

# The Future of the CSHA

Shelter WA Occasional Paper 2002-1, by Karel Eringa (June 2002)

The Commonwealth State Housing Agreement (CSHA) is an agreement between the Commonwealth and State and Territory governments, which “aims to assist both renters and purchasers obtain appropriate accommodation. It is mainly concerned with the provision of public housing, but also provides funding for other types of tenure”.<sup>1</sup> The guiding principles of the current CSHA can be summarised as follows:<sup>2</sup>

- a) the purpose of funding is to assist those whose needs for appropriate housing cannot be met by the private market. The duration of assistance provided should be based upon those needs;
- b) housing assistance arrangements should be sufficiently flexible to reflect the diversity of situations, which currently exist in the States, and to assist in micro-economic reform;
- c) funding arrangements should promote efficiency and cost effective management, including longer term planning and alternative methods of housing provision;
- d) providers of assistance should meet high standards of public accountability and quality, and the costs of assistance should be transparent.

Nearly all capital funding for social housing is managed through the CSHA. While recent consultations by Shelter WA have revealed a high level of concern about falling capital spending on social housing,<sup>3</sup> Figure 1 below indicates that CSHA assistance has become less important as a housing payment than Commonwealth Rent Assistance (CRA), the other major housing payment in Australia.

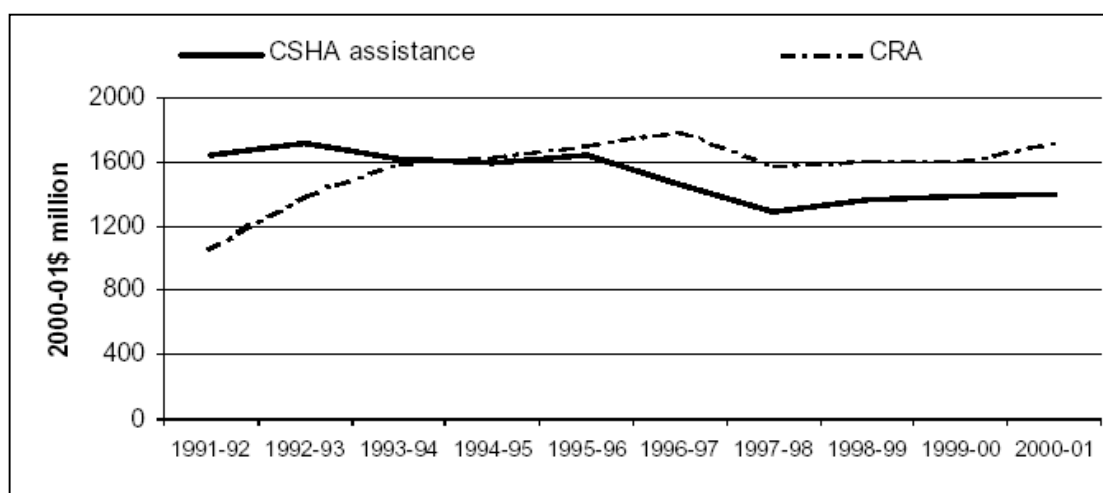


Figure 1: CSHA and CRA assistance, 1991-2001

Source: Productivity Commission, *Report on Government 2002*, Figure 16.1

<sup>1</sup> Parliament of Australia, *Current Issues: The Commonwealth-State Housing Agreement*, [www.aph.gov.au/library/intguide/sp/statehouseagree.htm](http://www.aph.gov.au/library/intguide/sp/statehouseagree.htm), visited 29 May 2002.

<sup>2</sup> From Shelter WA, *Commonwealth State Housing Agreement Forums - Final Report*, October 2001.

<sup>3</sup> Shelter WA, *Commonwealth State Housing Agreement Forums - Final Report*, Oct 2001.

The current CSHA ends in 2003 and negotiations for the next (2003-2006) CSHA are underway. At the Housing Ministers' Conference of 19 April 2002, State and Commonwealth Housing Ministers examined an Options Paper including three scenarios for the future of the CSHA. The first two scenarios maintained the existing CSHA framework, but with reduced funding and a reduced ability to meet identified housing objectives.

The third scenario, however, raised the possibility of revitalising the social housing sector, turning around the current trends of contraction and residualisation. This scenario creates a recurrent stream of funding for State Housing Authorities, in essence by making public housing tenants eligible for Commonwealth Rent Assistance. Similar to the situation with regard to community housing provider, rent assistance funds would flow from the tenant to the provider because of the link between rent and income. 'Top up capital payments' from the Commonwealth Government and private investment would provide possibilities for growth.

At the time of writing this article, it is becoming apparent that some variant of the third scenario would be adopted as the basis for the next CSHA. It is therefore worth examining the advantages and drawbacks of this scenario.

### *Scenario 3: A Revitalised Social Housing System*

The major advantage of Scenario 3 is the increased certainty of revenue streams to social housing providers: rather than having to rely on the outcomes of three-yearly negotiations, the income stream from rent assistance is ongoing subject to rent assistance continuing. In addition, since many public housing tenants would be eligible to receive rent assistance, this scenario is likely to reduce the current negative impact of targeting on the financial viability of public housing providers. Finally, making public housing tenants eligible for rent assistance would solve a horizontal equity issue between tenants in private rental and community housing on the one hand, and public housing on the other.<sup>4</sup>

However, there are also a number of serious drawbacks to Scenario 3. The most important drawback is that the amount of funds transferred from the Commonwealth to the States through rent assistance for public housing tenants would be much smaller than the current funds transferred under the CSHA.

For instance, modelling by Shelter WA indicates that Western Australia would receive around 50% of current Commonwealth funding from rent assistance.<sup>5</sup> While this proportion cannot be extrapolated across the nation,<sup>6</sup> it does give a good indication of the size of the top up capital payments required to prevent capital funding for social housing from decreasing. This means that regular negotiations between the States

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<sup>4</sup> See Karel Eringa, *Horizontal Equity and Rent Assistance for tenants in the public housing, community housing and the private sector*, Shelter WA Occasional Paper 2001-1, June 2001. Tenants in public housing paying at or near market rent can have a lower after housing income than tenants in community housing and private rental because they are not eligible for rent assistance.

<sup>5</sup> WA would receive around \$53,246,055 if public housing tenants were eligible for rent assistance. The current Commonwealth contribution to WA under the CSHA is \$107,163,000.

<sup>6</sup> The amount of rent assistance each State and Territory would receive under Scenario 3 depends on three factors: age, household size and composition, and the proportion of market rent payers. All of these differ slightly for different public housing providers; for instance, the proportion of households paying market rent ranges from 0.5% in New South Wales to 10.6% in the ACT (Productivity Commission, *Report on Government 2002*, Table 16A.4).

and the Commonwealth regarding top up capital funding would still be required under the proposed system.

A second drawback is that the future of rent assistance is not set in concrete. It is possible that future governments might change the eligibility criteria for rent assistance, or reduce the payment structure or amounts. However, this seems unlikely, as it "would be against the current trend of Commonwealth policy which, over the last decade, has seen Rent Assistance incorporated into the income security system, been indexed to CPI, extended its coverage, and increased its value in real terms."<sup>7</sup>

The Options Paper asserts that Scenario 3 might stimulate private investment in social housing. However, any perception that the Government's policy on rent assistance might change will reduce the effectiveness of the model to draw in private investment.

The final drawback to Scenario 3 is that the current system of rental assistance thresholds means that it will become even less attractive for public housing providers to house certain groups of tenants. This is because a side effect of making public housing tenants eligible for rent assistance is that the rent differentials between the various categories of tenants receiving Centrelink benefits are exacerbated. For instance, under the 25% of income rule, an unemployed couple with one 6 year old and one 14 year old child currently pays \$183.33 per fortnight in rent. This would increase to \$263.32 (including \$79.99 in rent assistance) if the couple becomes eligible for rent assistance. However, because of the threshold a single young person receiving Youth Allowance would continue to pay \$69.82 per fortnight, as s/he would not receive any rent assistance.<sup>8</sup>

In summary, Scenario 3 has some significant advantages, including increased certainty about income streams, greater horizontal equity across tenures and a reduced negative impact of targeting on financial viability. However, the scenario does not eliminate the need for regular negotiations on capital funding, introduces new uncertainties regarding future policy changes on rent assistance, and makes it even less attractive to house certain vulnerable groups of people.

### *The Way Forward*

Despite the drawbacks identified above, Shelter WA believes that in principle, making public housing tenants eligible for rent assistance is preferable to the current system since it provides a stream of relatively reliable recurrent funding to public housing providers, and resolves certain problems with horizontal equity. However, Shelter WA believes that before implementing Scenario 3, the three drawbacks identified above need to be resolved as follows:

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<sup>7</sup> Hal Bisset, *Social Housing: Building a New Foundation - Social Housing Innovations Project Consultants Report to the Office of Housing Department of Human Services Victoria*, November 2000

<sup>8</sup> Based on Centrelink payments as at 29 May 2002. While young people are eligible for rent assistance, the rent assistance threshold (ie. the rent below which no rent assistance payments are made) for single without children is \$80.40 per fortnight. In other words, this person would need to pay 28.8% of their income in rent before a single dollar of rent assistance is received.

- 1) The Commonwealth Government should make a commitment that the sum of recurrent funding through rent assistance and top up capital funding through the CSHA will not fall in real terms. In fact, previous modelling by Shelter WA indicates that significant funding increases are required if public housing stock is to remain at its current proportion of total housing stock.<sup>9</sup>
- 2) The Commonwealth Government should make a commitment that rent assistance payments will not be reduced and eligibility criteria not be tightened for at least a decade. Private investment in social housing will not expand significantly if there are any doubts regarding the future of rent assistance.
- 3) The Commonwealth Government should revise the current rent assistance system to make it a payment that explicitly aims to increase housing affordability for people on low incomes. This could be achieved by lowering or, preferably, abolishing rent assistance thresholds.<sup>10</sup> In order to achieve cost neutrality, maximum payments should be reduced and/or eligibility criteria tightened.

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<sup>9</sup> See Karel Eringa, *Increasing Affordable Housing Rental Housing Stock in WA*, Shelter WA Occasional Paper 2001-2, November 2001. For instance, in WA total capital funding for social housing would need to be \$199m per year in real terms in order to keep public housing stock at its current proportion of 4.7% of total housing stock. The 2001/02 level was \$133m.

<sup>10</sup> As highlighted in the example above, the existence of thresholds effectively means that rent assistance is not available to people on low incomes, unless they are prepared to live in housing stress.