



COMMONWEALTH GRANTS COMMISSION

DISCUSSION PAPER CGC 2002/33

HOUSING

Prepared for the Commission's Staff Conference
November 2002

NOVEMBER 2002

TABLE OF CONTENTS

| | |
|---------------------------------------------|----|
| INTRODUCTION | 1 |
| THE 1999 REVIEW ASSESSMENT APPROACH | 2 |
| THE 2004 REVIEW ASSESSMENT | 4 |
| SCOPE OF THE CATEGORY | 5 |
| ASSESSMENT FRAMEWORK | 5 |
| ASSESSMENT OF FACTORS | 8 |
| Scale Affected Expenses | 8 |
| Public Housing – Management | 9 |
| Socio-demographic Composition | 9 |
| Public Housing — Maintenance | 12 |
| Input Costs and Dispersion | 13 |
| Physical Environment Factor | 13 |
| Socio-demographic Composition | 15 |
| Private Rental and Home Purchase Assistance | 15 |
| Socio-Demographic Composition | 16 |
| USER CHARGES | 18 |
| SUMMARY | 19 |

INTRODUCTION

1. This paper sets out the issues raised by the States in relation to the Housing assessment for the 2004 Review. It provides the preliminary views of Commission staff on how these might be resolved.

2. In the 1999 Review, the Housing category comprised gross operating expenses on welfare housing and Indigenous housing. The category also included administration costs and explicit interest subsidies paid on State-run home purchase assistance programs. Costs attributable to the housing of State public servants were functionalised to the relevant expense categories. Housing user charges include revenue from the rental of public housing.

3. The standard expense for Housing in 2000-01 was \$98.73 per capita or 2.1 per cent of total gross standard expenses. Compared to an equal per capita assessment, the 2002 Update Housing assessment redistributed \$120 million away from Victoria and Western Australia to the other States. The standard for the Housing User Charges in 2000-01 was \$74.85 per capita. Compared to an equal per capita assessment, the 2002 Update Housing User Charges assessment redistributed \$78 million away from New South Wales, Queensland, South Australia, Tasmania and the Northern Territory to the other States. Taken together, the two assessments redistributed \$52 million away from Victoria and Queensland to the other States.

4. Staff investigations and the analysis of the State comments on this category have revealed a number of problems with the 1999 Review assessment. These include:

- (i) the socio-demographic factor was dominated by the estimated numbers of subsidised private renters, with no reference to the relative importance of this group to total State expenditure;
- (ii) the physical environment factor was based on the number of Indigenous people in remote areas;
- (iii) the building maintenance factor was based on an index which was potentially affected by individual State policies on taxes and charges to the construction industry; and
- (iv) the revenue assessment was dominated by the estimated numbers of subsidised private renters.

5. This paper goes back to first principles to define the types of expenses covered by the category and proposes a new assessment structure.

THE 1999 REVIEW ASSESSMENT APPROACH

6. The assessment structure used for the Housing category in the 1999 Review and subsequent updates is summarised in Table 1. This category also has a differential assessment for user charges and the assessment structure for this is shown in Table 2.

Table 1 ASSESSMENT STRUCTURE — HOUSING EXPENSES

| Component | Component weight | Factors | Basis of calculation |
|----------------------------|------------------|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | % | | |
| Scale-affected expenditure | 4.87 | Input costs | General method with weights of 80% for wages, 2% for accommodation, and 1% for electricity. |
| Housing rental services | 94.89 | Administrative scale | General method. |
| | | Building maintenance | Uses the Rawlinson Building Construction Cost Index as a proxy for differences in maintenance costs between regions. |
| | | Dispersion | General method. |
| | | Input costs | General method with weights of 20% for wages, 2% for accommodation, 1% for electricity and 50% for building maintenance costs. |
| | | Physical environment | Based on the higher service costs attributable to harsh environmental impacts. |
| | | Socio-demographic composition | Based on the affordability criteria that no more than 25% of household income would be paid in rent, adjusted by an Indigenous service/use weight of 2 for Indigenous tenants. |
| Isolation | 0.24 | Isolation | General method. |

Table 2 ASSESSMENT STRUCTURE — HOUSING USER CHARGES

| User charges component | Component weight | Factors | Basis of calculation |
|------------------------|------------------|----------------------------|------------------------------------------------------------------------------------------------------|
| | % | | |
| Rent revenue | 100.00 | Socio-economic composition | Based on the affordability criteria that no more than 25% of household income would be paid in rent. |
| | | Tenant income | Based on differences in mean income of public renters after taking account of market rent. |

7. Table 3 shows State shares of net needs per capita (standardised net expenditures less net standard expenditure) for 2000-01 using the current methods of assessment.

Table 3 COMPARISON OF NEEDS, 2000-01

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aust |
|------------------------------|--------|-------|--------|-------|--------|--------|--------|--------|-------|
| | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc | \$pc |
| Standardised expenditure | 102.37 | 74.15 | 108.40 | 95.35 | 109.79 | 122.85 | 107.65 | 277.73 | 98.73 |
| Standardised revenue | 77.04 | 60.18 | 86.12 | 68.78 | 86.06 | 82.11 | 70.13 | 117.19 | 74.85 |
| Standardised net expenditure | 25.33 | 13.97 | 22.28 | 26.57 | 23.73 | 40.74 | 37.52 | 160.54 | 23.88 |
| Implied net needs | 1.45 | -9.91 | -1.60 | 2.69 | -0.15 | 16.86 | 13.64 | 136.66 | 0.00 |

Source: CGC 2002 Update Working Papers Vols. 4 and 5.

8. Specific Purpose Payments (SPPs) from the Commonwealth associated with this category, and their treatment, are shown in Table 4.

Table 4 SPPS ASSOCIATED WITH HOUSING, 2001-02

| Payment | Treatment |
|-----------------------------------------------------------|---------------------|
| Recurrent | |
| CSHA Assistance for Housing | Inclusion |
| ATSIC Grants for Indigenous Purposes(part) ^(a) | Inclusion |
| Capital | |
| CSHA Block Assistance ^(b) | Inclusion/Exclusion |
| Social Housing Subsidy Program ^(b) | Inclusion/Exclusion |
| Housing Assistance for Indigenous people ^(b) | Inclusion/Exclusion |
| Community Housing ^(b) | Inclusion/Exclusion |
| ATSIC Grants for Indigenous Purposes (part) | Exclusion |

(a) ATSIC payments treated by inclusion were discounted by one third to recognise the budget inflexibility for the States caused by the conditions attached to the payments

(b) A small proportion (7 per cent) of total capital grants were considered by the Commission to be used for recurrent purposes and treated by inclusion in the 1999 Review and subsequent Updates.

Source: CGC

9. The recurrent Assistance for Housing payment is associated with the Commonwealth State Housing Agreement (CSHA) and takes the form of general assistance funding (public housing, home purchase assistance and private rental assistance) and specified funding for identified programs — the Aboriginal Rental Housing Program, Crisis Accommodation Program and Community Housing Program. The majority of CSHA funding is distributed to States on an equal per capita basis, with the States contributing additional funding from their own resources to partly ‘match’ Commonwealth funding

allocations. In 1998-99, the States contributed about \$1 for every \$2 provided by the Commonwealth.

10. Although most of each of the SPPs for capital purposes are presently treated by exclusion, the Commission is re-examining the treatment of capital grants (see Discussion Paper 2002/11, *Capital Grants*). For the 2004 Review, the capital payments associated with Housing will be treated according to the criteria the Commission adopts for all capital grants.

11. The Commonwealth Government also provides Commonwealth Rent Assistance (CRA) to recipients of Commonwealth income support payments and assistance for families who are in private rental accommodation. At the maximum rates, this assistance subsidises about 40 per cent of the weekly rent for eligible people. The maximum rates and the rent levels at which assistance cuts out are set at the same level for all areas of Australia.

THE 2004 REVIEW ASSESSMENT

12. The States had the following major concerns with the current method of assessment:2004 Review Assessment.

- (i) New South Wales said that the assessment was ‘fundamentally flawed’ in that it failed to take into account the impacts of the large rental market differences that exist amongst the States.
- (ii) Victoria said that the assessment was based on the incorrect assumption that housing costs were higher in remote areas and did not take into account differences in housing costs between States and within States.
- (iii) Western Australia said that the assessment did not adequately take account of community housing costs or the policy impacts of home purchase assistance schemes.
- (iv) South Australia said the assessment implicitly gave much more weight to private renters than public renters when the opposite would more accurately reflect the balance of service provision.

13. The following sections present the results of re-examination by Commission staff of the services covered by the Housing category and of consideration by staff of options for improving the assessment of disabilities that the States experience in providing those services. The arguments put forward by the States are set out, followed by staff responses in the context of a revised approach to the assessment of disabilities for Housing.

SCOPE OF THE CATEGORY

14. Consistent with the treatment of Housing in the 1999 Review, the Commission proposed in Discussion Paper 2001/12 that Housing not be included with the Economic Activities categories to be assessed using the concessions and other payments approach. It made this proposal:

- (i) to achieve consistency in treatment because the institutional arrangements for the services differed between States — some States provided Housing services through general government departments or agencies and others through trading enterprises;
- (ii) because there was usually a high degree of government subsidy for the Housing; and
- (iii) because Housing was intended to achieve common public policy (welfare-type) objectives.

15. The Commission confirmed its commitment to this approach for the 2004 Review in Discussion Paper 2002/03, *Scope and Structure of the Equalisation Budget*. For assessment purposes, the consequence is that the assessment will focus on the non-policy influences affecting demand for and cost of providing housing services. If Housing were assessed using the concessions and other payments model, the assessment of needs would focus on the disabilities faced by States in making subsidies (CSO payments) rather than on those relevant to the direct provision of service.

ASSESSMENT FRAMEWORK

16. In the 1999 Review, most expenditure in this category was allocated to the Public Rental Housing component (about 95 per cent) (see Table 1 above). Five disability factors were assessed for this component. They were socio-demographic composition, dispersion, input costs, physical environment and building maintenance. The latter factor was discounted to apply to 40 per cent of total component expenditure and added to the other compounded factors.

17. **State Views.** Western Australia said that the Commission should separately assess expenditure on community housing as needs in this area were likely to be different from those assessed for public rental housing.

18. South Australia and Tasmania claimed that the current component for scale-affected expenditure was too small.

19. South Australia also said, in discussing socio-demographic composition, that the present method gave too much weight to private renters.

20. **Options for Assessment.** Taking account of States' views and our analysis of the results of the assessment, we have found it necessary to reconsider whether the present assessment framework is suitable.

21. Applying the assessment guidelines, this involved considering:

- (i) what types of expenses were included in the category;
- (ii) whether each type of expense was likely to have different disabilities;
- (iii) how types of expenses should be grouped into components affected by similar disabilities; and
- (iv) what the standard proportion of housing category expenses associated with each component was.

22. State governments deliver and manage housing assistance provided under the CSHA, such as public housing, community housing, Indigenous rental housing, private rental assistance and home purchase assistance. Some State governments also contribute to the delivery of housing assistance within their jurisdictions through mechanisms such as home lending programs and joint ventures with the private sector.

23. Table 5 shows the types of assistance that the States provide for public and private housing. There are differences between the States in the levels of funding for each type of housing assistance. While the major expense for all States is public housing, there appear to be different emphases on particular aspects among States. For example, the ACT appears to put more emphasis on public housing and less on private rent assistance than the other jurisdictions.

Table 5 COMPARISONS OF HOUSING DATA — 1998-99

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aus |
|--------------------------|---------|--------|--------|--------|--------|--------|--------|-------|---------|
| Public Housing H'seholds | | | | | | | | | |
| Total | 131 196 | 69 406 | 57 071 | 36 565 | 58 148 | 15 560 | 12 323 | 8 933 | 389 202 |
| Rent Rebated | 121 954 | 52 729 | 53 982 | 31 427 | 48 774 | 14 995 | 10 905 | 5 242 | 340 008 |
| % Rebated | 93.0 | 76.0 | 94.6 | 85.9 | 83.9 | 96.4 | 88.5 | 58.7 | 87.4 |
| Community Households | 7 043 | 7 569 | 3 173 | na | 2 707 | 348 | 198 | 66 | na |
| Private Rent Assistance | 65 214 | 27 178 | 17 379 | 14 400 | 44 622 | 16 163 | 90 | 269 | 185 315 |
| Home Purchase Assistance | 7284 | 17 222 | 10 906 | 24 487 | 25 742 | 1474 | 765 | 3 950 | 91 830 |

Source: Department of Family and Community Services Housing Assistance Act 1996 Annual Report 1998-99.

Note: It is understood that this table does not include Commonwealth funding.

24. The higher level of aggregation used in the ABS Government Finance Statistics (GFS) makes it difficult to identify discrete groups of expenses in the Housing category. Based on the definition of the GFS Housing category and information available in State departmental reports, staff consider that the main services covered in this category are:

- provision of public rental housing;
- provision of subsidies to private renters; and
- support for private housing purchase.

25. There are two major types of expenses associated with the provision of public rental housing, – management of housing rentals (setting and collecting rents, administering the allocation and re-allocation of properties, and property inspections) and maintenance of the housing stock (building maintenance and provision for depreciation). These expenses can also be broken down into services to two broad categories of renters — those who cannot afford to rent in the private sector without subsidy (according to Table 4 about 87 per cent of total renters across Australia) and those who (while occupying public housing) could afford to rent in the private sector. This distinction may be important for the assessments for this category since the second category of renters contribute above average rent income but may not cost the same to manage as the first category of renter.

26. Other possible components are Indigenous housing (which would cover housing assistance provided under mainstream housing programs and under Indigenous-specific programs such as the Aboriginal Rental Housing Program (ARHP) and through ATSIC programs) and community housing (which would cover assistance provided to community organisations to manage housing catering for people who might otherwise be applicants for housing directly provided by public housing authorities). Both of these programs appear to be variations of public housing.

27. Additional costs associated with Indigenous people may be handled best by including an additional cost weight for Indigenous persons in the socio-demographic composition assessment as is currently done. However, staff will investigate further the costs associated with housing for Indigenous purposes in remote areas before finalising a recommendation on whether a separate component is required for Indigenous housing. With regard to assistance to community housing, staff understand that the eligibility requirement for access to community housing are generally similar to those for access to public housing. This suggests that the disabilities affecting the provision of community housing may be similar to those affecting the provision of public housing and there might be no need for a separate community housing component.

28. The 1999 Review assessment framework did not distinguish between types of expenses — all the functions outlined above are currently included undifferentiated in the Housing Rental Services component. If the disabilities were identical for each type of expense, further disaggregation would not be necessary. This seems unlikely. For example, maintenance costs are a major part of public housing recurrent expenses, but it is unlikely that the disabilities associated with maintenance of properties are the same as those that influence rental subsidy expenses.

29. Set out below is the proposed assessment framework for expenses for this category for the 2004 Review.

- (i) Scale-affected expenses
- (ii) Public Housing – Management

- (iii) Public Housing – Maintenance
- (iv) Private Rental and Home Purchase Assistance
- (v) Isolation

30. Staff expect that the second and third components will account for most of the expenses allocated to this category. The isolation component will be very small.

31. Change to the framework for the user charges assessment is not proposed. The factors to be applied to housing user charges are addressed later in this paper.

32. We seek State views on:

- (i) whether the proposed assessment framework for housing expenses is appropriate;
- (ii) if not, what changes are necessary; and
- (iii) the proportion of each State's total housing expenses attributable to the proposed components.

ASSESSMENT OF FACTORS

33. This section of the paper sets out the proposed assessment of factors for each of the proposed components.

SCALE AFFECTED EXPENSES

34. Consistent with the general assessment framework adopted for all expenditure categories, this component will include head office type expenditure associated with development and implementation of policy. It is proposed that two factors be assessed:

- (i) administrative scale; and
- (ii) input costs.

35. General issues concerning these common factors are covered in the separate discussion papers:

- (i) CGC 2002/20, *Input Costs*; and
- (ii) CGC 2000/23, *Administrative Scale Factor*.

PUBLIC HOUSING – MANAGEMENT

36. This component would comprise expenditure on setting and collecting rents, administering the allocation and re-allocation of properties, and property inspections. The expenses assigned to this component will be mainly salaries and on-costs for staff providing services for public housing clients.

37. The factors proposed for this component are:

- (i) Input Costs;
- (ii) Dispersion; and
- (iii) Socio-demographic Composition.

38. Input Costs and dispersion would be assessed according to the general methods adopted for these factors.

Socio-demographic Composition

39. In the 1999 Review, the socio-demographic composition factor, which was applied to the Public Rental Housing component, was derived from the number of low income persons in public housing and the number of persons benefiting from government rental assistance for private housing accommodation. Based on information provided by States, a cost weight of two was applied to Aboriginals in public housing or receiving rent assistance. This weight did not take account of location or the price of materials — both of these influences were reflected in other factors.

40. The data used to calculate the socio-demographic composition factor were sourced from ABS data from the Australian Housing Survey 1994, the ABS Census of Population and Housing, Indigenous Data Service, 1996, and the Commonwealth Department of Family and Community Services, Rent Assistance Program 1996. This factor has remained largely unchanged in updates since the 1999 Review.

41. *State Views.* New South Wales said that the current assessment was ‘fundamentally flawed’ in that it failed to take into account the large market differences among States. Furthermore, the depth of need, overcrowding and substandard housing were not taken into consideration, and the method used was not limited to low income earners¹. New South Wales also suggested that the Commission’s model should take account of dwelling type based on household size and a national occupancy standard. Other issues New South Wales wanted the needs assessment to take account of included:

¹ High income earners in public housing were not included. The public renter households used in the Commission’s assessment were limited to those with stated incomes less than 4 times the average rent. The average rent used for each State was calculated from households renting privately and paying more than 25 per cent of their income in rent. However, this limitation was not made clear in the Commission’s description of the method used and probably led to the erroneous view that the income levels of public renters were not taken into account.

- (i) people with serious disabilities, including people living with HIV/AIDS, who required large rental subsidies because of their need to be housed in the inner city to be close to other services; and
- (ii) the new Commonwealth legislation — the Integrated Humanitarian Settlement Strategy — which increase the demand for welfare housing because it reduced the waiting period for entitlements for refugees and asylum seekers from 13 to 4 weeks and introduced a new category of asylum seekers — holders of Temporary Protection Visas — who are potential clients for public housing services.

42. Victoria said that as data from the 1999 Australian Housing Survey was now available, this should be used instead of the 1994 data to measure differences in the proportions of public tenants and in the numbers of people receiving rent subsidies.

43. Western Australia argued that the present method was not policy neutral as it was based on actual numbers of persons in public housing or receiving rent assistance. This method discriminated against Western Australia, which made substantial efforts to encourage home ownership for people who would otherwise qualify for public housing rental. Western Australia also argued for the weight for Indigenous people to be increased to 3, on the basis that Indigenous tenants were 10.6 per cent more costly to service than non-Indigenous tenants and Indigenous people in the target group are 2.7 times more likely to access public housing assistance than non-Indigenous people.

44. South Australia claimed that the current socio-demographic composition factor was a poor measure of the cost impact of public housing demand as it attributed too great a weight to private renters. It indicated that its costs for providing public housing were much greater than for providing rental subsidy, but the Commission's method, which uses twice as many private renters as public renters, implied the opposite. South Australia argued that the most appropriate, policy neutral, measure of the cost impact of the demand for housing services was the number of welfare recipients in the State. To support this proposal, South Australia said that over the past three years more than 90 per cent of applicants for public housing have been reliant on welfare as their main source of income.

45. Tasmania argued that the socio-demographic composition factor should be changed to reflect housing stress — defined by The National Housing Strategy as households falling in the lowest two income quintiles and which paid more than 30 per cent of gross household income in housing costs. The factor should also be expanded to reflect the higher costs and demand from people with additional needs, in particular the elderly and the disabled.

46. The ACT requested the incorporation of a disability factor to reflect the Territory's above average housing costs (and related welfare support services costs) driven by a high per capita youth population. It also argued for an adjustment because it received no funding under the Aboriginal Renting Housing element of the Commonwealth State Housing Agreement (CSHA). It said that it was experiencing increased social costs driven by its fast growing Indigenous population.

47. The Northern Territory said that the socio-demographic composition factor for the Territory did not adequately accommodate the additional administrative and maintenance costs incurred by the Territory because of:

- (i) the high mobility of its renters and their destructive anti-social behaviour;
- (ii) the increasing urban drift and the consequent rapid increase in the significance of Indigenous public tenants; and
- (iii) the impact of ‘invisible’ Indigenous tenants who were too transient to be identified in any administrative records.

48. ***Options for Assessment.*** The socio-demographic composition factor for the Public Housing — Management component will concentrate on influences on the size of the management task. For this component, the factor will attempt to measure the relative size of the public housing sectors in each State and the extent to which sub-sets of the public housing client base require additional resources to manage. Possible bases for these factors include:

- (i) measures of persons in public rental housing:
 - the actual number of persons in public rental households in each State;
 - the numbers of persons in public rental housing when Australian average policies are applied;
 - the number of persons with incomes below a defined threshold;
 - the number of welfare beneficiaries in each State; and
- (ii) measures of the number of public rental housing units:
 - the actual numbers of public rental housing units in each State; and
 - the numbers of public rental housing units adjusted for higher levels of need (higher costs) when Australian average policy is applied.

49. It is difficult to identify a relevant population that is both free from policy influence and adequately reflects differential needs. The number of welfare recipients was used prior to the 1999 Review. While this measure may not be influenced by policy, a criticism of it was that by using only welfare recipients it did not take account of other low income earners receiving housing assistance. The converse also applies – that is some welfare recipients, such as old age pensioners who own their own homes, would be included even though they may not impact on demand for public rental housing. This same problem would also apply if the number of persons with low income status were used.

50. It is proposed that 2001 Census data be used to construct a socio-demographic composition factor. It will be possible to cross classify persons and families in public housing by age, income, location and Indigeneity. It is proposed that Australian average propensities to use public housing be derived from these data and applied to the population in each State to derive standardised numbers of public housing tenants in each State.

51. **Indigenous Persons** — The 1999 Review method gave the estimated number of Indigenous tenants a cost weight of two. Western Australia proposed that, based on its experience, this weight be increased to three. Given that a large proportion of Western Australian Indigenous households are in remote areas, does the proposed cost weight also include other costs associated with remoteness?

52. Do Indigenous cost weights differ between regions? If so, is it appropriate to use something like the *Accessibility/Remoteness Index of Australia (ARIA)*² as a basis for this? Use of the Census data as the basis of the factor will allow refinements of this type.

53. Staff would like States to provide further information on the costs of administering properties occupied by Indigenous people, compared with average costs, including any information on variations in cost due to location.

PUBLIC HOUSING — MAINTENANCE

54. This component comprises expenditure on building maintenance and provision for depreciation. The Commission proposed, in its November 2001 Discussion Paper on Scope and Structure (CGC 2001/12), that housing depreciation costs be included in the Housing category and not the Depreciation category. This was because housing, unlike many other areas of government activity, recovered most of its costs. Expenses assigned to this component will be divided between the costs of maintenance and replacement of the public rental housing stock.

55. The factors proposed for this component are:

- (i) Input Costs;
- (ii) Dispersion;
- (iii) Physical environment; and
- (iv) Socio-demographic Composition.

² Based on the area index developed by the National Key Centre for Social Applications of Geographical Information Systems (GISCA) at the University of Adelaide, for the then Department of Health and Aged Care. More information is set out in the ABS 2001 Information Papers *ABS Views on Remoteness* Cat 1244.0 and *Outcomes of ABS Views on Remoteness Consultation, Australia* Cat 1244.0.00.001.

Input Costs and Dispersion

56. These factors will be assessed using the general methods adopted for the 2004 Review. For dispersion, choice of which constituent indexes to apply will depend on the mode of provision of maintenance services — for example, if maintenance is usually provided by local contractors rather than government employees, locality allowances probably do not apply.

Physical Environment Factor

57. **1999 Review.** The effects of the physical environment on the costs of provision of public housing were measured through two factors in the 1999 Review:

- (i) a physical environment factor; and
- (ii) a building maintenance factor.

58. The physical environment factor was compounded with other factors in the assessment while the building maintenance factor was treated as additive.

59. The physical environment factor was introduced in the 1999 Review for public housing in remote areas based on the assumption that public housing costs in remote areas, excluding the effects of Indigeneity, dispersion and material costs, were about 50 per cent higher than in other regions. This was largely based on information provided by Western Australia. In the absence of information that could be reliably used to estimate the State housing stock in remote areas on a policy neutral basis, the number of Indigenous persons living in remote areas was used as a proxy.

60. The building maintenance factor took account of differences in housing maintenance costs between States and within States. The factor was derived from the Rawlinson's Building Construction Cost Index and the implied factor was weighted by 40 per cent — the proportion of expenditure attributed to housing repairs and maintenance.

61. **State Views.** New South Wales said the physical environment factor should be dropped as it did not reflect what it purported to represent and there appeared to be elements of double counting with other factors, particularly isolation. It was concerned about using the number of Indigenous people in remote areas as a proxy for the number of public housing renters in these areas because the factor was supposed to exclude the effects of Indigeneity, and that this factor had a significant multiplier effect on the assessment.

62. Victoria argued that housing costs in remote areas were not necessarily higher than in other areas and produced a table showing that mean weekly housing costs were higher in capital cities than elsewhere in all States³. Victoria said that housing costs were higher in metropolitan areas because of higher rates of vandalism, crime, congestion, and pollution. It also said that, if the physical environment factor as assessed excluded the effects of Indigeneity, dispersion and material costs, it was not clear what other costs

³ Source: Housing and Occupancy Costs, 1997–98 (ABS Cat No. 4130.0)

associated with public housing the factor was intended to measure. Victoria made the same points as New South Wales about double counting and using the number of Indigenous people as a proxy for housing stock.

63. South Australia said that the physical environment factor as assessed produced ‘bizarre results’ and should be discontinued. In particular, it cited the assessment of Tasmania as having a greater disability than Western Australia or Queensland. South Australia also made similar arguments to New South Wales and Victoria about using the number of Indigenous people for a factor that purports to exclude the effects of Indigeneity.

64. Tasmania said that it recognised that the physical environment would have an impact on the maintenance of the housing stock, but did not believe that harsh environment impacts were restricted to remote areas.

65. The Northern Territory did not comment on the method of assessing the physical environment factor, but claimed that in tropical and remote communities, the physical environment significantly increases the need for maintenance due to the influence of factors such as high humidity, termites, high levels of radiation, cyclones and floods.

66. Regarding the building maintenance factor, Western Australia drew attention to the higher maintenance costs associated with houses that have Indigenous tenants.

67. South Australia said that the use of the Rawlinson’s Index in the building maintenance factor should be discontinued in favour of a measure of the age of the public housing stock. It also referred to the relationship between the Depreciation and Housing categories.

68. Tasmania expressed concern that the Rawlinson’s Index was not specifically a measure of building maintenance costs, but noted that no alternative measure has been developed. It supported the continuance of this measure in the absence of others.

69. The ACT said that it supported the continued assessment of housing maintenance costs disabilities, given the differential housing maintenance costs facing the States. To reduce fluctuations in the redistribution of funding driven by the Rawlinson’s Building Cost Indices, the ACT proposed that this index be supplemented by others such as Cordell’s Housing Cost Guide and Cordell’s Building Information Services.

70. The Northern Territory argued that it was inappropriate to use the broad Rawlinson’s Building Index, which understated the small-scale dwelling costs facing the Territory. The building maintenance factor should be based on a cost index specifically for dwellings, with an appropriate adjustment for the harsh climatic design elements, essential for the Territory, which it said the Rawlinson data completely ignore.

71. ***Options for Assessment.*** This factor should measure the effect of where public housing is located on the unit costs of maintenance so it is not appropriate to use the number of Indigenous persons in remote areas as the basis for a physical environment disability. The issues to be decided are:

- (i) whether differences in physical environments have a significant impact on State housing maintenance expenditures; and
- (ii) if they do, what is an appropriate measure?

72. How to assess the effects of physical environment is currently under review in the Depreciation category. The Commission staff view is that there are similarities between the Housing and the Depreciation categories on the cost impact of physical environments, even though there may be more emphasis on maintenance costs and less on construction costs in Housing. Nevertheless, the method of assessments should not be inconsistent. As a result, we are inclined to defer making a decision on physical environment for housing until a decision is reached on the method of treatment for Depreciation.

73. The suitability of the Rawlinson data as the basis for a factor measuring impacts on building costs is extensively discussed in Discussion Paper CGC 2002/25, *Depreciation*. That paper favours replacement of a separate building maintenance factor with adjustments added to the input costs and dispersion factors. If found to be feasible for Depreciation, the same approach could be applied in this category.

74. As with physical environment, we are inclined to defer making a decision on the building maintenance factor for housing until a decision is reached on the method of treatment for Depreciation.

Socio-demographic Composition

75. ***Options for assessment.*** This factor will measure the units of service for the Public Housing — Maintenance component. It is proposed that the units of service be the standardised number of dwellings derived from tenant data used to calculate the socio-demographic factor for the Management component. These would be derived by applying a standard size profile to the standardised numbers of tenants in each State. If there is evidence that properties assigned to specific sub categories of tenants incur additional maintenance costs, additional weights could be included in this calculation.

PRIVATE RENTAL AND HOME PURCHASE ASSISTANCE

76. This component comprises expenses on provision of assistance to private renters and support for private housing purchase. Assistance to private renters includes measures such as assistance with relocation expenses, rental grants and subsidies and assistance with rental bonds. Support for private housing purchase includes direct lending, deposit assistance, interest rate assistance, mortgage relief and purchase advice and counselling.

77. It is proposed that a single factor — Socio-demographic Composition — be applied to this component.

Socio-Demographic Composition

78. ***1999 Review*** In the 1999 Review, the element of the socio-demographic composition factor which referred to private rental assistance was the inclusion of private renters.

79. ***State Views***. New South Wales said that Commonwealth Rent assistance was not sufficient to compensate for higher rents in Sydney, implying a potentially greater demand for State government assistance. South Australia pointed out that the numbers of private renters swamped the impact of public renters in the 1999 Review socio-demographic composition factor. The calculation did not take proper account of the relative importance in State budgets of rental assistance compared with the cost of provision of public housing.

80. ***Options for Assessment***. Separating out this component — Private Rental and Home Purchase Assistance — allows the assessment to more accurately reflect the structure of provision of housing services in the States and to design a targeted socio-demographic composition factor.

81. Table 7 below shows the differences among States when the rent burden (measured as a proportion of total income) of people in the lowest 40 per cent of income earners is compared.⁴ The big differences in relativity between each measure shows that choice is important.

82. Table 8 shows another possible indicator of the relative distribution of target population for State government rent assistance or home purchase programs — the numbers of Commonwealth Rent Assistance beneficiaries.

83. It is proposed that the socio-demographic composition factor will be based on a measure of the numbers of people who fall below an affordability threshold, adjusted for the standardised number of those people assessed to be receiving public rental housing in the assessment for the Public Housing – Management component. The object will be to devise a measure of the relative demand for State provided housing assistance, allowing that States have choices in how they respond to that demand. Issues to be further investigated include whether the assessment should have a location dimension and how the uneven coverage of Commonwealth Rent Assistance should be accounted for.

⁴ Only the numbers of households are used in this table. They are not weighted by the numbers of occupants as in the 1999 Review.

Table 7 COMPARISON OF RENT BURDEN — PRIVATE RENTERS IN THE LOWEST 40 PER CENT OF INCOME EARNERS

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aus |
|-----------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Lowest 40 per cent of Income Earners | | | | | | | | | |
| Rent over 25 per cent of income ^(a) '000 | 170.9 | 97.2 | 99.8 | 52.9 | 30.8 | 13.8 | 3.7 | 1.8 | 470.9 |
| Per 1000 pop. | 0.027 | 0.021 | 0.028 | 0.028 | 0.021 | 0.029 | 0.012 | 0.009 | 0.025 |
| Relativity | 1.07 | 0.83 | 1.14 | 1.14 | 0.83 | 1.18 | 0.48 | 0.38 | 1.00 |
| Rent over 30 per cent of income ^(a) '000 | 154.8 | 84.1 | 86.9 | 40.1 | 22.8 | 11.5 | 3 | 1.7 | 404.9 |
| Per 1000 pop. | 0.024 | 0.018 | 0.025 | 0.022 | 0.015 | 0.024 | 0.010 | 0.009 | 0.021 |
| Relativity | 1.13 | 0.84 | 1.16 | 1.01 | 0.72 | 1.15 | 0.45 | 0.41 | 1.00 |
| Rent over 40 per cent of income ^(a) '000 | 105.8 | 48.6 | 51.5 | 23.6 | 12.9 | 6.5 | 1.6 | 1.4 | 251.8 |
| Per 1000 pop. | 0.017 | 0.010 | 0.015 | 0.013 | 0.009 | 0.014 | 0.005 | 0.007 | 0.013 |
| Relativity | 1.24 | 0.78 | 1.10 | 0.96 | 0.65 | 1.04 | 0.39 | 0.55 | 1.00 |
| Rent over 50 per cent of income ^(a) '000 | 66.4 | 31.6 | 26.8 | 15.3 | 7 | 3.4 | 0.7 | (b) | 152.5 |
| Per 1000 pop. | 0.010 | 0.007 | 0.008 | 0.008 | 0.005 | 0.007 | 0.002 | (b) | 0.008 |
| Relativity | 1.29 | 0.83 | 0.95 | 1.02 | 0.58 | 0.90 | 0.28 | (b) | 1.00 |

(a) Staff understand that these figures have not been adjusted to remove the numbers of Commonwealth Rent Assistance beneficiaries.

(b) Standard Errors too large for inclusion

Sources: ABS 1999 Australian Housing Survey, Cat. No. 4182.0, Table 12

Table 8 COMMONWEALTH RENT ASSISTANCE BENEFICIARIES

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aus |
|--------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 |
| Commonwealth Rent Assistance (CRA) Beneficiaries | 321.7 | 211.3 | 210.4 | 76.3 | 64.4 | 20.8 | 9.6 | 5.4 | 920 |
| Per 1000 pop. | 0.050 | 0.045 | 0.060 | 0.041 | 0.043 | 0.044 | 0.031 | 0.028 | 0.049 |
| Relativity | 1.03 | 0.92 | 1.23 | 0.85 | 0.89 | 0.91 | 0.64 | 0.58 | 1.00 |

Sources: Commonwealth Department of Family and Community Services, Rent Assistance Program.

USER CHARGES

84. In the 1999 Review, two factors were applied to users charges:

- (i) a *tenant income factor* designed to compensate the States for the loss of revenue associated with the Commonwealth-State agreement whereby public housing tenants paid rents up to 25 per cent of their household income or market rent, whichever was the lesser.
- (ii) a *socio-demographic composition factor*, assessed using the same method as that adopted for the socio-demographic composition factor for the Housing expenses category, but excluding the additional weight for Indigeneity.

85. **State Views.** Regarding the tenant income factor, New South Wales argued that if differences in market rents affecting affordability were not to be taken into account in the expenses assessment, then they should be treated under user charges as rent foregone. It recommended that the existing socio-demographic composition and tenant income factors in User Charges be replaced by a factor that measures the relative rent revenue raising capacity of States by examining the income derivable from tenants (at the fixed 25 per cent), relative to market rents⁵.

86. South Australia said that using the number of eligible tenants (especially private renters) is an erroneous measure of the capacity to recover public housing costs and should be discontinued.

87. **Options for Assessment.** It is hard to find justification for either of the factors in the existing assessment in their present forms. The tenant income factor is predicated on the need to adjust for income foregone because most public tenants cannot be charged market rents. But it is the common policy of the States to collect rents for public housing based on tenants' incomes, not market rents. All States have a proportion of tenants who pay market rent but for the major source of State rent revenue, the rebated renters, the notional market rent for the property is irrelevant.

88. The previous socio-demographic factor which was intended as a measure of the relative revenue raising capacities was seriously flawed because it was dominated by the numbers of subsidised private renters from which no income to government is derived under any State's policy.

89. It is proposed that this assessment be based on a single factor using the standardised numbers of renters derived for the socio-demographic composition factor for the Public Housing – Management component, with one adjustment — the renters would be divided between those who are rebated at standard policies and those who pay full rent, and

⁵ This in fact is the method currently used for the tenant income factor although this may not have been clear in the Commission's description of the method used.

a weight should be applied to the latter group to reflect the higher return States can expect from this category of tenant.

SUMMARY

90. This paper has presented a preliminary proposal for a revised assessment for Housing. The main features of the revised approach are:

- (i) a focus on the demand and cost disabilities associated with service provision rather than the provision of subsidies (CSO payments); and
- (ii) a revised assessment framework to reflect the way States provide services and to help ensure better targeting of disabilities.

91. State comments are sought on all aspects of the proposed assessment.

92. Table 9 shows the proposed structure of the assessment for the 2004 Review.

Table 9 POSSIBLE ASSESSMENT STRUCTURE — HOUSING

| Component | Component weight | Factors |
|---------------------------------------------|------------------|------------------------------------------------------------------------------------|
| | % | |
| Scale-affected expenditure | XX | Input costs Administrative scale |
| Public Housing - Management | XX | Socio-demographic composition Input Costs Dispersion |
| Public Housing - Maintenance | XX | Socio-demographic Composition Input costs Dispersion Physical Environment |
| Private Rental and Home Purchase Assistance | XX | Socio-demographic composition |
| Isolation | XX | Isolation |
| User Charges | na | Socio-demographic composition |