reporting (see ABS glossary), including in the report on government services produced by the Commission.

Furthermore, while we note the Commission’s criticism that this benchmark does not provide a consistent measure of rental stress and consumption patterns for households on different incomes, we believe that it is a very reasonable measure of rental stress for the purposes of our work, which is focused on low income households.

Given that households on government income support payments live close to or below the poverty line, it is very reasonable to assume that most households living on such low incomes will be experiencing stress if they are spending more than 30% of this income on housing (ACOSS, 2016). As an effective and well-accepted measure for rental stress we are confident that it fulfils a useful purpose in this analysis.

As shown in the table below, the CRA cut-out rule comes into effect when the maximum affordable rent is higher than the cut-out threshold. In these cases, the maximum affordable rent is simply calculated as 30% of base payment and the maximum CRA entitlement.

Income by Household Type (Updated 23 March 2017)

#	Household type	Payment Type	Min Beds Needed	Total Income per fortnight (B)	Max CRA per fortnight (C)	CRA Cut-In Point (M)	CRA Cut-Out Point (Ma)	RENT = (0.3xB - 0.225xM) / 0.775	Maximum Affordable Rent per fortnight	Maximum Affordable Rent per week	
1	Couple, two children (one aged less than 5, one aged less than 10)	Newstart Allowance (both adults)	3	\$1,433.82	\$155.26	\$229.18	\$436.19	\$488.49	\$476.72	\$238.36	CRA Cut-Out Rule Applied
2	Single, two children (one aged less than 5, one aged less than 10)	Parenting Payment Single	3	\$1,269.32	\$155.26	\$154.84	\$361.85	\$446.40	\$427.37	\$213.69	CRA Cut-Out Rule Applied
3	Couple, no children	Age Pension	0	\$1,318.00	\$124.60	\$191.00	\$357.13	\$454.74	\$432.78	\$216.39	CRA Cut-Out Rule Applied
4	Single, one child (aged less than 5)	Parenting Payment Single	2	\$1,086.48	\$155.26	\$154.84	\$361.85	\$375.62	\$372.52	\$186.26	CRA Cut-Out Rule Applied
5	Single, one child (aged over 8)	Newstart Allowance	2	\$870.78	\$155.26	\$154.84	\$361.85	\$292.12	\$292.12	\$146.06	
6	Single	Age Pension	0	\$874.20	\$132.20	\$117.80	\$294.07	\$304.20	\$301.92	\$150.96	CRA Cut-Out Rule Applied
7	Single aged over 21	Disability Support Pension	0	\$874.20	\$132.20	\$117.80	\$294.07	\$304.20	\$301.92	\$150.96	CRA Cut-Out Rule Applied
8	Single	Newstart Allowance	0	\$535.60	\$132.20	\$117.80	\$294.07	\$173.13	\$173.13	\$86.56	
9	Single aged over 18	Youth Allowance, Austudy	0	\$437.50	\$132.20	\$117.80	\$294.07	\$135.15	\$135.15	\$67.58	
10	Single in share house	Youth Allowance, Austudy	0	\$437.50	\$88.13	\$117.80	\$235.31	\$135.15	\$135.15	\$67.58	

Findings

Our original analysis in April 2017 showed that 492 individual Victorian properties (3.5% of the total available) were suitable for at least one household type living on income support payments without placing them in rental stress.

Of the total stock, 139 (1%) were suitable for a couple on Newstart, 2 (0%) were suitable for a single on youth allowance and 73 (1%) were suitable for a single parent with one child:

Appropriate and affordable properties by household type April 2017 - (Victoria)

Number and Percentage of Affordable & Appropriate Properties by Household Type								
	Household Type	Payment Type	# Affordable	% Affordable	# Appropriate	% Appropriate	# Affordable & Appropriate	% Affordable & Appropriate
1	Couple, two children (one aged less than 5, one aged less than 10)	Newstart Allowance (both adults)	688	5%	7988	56%	139	1%
2	Single, two children (one aged less than 5, one aged less than 10)	Parenting Payment Single	423	3%	7988	56%	58	0%
3	Couple, no children	Age Pension	443	3%	14140	100%	397	3%
4	Single, one child (aged less than 5)	Parenting Payment Single	217	2%	12524	88%	73	1%
5	Single, one child (aged over 8)	Newstart Allowance	59	0%	12524	88%	5	0%
6	Single	Age Pension	81	1%	14193	100%	80	1%
7	Single aged over 21	Disability Support Pension	81	1%	14140	100%	65	0%
8	Single	Newstart Allowance	2	0%	14193	100%	2	0%
9	Single aged over 18	Youth Allowance	1	0%	14193	100%	1	0%
10	Single in share house	Youth Allowance	3	0%	14193	100%	3	0%

We chose to use the Victorian Rental Affordability Snapshot data for the comparative analysis, firstly as it is a large sample of over 14,000 properties that covers both regional and metropolitan areas, and secondly, it is consistent with the Commission case studies in Box 5.3. We modelled two different scenarios based on the Commission's recommendation:

- In Scenario 1, we increased the maximum CRA payment and Minimum Rent (cut-in point) and Maximum Rent (cut-out point) by 15 per cent.
- In Scenario 2, we increased the maximum CRA payment by 15% but left the cut-in and cut-out values at their original value

Running the updated maximum affordable weekly rents through this same data, our analysis shows a negligible increase in affordability for the 10 household types.

Scenario 1

Raising maximum CRA, minimum rent and maximum rent shows that 494 individual Victorian properties would have been affordable on Snapshot day, an increase in the headline figure of only 2 properties state-wide.

Appropriate and affordable properties by household type –Scenario 1

Household Type	Payment Type	# Affordable	% Affordable	# Appropriate	% Appropriate	# Affordable & Appropriate	% Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Newstart Allowance (both adults)	688	5%	7988	56%	139	1%
Single, two children (one aged less than 5, one aged less than 10)	Parenting Payment Single	443	3%	7988	56%	60	0%
Couple, no children	Age Pension	445	3%	14140	100%	399	3%
Single, one child (aged less than 5)	Parenting Payment Single	217	2%	12524	88%	73	1%
Single, one child (aged over 8)	Newstart Allowance	59	0%	12524	88%	5	0%
Single	Age Pension	81	1%	14193	100%	80	1%
Single aged over 21	Disability Support Pension	81	1%	14140	100%	65	0%
Single	Newstart Allowance	2	0%	14193	100%	2	0%
Single aged over 18	Youth Allowance	1	0%	14193	100%	1	0%
Single in share house	Youth Allowance	3	0%	14193	100%	3	0%

Scenario 2

Increasing the maximum CRA but keeping the minimum and maximum rent values at their original value delivers better results, but the overall impact is still marginal. In this scenario, our modelling shows that 526 individual properties would have been affordable on Snapshot day, a headline figure increase of 34.

This difference is accounted for entirely by an increase in affordable properties for the couple on Newstart Allowance; the number of affordable properties for all other household types remains the same as in the original analysis.

Appropriate and affordable properties by household type –Scenario 2

Household Type	Payment Type	# Affordable	% Affordable	# Appropriate	% Appropriate	# Affordable & Appropriate	% Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Newstart Allowance (both adults)	783	6%	7988	56%	171	1%
Single, two children (one aged less than 5, one aged less than 10)	Parenting Payment Single	443	3%	7988	56%	60	0%
Couple, no children	Age Pension	445	3%	14140	100%	399	3%
Single, one child (aged less than 5)	Parenting Payment Single	217	2%	12524	88%	73	1%
Single, one child (aged over 8)	Newstart Allowance	59	0%	12524	88%	5	0%
Single	Age Pension	81	1%	14193	100%	80	1%
Single aged over 21	Disability Support Pension	81	1%	14140	100%	65	0%
Single	Newstart Allowance	2	0%	14193	100%	2	0%
Single aged over 18	Youth Allowance	1	0%	14193	100%	1	0%
Single in share house	Youth Allowance	3	0%	14193	100%	3	0%

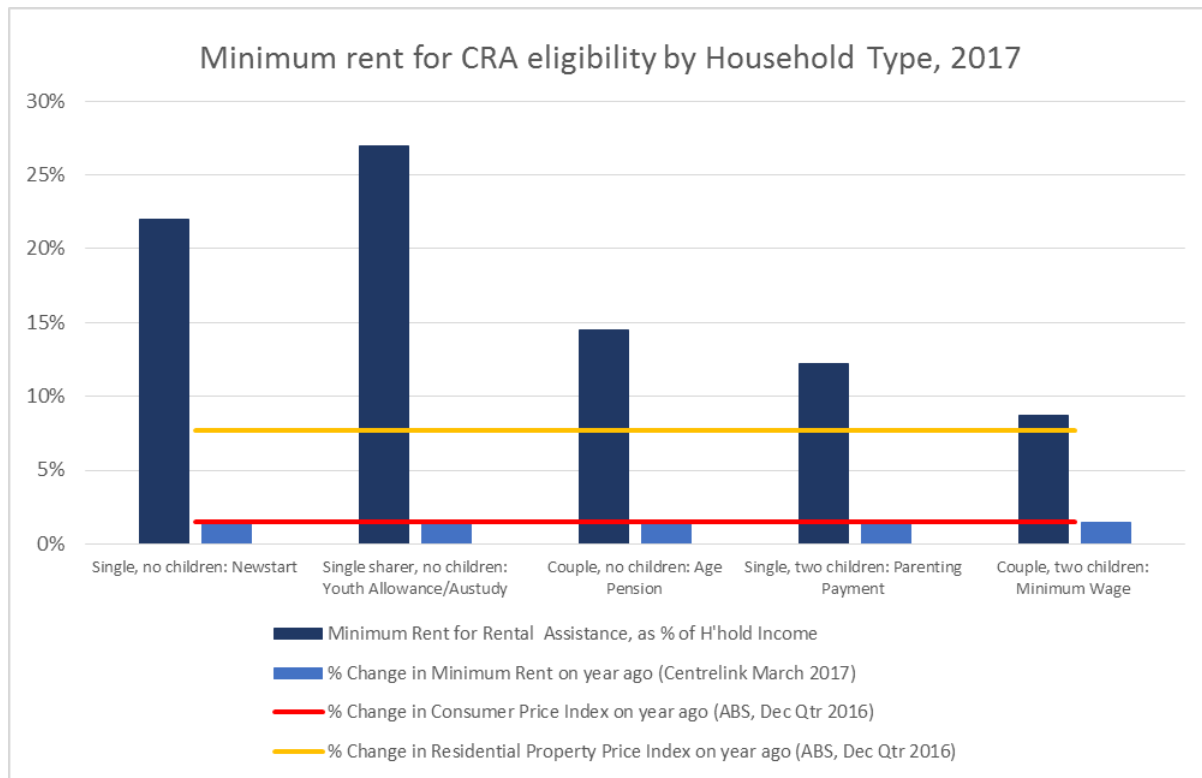
Discussion

The key to understanding why a 15 per cent increase to the maximum CRA does not yield a 15 per cent increase in maximum affordable rent, and therefore result in a bigger improvement for housing affordability, is in a closer examination of the minimum rent (cut-in) and maximum rent (cut-out) thresholds.

The minimum rent threshold determines eligibility for rent assistance for each household type. When looking at the eligibility threshold as a proportion of household income, clear inequities arise. Households on the lower benefits such as Youth Allowance, Austudy and Newstart do not become eligible for rental assistance until their rents exceed 27 per cent of their total income. This means that at the point they become eligible for CRA they are already very close to the unaffordable rental threshold of 30 per cent of their income. In comparison, those on income support payments with higher rates begin to receive assistance when their rent exceeds a lower proportion of their household income. For example, a couple on the Age Pension become eligible for rent assistance when their rent exceeds 14 per cent of their income.

Because both minimum and maximum rents are indexed to the CPI, the small bi-annual increases to the payment simply maintain these thresholds at the same proportion of household income, resulting in negligible changes to affordability.

The graph below illustrates the minimum rent for CRA eligibility as a proportion of household income and the effect of CPI increases. It highlights the difference in assistance as a proportion of income between households:



This analysis shows that the current design of these thresholds, and their indexation to CPI, maintains specific and unequal CRA eligibility criteria for different household types. Looking further back, we found that the proportion of income paid on rent to be eligible for CRA has remained consistent over the last five years.

This analysis explains why lifting the CRA by 15 per cent has such a little impact on affordability.

In the first scenario we modelled the minimum rent was increased by 15% (along with the maximum CRA). The result was that households had to pay a higher proportion of their income to rent before they became eligible for assistance, thus negating any improvement to affordability that comes from an increased maximum payment.

In the second scenario we modelled we increased the maximum CRA but left the minimum at its original value. Because the minimum didn't change, households paid the same proportion of their income before becoming eligible for assistance and so the benefit was once again marginal. The widening of the minimum-maximum band only helped the household with the highest base income – the couple on Newstart with two children – who have the most room to move before they are hit the 30 per cent threshold.

The second scenario clearly illustrates the inequities in the payment's design.

Correspondence with the Department of Social Services (attached) confirms variability in CRA payment eligibility by household type and explains this is due to the introduction of different indexation systems over time:

“[R]ent thresholds were set at approximately 20 per cent of the basic pension rate when the CRA program was first developed back in the 1990s. However, over the years there have been some changes to the indexation arrangements for pensions and allowances. For example, pensions are indexed in line with Male Average Total Weekly Earnings (MTAWE) and Pensioner and Beneficiary Living Cost Index (PBLCI) while allowances like Newstart and Youth Allowance are indexed to CPI. Because of these changes along with ad hoc increases to pensions, the proportions between rent thresholds for CRA and pensions have changed over time.”

Despite the initial aim for eligibility criteria to be roughly equal across household types at 20 per cent of the base payment, it is clear that the current indexation systems no longer support this aim.

Conclusion

Looking at CRA eligibility as a proportion of household income reveals serious structural issues with the payment. Households on lower income support payments are particularly disadvantaged by these current arrangements, having to pay almost a third of their income to rent before becoming eligible for any rent assistance.

Without a complete restructure, the CRA will remain a regressive and inequitable payment that has a limited impact on affordability.

For these reasons, we urge the Commission to reconsider its assessment of CRA as the best model for financial support and to abandon the proposition that an increase in CRA will create greater equity and choice in the social housing.

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