



Department of
HOUSING AND WORKS

CONSULTATION PAPER

**SIMPLIFICATION AND
AMALGAMATION OF
RENT MODELS**

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Simplification and Amalgamation of Rent Models Consultation Paper

Introduction

This consultation paper presents the outcome of a recent review by the Department of Housing and Works of the rent assessment rules that govern how tenants' rents are set.

This information is provided to the Rental Sector Standing Committee with an invitation for their comment and feedback.

Background

Under the Commonwealth State Housing Agreement, when a tenant does not have sufficient financial capacity to pay full market rent, the tenant is eligible for a rental subsidy. The level of subsidy is set so that no tenant pays more than 25% of his or her gross assessable income (GAI).

The basic principles underlying the application of a subsidy are:

- It is directly related to their capacity to pay
- Tenants with similar capacity to pay, pay similar rent
- It is considered fair and equitable
- No tenant will pay more than the market rent for the property

In principle, all tenants receiving a rent rebate are subject to the same rent assessment rules. In practice, however, different rent charging models have emerged over the years, a consequence of various political interventions and policy changes which were not retrospective for existing tenants.

There are now three rent models, and one sub-model:

Rent Model	Who applied to
Rent Models 1 and 1A	Tenants occupying prior to 31 August 1992
Rent Model 2	Tenants occupying between 31 August 1992 and 21 July 1997
Rent Model 3	Tenants occupying after 21 July 1997

This has resulted in a rent assessment framework that:

- Is complex and confusing
- Results in different rents paid by similar households, dependent on when they occupied the property (horizontal inequity)
- Is difficult to update and maintain

The Office of Policy and Planning has undertaken a review of the rent assessment rules with the following objectives:

- Simplify the current rules to make them more understandable;
- Apply consistent rules across the rent models so that all tenants are treated equitably (amalgamation of the rent models);

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EXECUTIVE SUMMARY:

There were six areas identified where assessment rules vary between the rent models:

1. The provision of a **Pensioner Allowance**
2. Assessment of **Family Payments**
3. Assessment of **Maintenance Payments**
4. Assessment of **Non-dependent Household Members**
5. Application of the **Working Allowance**
6. Application of a **Threshold Limit**

Recommended changes

A number of options to bring the models into alignment were modelled for each area, based on household information drawn from the database. A summary of the options, and their impacts, is presented as a matrix at Appendix 1. Detailed information on each area is provided at Appendix 2.

In each area, a preferred option was identified:

1. Phase out the Pensioner Allowance in full by August 2003.
2. Remove the \$1.10 fixed rate for the third and subsequent children under Rent Model 3. Assess all children at 10% of Additional Family Tax Benefit Part A. Change to be phased in over a three-year period.
3. Assess maintenance payments in Rent Model 1 and 2 at 20%.
4. Assess all non-dependents 16 to 21 years (and students less than 25 years) at 10% of income, and assess the income of all other non-dependents at 23% or 25%, and add this to the rent.
5. Retain the \$30 Working Allowance but make it consistent across the rent models, make it applicable to all household members of the household but time limited per person for a period of 12 months.
6. Discontinue the threshold limit rule and assess all income at 23% in Rent Models 1 and 2.

Impact on tenants

It is estimated that approximately 14,000 tenancies (43% of total tenancies) will be affected by the recommended changes. The majority will experience a rent increase, however about 1500 tenancies will see their rent decrease¹. For those who have a rent increase, the amount experienced depends largely on the composition of the household and the Rent Model.

Tenant groups most affected are:

- ◆ Families with more than three children receiving family payments, who are currently assessed under Rent Model 3 (2026 households).
- ◆ Households containing non-dependants (household members not on the tenancy agreement, 1356 households), who are currently assessed under Rent Model 1.

¹ Those affected by the Threshold Limit rule, and some households receiving Working Allowance.

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However, it should be noted that a number of key tenant groups will **not** be affected by the recommended changes. These are:

1. Pensioner singles and couples who occupied after August 1992.
2. All families receiving Family Payments in Rent Models 1 and 2 (occupied prior to July 1997) and one and two children families receiving Family Payments in Rent Model 3 (occupied after July 1997). This represents almost 81% of all families in DHW accommodation.
3. All families in Rent Model 3 receiving maintenance payments (2091 households).
4. Households containing non-dependants, who occupied after August 1992.
5. Tenants assessed according to Rent Model 3 will not be affected by any changes to the threshold rule.

Examples of typical households affected and expected rent increases

Proposed change	Household Type	Current Rent	% of income	New Rent	% of income
1	Single Pensioner (occupied prior to August 1992)	\$45.10	21.4	\$46.70	22.1
2	Single parent with three children receiving Family Payments (occupied after July 1997)	\$62.00	14.62	\$65.10	15.35
2	Single parent with six children receiving Family Payments (occupied after July 1997)	\$65.30	10.51	\$77.60	12.49
3	Single parent with two children receiving \$100 maintenance (occupied prior to July 1997)	\$72.00	16.28	\$74.00	16.73
4	Single parent with 16 year old non-dependant on Youth Allowance (occupied prior to August 1992)	\$47.70	17.92	\$51.30	19.26
4	Tenant plus adult non-dependant on wages of \$450 pw (occupied prior to August 1992)	\$66.00	10.17	\$149.20	23.00
5	Above household receiving a Working Allowance of \$30 deducted from wages	\$66.00	10.17	\$142.30	21.93
6	Single parent with one child, wages of \$500 pw, removal of threshold limit	\$137.20	22.21	\$125.60	20.33

Timeframe for implementation

In order to moderate the impact on the most affected tenant groups, it is proposed to phase in the recommended change in assessment of family payments over a three-year period. Other changes, such as increasing the assessment rate of maintenance payments, and discontinuing the threshold limit, can be brought in quickly, following a suitable period of notification to tenants, at their next annual rent review.

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Total revenue gain for Department

The recommended changes are estimated to result in a net rental revenue gain for the Department of approximately \$3.5 million per annum.

This revenue gain is an important consideration in view of the current pressures on CSHA funding:

- ◆ The ongoing shortfall between rental revenue and recurrent operating costs of Homeswest rental housing, even before taking into account the costs of depreciation and interest.
- ◆ Loss of GST compensation payments by the Commonwealth under the CSHA after June 2003
- ◆ The strong possibility that there will be no new CSHA after 2008.

The additional revenue will be directed back into the rental housing program for the benefit of applicants on the waiting list.

Consultation Period

The paper will be tabled for discussion at the meeting of the Rental Sector Standing Committee (RSSC) on 27 November 2002. Following this, RSSC members will have until **13 January 2003** to provide comment and feedback. **Note: the Consultation period has been extended to 14 February 2003.**

Any queries regarding the paper, or comment and feedback, should be directed to Angela Heymans, Senior Policy Officer on 9222 4634 or angela.heyman@dhw.wa.gov.au.

SUMMARY OF CHANGES TO ALIGN THE RENT MODELS (RM)

Assessment Rule	Recommended Changes	Impact of Change on Tenants
<p>Pensioner Allowance (PA) RM1 – PA available to pensioners without dependants. No PA applies under RM 2 & 3.</p>	<p>Option 1: Phase out the PA at current rate. Alignment with RM 2 & 3 will be achieved by August 2004.</p> <p>Option 2: Phase out the PA by August 2003.</p> <p>Option 3: Discontinue the PA immediately.</p>	<p>Increase in rent by 50c pw for 2510 single pensioners and 90c pw for 1190 pensioner couples in Rent Model 1(RM1) annually until August 2004.</p> <p>Increase in rent of \$1.10 pw for 2510 single pensioners & \$1.70 pw for 1190 pensioner couples in August 2003. RM1 only.</p> <p>Immediate increase of \$1.60 pw for single pensioners and \$2.60 pw for pensioner couples. RM1 only.</p>
<p>Family Payments RM 1&2: (10% of additional FTB Part A for all children) + (5% of FTB Part B) is added to the household rent.</p> <p>RM3: (10% of additional FTB Part A for the first two children and \$1.10 for each subsequent child) + (5% of FTB Part B) is added to the household rent.</p>	<p>Option 1: Remove the \$1.10 fixed rate under RM3 and align with RM 1&2 rules.</p> <p>Option 2 is to phase out the \$1.10 over a three-year period (by removing it on the third child in the first year, the fourth in the second year, remaining children in the third year) in order to spread out the impact on larger families.</p> <p>Option 3: Assess the first three children at 10% for FTBA and a reduced rate for four or more children across all rent models (8% and 5% modelled)</p> <p>Option 4: Introduce a fixed rate in RM1 & 2</p>	<p>1094 families (3 children) = \$3 pw rent increase 580 families (4 children) = \$6 pw rent increase 225 families (5 children) = \$9 pw rent increase 92 families (6 children) = \$12 pw rent increase 27 families (7 children) = \$15 pw rent increase 8 families (8 children) = \$18 pw rent increase</p> <p>Weekly Rent increases (RM3 families):</p> <p>1st year 2026 families = \$3pw rent increase 2nd year 932 families = \$3pw rent increase 3rd year 352 families = \$3 - \$12pw rent increase</p> <p>Moderates the increase experienced by large families in RM3. Highest rent for family with seven children ranged from \$12 (8%) to \$7 (5%)</p> <p>Equivalent families in RM1 & 2 would experience rent <u>decreases</u>, of up to \$3.40 (8%) or \$8.40 (5%).</p> <p>1000 families will experience a rent decrease of between \$3 and \$18 pw.</p>

Assessment Rule	Recommended Changes	Impact of Change on Tenants
<p>Maintenance Payments RM1&2: Maintenance assessed @ 18% RM3: Maintenance assessed @ 20%</p>	<p>Option 1: Increase the assessment of tenants in RM1&2 from 18% to 20% to align with RM3.</p> <p>Option 2: Decrease the assessment rate in RM3 from 20% to 18% (assumes removal of \$1.10)</p> <p>Option 3: Treat maintenance as 100% assessable and apply the relevant rate (either 23% or 25%)</p> <p>Option 4: Reduce the maintenance amount by the same reduction amount applied to FBTA, assess the balance at 23% or 25%.</p> <p>Option 5: Assess maintenance at the same rate applied to Family Tax Benefit A (10%)</p>	<p>Weekly Rent increases for 1300 RM1&2 families of between 60c and \$2.00 for the majority of affected tenants.</p> <p>Weekly rent decreases for 2000 RM3 families of between 60c and \$2.00 for the majority of affected tenants</p> <p>Potential increases of between \$1.50 and \$5.00 pw for all affected tenants (3408 households)</p> <p>3408 households (all rent models), 78% (2665) will experience an approximate rent <u>decrease</u> of between \$0.70 and \$8.10 per week. 22% (743) will experience a rental <u>increase</u> of approximately 40c to \$1.40.</p> <p>Approximate rent decreases of between \$3 and \$10 for all tenants affected</p>
<p>Other Household Members RM1: Existing non-dependants over 16yrs (and not on tenancy agreement), 23% x 23% of their income is added to household rent. If they are signatories to the tenancy agreement 23% of their income is added to household rent.</p> <p>RM1: For new household non-dependant member (16 to 21 or a student < 25), 10% of their income is added to household rent. If they are over 21(or student 25 yrs or older) 23% of their income is added to household rent.</p> <p>RM 2&3: Existing and new are treated the same as New tenants under RM1, except 25% of their income is added to household rent under Rent Model 3.</p>	<p>Option 1: Treat all non-dependants (existing and new) in the same way across all models.</p> <p>For 16 to 21year olds or a student < 25) take 10% of their income and add to household rent.</p> <p>If they are over 21(or student 25 yrs or older) add 23% or 25% of their income to household rent.</p> <p>Option 2: Assess 100% of the income of non-dependants regardless of age</p>	<ul style="list-style-type: none"> ➤ 40% (622 persons) would have their contribution to the rent increase from 5.3% to 10%. ➤ 60% (946 persons) would have their contribution to the rent increase from 5.3% to 23 or 25%. ➤ 37% of non-dependants would contribute less than \$10 extra towards the rent. ➤ A further 10% will contribute less than \$20 per week ➤ 39% will experience a rent increase of between \$20 and \$50 per week ➤ 103 (7.6%) will experience an increase of more than \$50 per week. <p>The median increase across 1400 tenancies would be approximately \$22.00 per week</p>

Assessment Rule	Recommended Changes	Impact of Change on Tenants
	<p>Option 3: Assess 100% of the income of non-dependants over a certain age. Those under a certain age (eg. 18) would not have their income assessed.</p>	<p>19% of non-dependants (330) would no longer have their income assessed for rent. This would result in a median rent decrease for these households of \$4.30 per week.</p> <p>81% (1440) would have their contribution increase from 5.3% to 23%. The median rent increases for these households would be approximately \$23.00 per week</p>
<p>Working Allowance</p> <p>RM1&2 - \$30 deduction from weekly household income for rent assessment purposes. Available for 12 months & only one discount (regardless of how many members take up work). Not available if the person is a non dependant other household member who does not have 100% of their income added to household income for rent assessment purposes.</p> <p>Value of discount = \$6.90 / week.</p> <p>RM3 – As per RM1 & 2 except there is no time limit, it is not restricted to one allowance per household and is available for working household members over 21 yrs. Value of discount = \$7.50 / week</p>	<p>Option 1: One discount per household and time limited for 12 months</p> <p>Option 2: combines components from all Rent models (ie. \$30 deducted from household <u>income</u>, applicable to all household members re-entering the workforce whose income is assessed at 100% for rental purposes, time limited for 12 months).</p> <p>Option 3: Apply a straight discount of \$7.50 against the household <u>rent</u>. All other conditions as for Option 2.</p>	<p>RM3 households (of which 2161 currently receive an allowance) will lose as a time limit is imposed. Approximately 4895 persons would be affected. Impacts on rent would differ according to household makeup.</p> <p>RM1 & 2 households (of which 2560 currently receive the allowance) will benefit by broadening the access to other household members not currently eligible.</p> <p>RM3 households (of which 2161 currently receive an allowance) will lose as a time limit is imposed. Approximately 4895 persons would be affected. Impacts on rent would differ according to household makeup.</p> <p>For RM1 & 2 recipients, the amount of the discount will rise by 60c per week.</p>

Assessment Rule	Recommended Changes	Impact of Change on Tenants
	<p>Option 4: Discontinue the working allowance scheme and replace it with a simple ‘rent holiday’ whereby the rent remains frozen for a period of 3 months. Only applied to the tenant or main income earner.</p> <p>Option 5: Discontinue the working allowance altogether</p>	<p>Tenants would receive a discount equivalent to the difference between current rent and rent based on higher income. This would be for a period of 3 months. At the end of this period, rent would increase to the assessed amount.</p> <p>All affected households would experience a rent increase. This would be either \$6.90 (RM1 & 2) or \$7.50 (RM3).</p>
<p>Threshold Limit</p> <p>RM1&2: Gross assessable income is assessed at 23% up to \$354 income (weekly), and then at 30% thereafter up to a maximum of 25% of total gross assessable income or market rent, whichever is the lesser.</p>	<p>Option 1: Remove the threshold limit and assess base income at 23%.</p> <p>Option 2: Retain the threshold limit but increase it to \$439 in line with the current methodology</p>	<p>1404 households would experience a rental decrease (average of \$4.40 per week)</p> <p>Number of households affected would reduce to 803.</p>

Pensioner Allowance

Assessment Rule

Rent Model 1	Rent Models 2 and 3
All pensioners without dependants or other income-earning residents receive a Pensioner Allowance deducted from the calculated household rent.	The pensioner allowance is not available to pensioners under these rent models.

A Pensioner Allowance is applied only in Rent Model 1. In 1999, it was agreed to phase out the pensioner allowance at an annual rate of 50 cents (single) and 90 cents (couple) in recognition of the inequity for pensioners under the different rent models².

Table 1: Current Timetable to phase out Pensioner Allowance

	August 2001	August 2002	August 2003	August 2004
Single pensioner	\$1.60	\$1.10	\$0.60	\$0.10
Pensioner couple	\$2.60	\$1.70	\$0.80	\$0.00

Current Profile Of Pensioners In Rent Model 1 Receiving The Pensioner Allowance

'Pensioners' include all those receiving a Centrelink or Veterans Affairs pension including the Age Pension, Disability Support Pension, Wife Pension and Widows Pension. It does not include those receiving student payments or allowances (such as Newstart).

There are approximately 2510 single pensioner households and 1190 pensioner couple households under Rent Model 1.

Issues

The assessment rate applied to incomes in both Rent Models 1 and 2 is 23%. However, eligible tenants in Rent Model 1 pay a lower rent due to the effect of the pensioner allowance.

Table 2: Current Rents Paid by Rent Model

Current Rent	Rent Model 1 (23%)	% of Income (with pensioner allowance)	Rent Model 2 (23%)	% of Income (without pensioner allowance)³
Single Pensioner	\$45.60	21.2%	\$46.70	22.1%
Pensioner Couple	\$76.20	21.2%	\$77.90	22.1%

Options To Align Rent Models

1. Continue to phase out the pensioner allowance to Rent Model 1 tenants at the current rate (completely phased out in August 2004).
2. Phase out the pensioner allowance by August 2003.
3. Discontinue the pensioner allowance immediately.

The effect on rents for single pensioners and pensioner couples is presented in the table below:

² Rental Policy manual, Rent to Income Policy, section 2.3.

³ As a consequence of tax reform in July 2000, all pensions now include a 4% GST 'compensation' supplement. This supplement is non-assessable by the Department, therefore the 23% rate is applied only to the base pension. The effect of this is that pensioners actually pay less than 23% of their income.

Table 3: Annual Increase in Rent Due To the Phasing Out Of the Pensioner Allowance

Options	Single pensioners	Pensioner Couples
1. Phase out by 2004 (current)	50c	90c
2. Phase out by 2003	\$1.10	\$1.70
3. Discontinue immediately	\$1.60	\$2.60

Recommendation

As the decision to phase out the pensioner allowance has already been taken, the main issue is how quickly it should be phased out.

Option 2 is the preferred recommendation. This will result in only minimal increases in rent to tenants, but will allow the pensioner allowance to be discontinued at the earliest opportunity.

Family Payments

Assessment Rules

Rent Models 1 and 2	Rent Model 3
10% of additional Family Tax Benefit Part A for all children is added to the household rent.	10% of additional Family Tax Benefit Part A for the first two dependants is added to the household rent.
5% of Family Tax Benefit Part B is added to the household rent.	For the third and each subsequent child, a fixed \$1.10 is added to the household rent.
	5% of Family Tax Benefit Part B is added to the household rent.

Current Profile Of Households Receiving Family Tax Benefit

As at 30 April 2002, 10,464 households have been identified as receiving family payments. The following is noted:

- 71% (7438) of families have 1 or 2 children
- 16% (1691) have three children
- 8% (841) have four children
- 5% (494) have five or more children
- 80% are single parent families

Issues

The rate of \$1.10 in Rent Model 3 is not linked to any identifiable measure that keeps pace with increases in the payment of Family Tax Benefit by Centrelink. As a consequence, the \$1.10 has been eroded by inflation over time resulting in horizontal inequity in the rents paid by equivalent families.

Table 4 provides examples of rents paid by families under either 23% (Rent Models 1 and 2) or 25% (Rent Model 3). This shows:

- Large families under Rent Model 3 pay significantly less in rent than equivalent families in Rent Models 1 and 2. This is due to the fixed rate being applied to the third and subsequent children in the household.
- All families pay considerably less than 23% or 25% as a proportion of household rent to income. This is due to the fact that family payments are only assessed at 10% and 5%, thereby discounting the rent paid.
- The more children in the family, the lower the proportion of rent to income. This is because Centrelink payments to families with four or more children include additional income such as Large Family Supplement, which is non-assessable by the Department.

Options To Align Rent Models

Three options for aligning the rent models were considered below.

Option 1: Remove the \$1.10 fixed rate completely and assess all children on 10% and 5%

As the \$1.10 is only applied to families with 3 children or more, its removal will not affect 72% of single parent families (3814) or 57% of couples (730) in Rent Model 3 with only 1 or 2 children.

For those households affected, it is calculated that approximately 17% of families (1094) would likely experience an increase of \$3 per week. 932 families would likely experience a rental increase of more than \$6 per week, of which 127 families would have a rent increase of between \$12 and \$16 per week.

It should be noted however that these larger families pay just 9.7% to 12.3% of their total income in rent (see Table 5). Removing the \$1.10 will increase the proportion of rent to total income by just over 2.2%.

Option 2: Gradually phase out the \$1.10

This option gradually phases out the \$1.10 by progressively removing it per child over a three-year period, and replacing it with a proportional assessment rate of 10% for additional Family Tax Benefit A (AFTBA). That is, in the first year, remove the \$1.10 fixed rate for the third child in the first year and assess this child at 10% of AFTBA, then the fourth child in the second year, and all remaining children in the third year.

- In the first year, 2026 households will experience a \$3.00 per week rent increase.
- In the second year, 932 households will experience a further \$3.00 per week rent increase.
- In the third year, 352 households will experience a rent increase of between \$3.00 and \$12.00 per week (depending on the number of remaining children in the household).

The phasing out option has appeal as it would allow the effects of the removal of the \$1.10 to be modified while still permitting the three models to be brought into alignment.

Option 3: Assess the first three children at 10% for FTB A and a reduced rate for four or more children across all models.

This option applies a lower proportional rate to the assessment of the fourth and subsequent children. Two rates were considered, 8% and 5%.

- Moderates the increase experienced by large families in Rent Model 3. While their rents would still increase, under the 8% option, the highest increase would be \$12 for a family with seven children. Under the 5% option, the highest increase would be \$7 for the same family.
- Equivalent families in Rent Models 1 and 2 would experience rent decreases, of up to \$3.40 under the 8% option and up to \$8.40 under the 5% option.

This option only considers a reduced assessment rate for the fourth and subsequent child. The current methodology of applying the fixed rate in Rent Model 3 for the third and subsequent child appears to be an anomaly, given that Centrelink only pays Large Family Supplement for the fourth and subsequent child.

Option 4: Introduce a fixed rate in Rent Models 1 and 2

The last option is for the introduction of a fixed rate in Rent Models 1 and 2. This is not recommended. As demonstrated in the case of Rent Model 3, a fixed rate does not keep pace with CPI movements and results in reduced rent receipts over time. It is preferable to assess payments based on a proportional rate.

Recommendation

It is strongly recommended that the fixed rate \$1.10 in Rent Model 3 be removed and a proportional rate be used to assess family payments. Option 1 or Option 2 is preferred. While Option 3 has merit, it is to be noted that large families represent only a small proportion of total tenants. Also, large families in Rent Models 1 and 2 currently receive no special consideration, and the total proportion of rent to household income reduces according to the number of children (due to the non-assessment of payments such as Large Family Supplement). Therefore, there appears little justification for a further concession for large families.

Table 4: Rents paid by families

Household Type	A Rent @ 23%	Rent as % of income	B Rent @ 25% + \$1.10	Rent as % of income	B - A
Single + 1	\$52.70	17.50	\$56.70	18.83	\$4.00
Single + 2	\$56.90	15.69	\$60.90	16.79	\$4.00
Single + 3	\$61.00	14.38	\$62.00	14.62	\$1.00
Single + 4	\$65.20	13.31	\$63.10	12.88	-\$2.10
Single + 5	\$69.40	12.50	\$64.20	11.56	-\$5.20
Single + 6	\$73.50	11.83	\$65.30	10.51	-\$8.20
Single + 7	\$77.70	11.31	\$66.40	9.67	-\$11.30
Household Type	A Rent @ 23%	Rent as % of income	B Rent @ 25% + \$1.10	Rent as % of income	B - A
Couple + 1	\$79.20	20.42	\$85.80	22.12	\$6.60
Couple + 2	\$83.40	18.56	\$89.90	20.01	\$6.50
Couple + 3	\$87.60	17.15	\$91.00	17.82	\$3.40
Couple + 4	\$91.80	15.93	\$92.10	15.98	\$0.30
Couple + 5	\$95.90	14.94	\$93.20	14.51	-\$2.70
Couple + 6	\$100.10	14.14	\$94.30	13.32	-\$5.80
Couple + 7	\$104.30	13.49	\$95.40	12.33	-\$8.90

Source: Excel spreadsheet % of household income

1. All children aged 5 – 13 years
2. Centrelink incomes only, Centrelink rates March 20 – June 30, 2002

Table 5: Effect on rent of removal of \$1.10 fixed rate under Rent Model 3

Household Type	A Rent @ 25% + \$1.10	Rent as % of income	B Rent @ 25% without \$1.10	Rent as % of income	B - A	% increase
Single + 1	\$56.70	18.83	\$56.70	18.83	\$0.00	0.00
Single + 2	\$60.90	16.79	\$60.90	16.79	\$0.00	0.00
Single + 3	\$62.00	14.62	\$65.10	15.35	\$3.10	5.00
Single + 4	\$63.10	12.88	\$69.30	14.15	\$6.20	9.83
Single + 5	\$64.20	11.56	\$73.40	13.22	\$9.20	14.33
Single + 6	\$65.30	10.51	\$77.60	12.49	\$12.30	18.84
Single + 7	\$66.40	9.67	\$81.80	11.91	\$15.40	23.19
Household Type	A Rent @ 25% + \$1.10	Rent as % of income	B Rent @ 25% without \$1.10	Rent as % of income	B - A	% increase
Couple + 1	\$85.80	22.12	\$85.80	22.12	\$0.00	0.00
Couple + 2	\$89.90	20.01	\$89.90	20.01	\$0.00	0.00
Couple + 3	\$91.00	17.82	\$94.10	18.42	\$3.10	3.41
Couple + 4	\$92.10	15.98	\$98.30	17.05	\$6.20	6.73
Couple + 5	\$93.20	14.51	\$102.50	15.96	\$9.30	9.98
Couple + 6	\$94.30	13.32	\$106.60	15.06	\$12.30	13.04
Couple + 7	\$95.40	12.33	\$110.80	14.33	\$15.40	16.14

1. All children aged between 5 and 13 years
2. All families on Centrelink payment only

Source: Scenarios family payments.xls

Maintenance

Assessment Rule

Rent Models 1 and 2	Rent Model 3
18% of Maintenance income is added to the household rent.	20% of Maintenance income is added to the household rent.

Current Profile Of Households Receiving Maintenance

3408 households have been identified as receiving maintenance payments. This represents approximately 33% of all households containing dependants⁴. Of these:

- 2925 (86%) receive \$100 or less in maintenance payments
- 1756 (51%) receive \$30 or less in maintenance payments
- 2341 (69%) have 1 – 2 children
- 1050 (31%) have 3 or more children
- 2987 (88%) are single parents

Issues

The question of how to assess maintenance payments cannot be considered in isolation from any decision regarding assessment of family payments because:

- Maintenance payments affect the amount of Family Tax Benefit Part A (FTBA) paid by Centrelink;
- Both are payments toward the care of children and therefore affect the same client group (families);
- Changes made to the assessment of family payments (such as removing the \$1.10 in Rent Model 3) can be mitigated or exaggerated by the assessment of maintenance.

Options To Align The Rent Models

1. Increase the assessment rate in Rent Models 1 and 2 from 18% to 20% (affects 1317 households).
2. Decrease the assessment rate in Rent Model 3 from 20% to 18% (affects 2091 households).
3. Treat maintenance as 100% assessable and apply the relevant rate (either 23% or 25%), (affects 3408 households).
4. Reduce the maintenance amount by the same reduction amount applied to Family Tax Benefit Part A, treat the balance as 100% assessable and apply the relevant rate (either 23% or 25%) (affects 3408 households).
5. Assess maintenance at the same rate applied to Family Tax Benefit Part A (ie. 10%), (affects 3408 households).

Examples of how rents would increase or decrease according to these various scenarios are presented below in Table 7. Each scenario assumes the removal of the \$1.10 fixed amount applied in Rent Model 3 for the third and subsequent child with the Family Tax Benefit component assessed at 10% of additional FTB A (all children) and 5% of FTB Part B.

From a simplicity viewpoint, options 1,2, 3 and 5 have the most appeal.

Option 4 also has some appeal. It works by calculating the amount FTBA is reduced by the amount of maintenance and then applies this same reduction to the maintenance payment. The balance of the maintenance payment is then assessed at 23% or 25%. This form of assessment is applied in Victoria and Tasmania. However, it is more complex to assess and would require imputing Centrelink rules into Caretaker (note this is already done for assessment of Family Tax Benefit Part B payments).

- ◆ It is to be noted that the information presented in Table 7 is based on the assumption of complete removal of the \$1.10 in Rent Model 3. If the \$1.10 was phased out however, the rent increases noted would be considerably modified.

⁴ Based on all households receiving Basic Family Tax Benefit Part A (10,464). Refer Excel spreadsheets ‘parents and incomes model 1 & 2 at apr02’ and ‘parents and incomes model3x at apr 02’.

Table 7: Rent increase/decrease based on maintenance scenarios

Maintenance payments pw	\$30	\$40	\$50	\$60	\$70	\$80	\$90	\$100
1. Increasing rate in Rent Model 1 & 2 to 20%								
Single parent + 2	\$0.60	\$0.80	\$1.00	\$1.20	\$1.40	\$1.60	\$1.80	\$2.00
Single parent + 5	\$0.60	\$0.80	\$1.00	\$1.20	\$1.40	\$1.60	\$1.80	\$2.00
2. Decrease rate in Rent Model 3 to 18%								
Single parent + 2	-\$0.60	-\$0.80	-\$1.00	-\$1.20	-\$1.40	-\$1.60	-\$1.80	-\$2.00
Single parent + 5	\$8.60	\$8.40	\$8.10	\$7.60	\$7.10	\$6.60	\$6.10	\$5.60
3. Assess maintenance at 25%								
Single parent + 2	\$1.50	\$2.00	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00
Single parent + 5	\$11.50	\$12.00	\$12.40	\$12.60	\$12.80	\$13.00	\$13.20	\$13.40
4. Maintenance reduced by FTB A, balance assessed at 25%								
Single parent + 2	-\$2.80	-\$3.60	-\$4.30	-\$5.10	-\$5.80	-\$6.60	-\$7.30	-\$8.10
Single parent + 5	\$0.90	\$1.40	\$1.40	\$0.40	-\$0.70	-\$1.70	-\$2.80	-\$3.80
5. Assess maintenance at 10% (Rent Model 3)								
Single parent + 2	-\$3.00	-\$4.00	-\$5.00	-\$6.00	-\$7.00	-\$8.00	-\$9.00	-\$10.00
Single parent + 5	\$6.20	\$5.20	\$4.10	\$2.80	\$1.50	\$0.20	-\$1.10	-\$2.40

Note: each of these scenarios assumes the removal of the \$1.10 currently applied in Rent Model 3

Recommendation

Option 1 appears to be the best option at this point of time. It achieves alignment of the Rent Models with minimal impact on tenants. Increasing maintenance from 18% to 20% (Option 1) will result in rent increases for the majority of affected households (1317) in Rent Models 1 and 2 of less than \$2 per week. Of these, more than 50% would experience a rent increase of between 20c and 60c per week.

Assessment Of ‘Non-Dependent Household Members’

Assessment Rule

Rent Models 1 (& 1A)	Rent Models 2 and 3
<p>For existing non-dependent household members over 16 years and not on tenancy agreement, 23% of 23% of their income is added to the household rent.</p> <p>Where other household members are signatories to the tenancy agreement, 23% of their income is added to the household rent.</p> <p>For a new household member aged 16 to 21 years or a student less than 25 years entering the household, 10% of their income is added to the household rent.</p> <p>For a new household member (over 21 years) entering the household, 23% of their income is added to household rent.</p>	<p>Existing and New Tenants</p> <p>16 to 21 year olds or students under 25 years, 10% of income is added to the household rent.</p> <p>Over 21 years</p> <p>RM2: 23% of income is added to household rent.</p> <p>RM3: 25% of income is added to household rent.</p>

Current Profile Of Households With Non-dependants Under Rent Model 1

1568 non-dependants, living in 1356 households, are assessed as per the rules applied in Rent Model 1. Over 55% of these non-dependants currently contribute \$10 or less to the assessed rent for the tenancy. A further 29% contribute \$10 to \$20 toward the assessed rent for the tenancy. Refer Table 8 for a detailed breakdown.

Issues

The rules that currently apply are confusing and conceptually inconsistent. Under Rent Model 1, 23% of the income of an existing non-dependant is added to household income, which is then assessed at 23%. The net effect of this is that a non-dependant’s income is assessed at approximately 5.3% (23% x 23%). For example, if a non-dependant was earning \$100 per week then the addition to rent is \$100 x 23% x 23%, or approximately \$5.30.

This is significantly less than the proportion applied to non-dependants under Rent Models 2 and 3, and new household non-dependant members under RM1:

- For a non-dependant aged 16-21, 10% of their income is added to the rent (for example, if they earned \$100 per week, \$10 would be added to the rent).
- For a non-dependant aged over the age of 21, 23% (RM1 new member, RM2) or 25% (RM3) is added to the rent (for example, if a non-dependant was earning \$100 per week, \$23 or \$25 would be added to the rent).

The rules for “new” non dependant household members under Rent Model 1 were introduced in 1999 (and are often referred to as Rent Model 1A). They were an attempt to bring the three rent models closer to alignment, but only went half way. Effectively it means that, if a non-dependant moves into a Rent Model 1 tenancy after February 1999, they are assessed as per Rent Models 2 and 3⁵. The anomaly therefore is the treatment of “existing” non dependants under Rent Model 1.

Options To Align The Rent Models

Option 1: Assess all non-dependants in Rent Model 1 as per Rent Model 2 and 3

This option would not only bring the three models into alignment but would also eliminate the need for Rent Model 1A. This would mean applying the same rates across all models (ie. 10% of income added to rent for 16 to 21 year olds or students under 25, and 23% or 25% of income added to rent for all other non-dependants). The likely impacts of this option are as follows:

⁵ Rent Model 1A is also applied if an existing non-dependant moves out and re-occupies after February 1999.

- 40% (622 persons) would have their contribution to the rent increase from 5.3% to 10%.
- 60% (946 persons) would have their contribution to the rent increase from 5.3% to 23 or 25%. This could lead to some significant increases in individual cases.

The figures provided in Table 9 are taken from modelled scenarios, which show the maximum potential rent increase possible due to a change in the assessment methodology. However, many households will not experience rent increases of the magnitude predicted because the increases exceed the maximum rent payable on the property (ie. the market rent)⁶.

This is demonstrated by an analysis of a sample of the households affected⁷. 292 households predicted to have an increase of \$50 or more in rent were checked against actual rent data held for each individual properties. This analysis is shown in Table 10. This shows:

- ◆ Only 103 households of the 292 will actually experience an increase of more than \$50. This represents 7.6% of total households affected.
- ◆ 87 households are already paying market rent, therefore they will not experience a rent increase.
- ◆ A further 39 households will experience a rent increase of less than \$20 per week.
- ◆ 63 households will experience a rent increase of between \$20 and \$50 per week.

Option 2: Assess 100% of the income of non-dependants regardless of age

The second option assesses 100% of non-dependant's income in all rent models (thereby effectively adding 23% or 25% of their income to the rent), with the following impacts:

- All non-dependants in Rent Model 1 would have their contribution increase from 5.3% to 23%
- The median increase in rents across 1356 tenancies would be \$21.79 per week.

Option 3: Assess 100% of the income of non-dependants over a certain age

The last option proposes that non-dependants under say 18 years old would not have their income assessed and only those over that age would have their income assessed:

- 330 non-dependants (19%) would no longer have their income assessed for rent. This would result in a median rent decrease for these households of \$4.28 per week.
- 81% would have their contribution increase from 5.3% to 23%. The median rent increase for these households would be \$23.21 per week.

Comment

It is recommended that Rent Model 1 be brought into alignment with Rent Models 2 and 3 (Option 1), that is for 16 to 21 years (and students up to the age of 25), 10% of their income is added to the household rent. For those aged over 21 (or students over 25 years), 23% (RM1 & 2) or 25% (RM3) of their income is added to the household rent.

⁶ Households pay either a maximum of 25% of their income as rent, or the market rent of the property, whichever is the lesser rent amount (refer Rent to Income Policy, Homeswest Rental Policy Manual, http://www.dhw.wa.gov.au/index_IE.cfm)

⁷ It was not possible to do a detailed analysis of all 1356 households due to the workload it imposed, therefore it was decided to concentrate on those households who potentially could experience an increase of \$50 or more.

Table 8 Non-dependents assessed as per Rent Model 1

Dollar contribution to rent	Count of householders	Proportion of total
\$0 - \$9	869	55.4%
\$10 - \$19	453	28.9%
\$20 - \$29	159	10.1%
\$30 - \$39	69	4.4%
\$40 - \$49	13	0.9%
\$50 - \$54	5	0.3%
	1568	100%

Table 9 Increase in household rent if assessed as per Rent Model 2

Dollar contribution to rent	Count of households	Proportion of total
\$0 - \$9	486	35.8%
\$10 - \$19	115	8.5%
\$20 - \$29	62	4.6%
\$30 - \$39	347	25.6%
\$40 - \$49	54	4%
Over \$50 increase	292	21.5%
	1356	100%

Table 10 Analysis of those predicted to experience a \$50 or more increase in rent

Rent increase range	Total	%
No increase	87	29.8%
\$0 - \$9	15	5.1%
\$10 - \$19	24	8.3%
\$20 - \$29	17	5.8%
\$30 - \$39	21	7.2%
\$40 - \$49	25	8.6%
\$50 - \$59	34	11.6%
\$60 - \$69	29	10%
\$70 - \$79	13	4.5%
\$80 - \$89	10	3.4%
\$90 - \$99	12	4.1%
\$100 - \$104	3	1.0%
\$110 - \$114	1	0.3%
\$130 - \$134	1	0.3%
Grand Total	292	100%

Working Allowance

Assessment Rule

Rent Models 1 and 2	Rent Model 3
<p>If a household member is moving from a statutory income to a wages income, then \$30 is deducted from the assessable household income, after which the household rent is calculated. Effectively a discount of \$6.90 is applied to the household rent.</p> <p>The allowance is only available for 12 months, and only one allowance (ie discount) per household applies. It is not available to household members who do not have 100% of their income assessed for rent (see Other household members).</p>	<p>Works as per RM1 & 2 except for:</p> <ul style="list-style-type: none"> - there is no time limit; - it is not restricted to one allowance (discount) per household - it applies only to those aged 21 years or older. <p>The level of the discount is \$7.50 per week under RM3.</p>

Current Profile Of Households Receiving The Working Allowance

As at 8 June 2001, 4895 people were receiving the working allowance. Of these, 174 persons were receiving a disability working allowance of \$50 each.

Issues

In 2001, a comprehensive review of the working allowance was carried out by the Department. The review found that, while the working allowance is effective in mitigating the costs of moving into employment, the current scheme has a number of anomalies:

- The scheme is applied differently according to whether the tenant pays 23% (Rent Models 1 and 2) or 25% (Rent Model 3) of base income.
- The current working allowance is available to tenants regardless of level of income.
- The review of the scheme found that the \$30 allowance was not as effective for families who experience additional costs in commencing work compared to singles and couples⁸.
- The working allowance is time limited in Rent Model 1 and 2 (only available for 12 months), whereas there is no time limit applied to the application of the working allowance in Rent Model 3.
- Only one member of the household is eligible for the working allowance in Rent Models 1 and 2, whereas the working allowance is available to all household members in Rent Model 3 who commence work.

Options To Align The Models

1. Apply the rules applicable to Rent Model 1 and 2 to Rent Model 3 (ie. one discount per household and time limited for 12 months).
2. Time limit the allowance (as per Rent Model 1 and 2), but allow the discount to apply with respect to all household members re-entering the workforce whose income is assessed at 100% for rental purposes (as is the case under Rent Model 3). In effect this combines components from each current scheme.
3. Apply a straight discount against the household rent (ie. don't base it on a % deducted from household income) across all models (eg. of \$7.50 per week). This will remove the anomalous effect that the different rent models have on the amount of the discount. Time limit it for 12 months, and make applicable to all household members who re-enter the workforce.
4. Discontinue the working allowance scheme and replace it with a simple "rent holiday" whereby the rent remains frozen for a period of 3 months after the head tenant takes up employment. This scheme would only apply to the head tenant or main income earner.
5. Discontinue the working allowance scheme altogether.

⁸ Such as childcare and the effect of overlapping Centrelink income tests, eg. income tests on base pensions as well as family payments.

Argument For Discontinuing The Working Allowance:

The Department will receive full revenue from increased rent paid by tenants who commence paid employment.

The anomalies involved in applying the current working allowance would be removed.

The current scheme is not publicised to tenants (it is automatically applied in Caretaker when income details are loaded) therefore it cannot be said to be acting as an incentive to tenants to take up work.

Argument For Retaining A Working Allowance:

The effect of effective marginal tax rates (EMTRs) mean that a person can keep little or none of any increase in income from wages, due to taxation, transport costs, increased rent, etc. This acts as a disincentive for tenants considering a return to work. Analysis shows that the working allowance discount offsets high EMTRs to some extent by increasing household disposable income.

Unless the scheme is promoted to tenants, it is difficult for the Department to make a judgement on whether tenants would perceive it as an incentive.

It is a requirement of the CSHA, and a recommendation of the Reference Group on Welfare Reform, that State Housing Authorities consider policies that reduce work disincentives.

Comment

Options 2 is preferred. Time limiting the scheme recognises that there is a transition and adjustment phase in returning to work. It also limits the ultimate cost to the department. Enabling the discount to apply to all household members re-entering the workforce (subject to the conditions described above) enhances the “incentive” nature of the scheme.

Although Option 4 (rent holiday) passes the “simplicity” test, it does not take into account other household members and therefore fails the central test of providing an incentive to these people. Option 1 fails on the same grounds.

Discontinuing the scheme altogether (Option 5) in the current climate whereby the Commonwealth and States are looking to remove disincentives to employment is not an option. The McClure Welfare reform Report specifically commented on Public Housing Rent Policies as an area of concern.

Threshold Limit

Assessment Rule

Rent Models 1 and 2	Rent Model 3
Gross assessable income is assessed at 23% up to a threshold of \$354. Income above the threshold is assessed at 30% up to a maximum of 25% of the total gross assessable income, or the property market rent, whichever is the lowest.	Gross assessable income is assessed at 25% or the property market rent whichever is the lowest (there is no threshold applied).

The purpose of the threshold limit, beyond which income is assessed at 30%, is to create a progressive sliding scale up to 25% of income. The threshold limit is only applied to household members in Rent Models 1 and 2. As householders are already assessed at 25% under Rent Model 3, there is no requirement for a progressive sliding scale under this model.

Number of Households Affected By The Threshold In Rent Models 1 and 2

There are 1404 households affected by the \$354 threshold rule. This is 8% of total households under Rent Models 1 & 2.

Issues

- The threshold limit was linked to the amount a pensioner couple could earn before it affected their Centrelink income, plus their full pension entitlement. The figure of \$354 however has not been raised for some years. If this was adjusted against current Centrelink amounts and income test criteria, it would be closer to \$439⁹.
- Because the threshold has not been adjusted for some years, this has caused a form of 'bracket creep' in the assessment with the marginal assessment rate of 30% being applied at progressively lower income levels. The result is higher rents for a number of tenants as seen in Table 8.

Table 11: Effect of threshold on rent paid per week (RM1 & 2)

a) Household Income per week	b) Rent / week assessed with \$354 threshold	c) Rent / week assessed with \$439 threshold	d) Difference / week b) – c)	e) Rent / week Model 3
\$360	\$83.22	\$82.80	\$0.42	\$90.00
\$380	\$89.22	\$87.40	\$1.82	\$95.00
\$400	\$95.22	\$92.00	\$3.22	\$100.00
\$420	\$101.22	\$96.60	\$4.62	\$105.00
\$440	\$107.22	\$101.27	\$5.95	\$110.00
\$460	\$113.22	\$107.27	\$5.95	\$115.00
\$480	\$119.20	\$113.30	\$5.90	\$120.00
\$500*	\$125.00	\$119.30	\$5.70	\$125.00
\$520	\$130.00	\$125.30	\$4.70	\$130.00
\$540	\$135.00	\$131.40	\$3.60	\$135.00
\$560	\$140.00	\$137.30	\$2.70	\$140.00
\$580	\$145.00	\$143.30	\$1.70	\$145.00
\$600	\$150.00	\$149.30	\$0.70	\$150.00
\$620	\$155.00	\$155.00	Nil	\$155.00

⁹ Based on Centrelink pension for a couple of \$338.90 a week plus income free area of \$200. Refer Centrelink guide 20 March-30 June 2002

Appendix 3

- The \$354 threshold rule is applied up to a maximum weekly household income of \$496 per week. At this point, the assessment rate becomes 25% due to the sliding scale. As no tenant pays more than 25%, the threshold rule is not relevant beyond this amount. If the threshold were amended to \$439, the threshold rule would be applied up to a maximum of \$615 per week.
- Because the threshold of \$354 has not been raised for several years, it has not kept pace with increases in Centrelink incomes. As a result, it is now possible for those solely on Centrelink incomes to be affected by this rule. For example, two single pensioners sharing a tenancy have a combined income of \$405.80 per week and are therefore subject to the \$354 threshold rule. It is also to be noted that a pensioner couple currently receives \$326.41 (non-GST component), which is close to the threshold. This was not the intention of the original methodology.
- The threshold was introduced when the base assessment rate was only 18%. It is now 23%, close to the maximum base assessment rate of 25%. Is there still a need for a sliding scale?

Options to align the rent models

1. Remove the threshold limit and assess base income at 23% (thus removing the sliding scale). This would result in an average decrease in rent of \$4.40 per week, and an annual revenue decrease of \$290,800.
2. Retain the threshold limit and index it to the current methodology, ie. increase it to \$439.

The number of households affected by the threshold limit rule would reduce to 803 and rental revenue would reduce by \$86,220 per annum.

Comment

Option 1 is the best option to bring the three rent models into alignment.