Caledon Institute of Social Policy

Why core housing need is a poor metric to measure outcomes of Canada's national housing strategy

Steve Pomeroy

June 2017

Steve Pomeroy, Senior Research Fellow, Carleton University Centre for Urban Research and Education (CURE)

Why core housing needs is a poor metric to measure out-
comes of Canada's national housing strategy
June 2017

TABLE OF CONTENTS

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 3

Background

In the 2016 federal Budget, the government announced plans to develop a national housing strategy (NHS). Since the spring of 2016, the Canada Mortgage and Housing Corporation (CMHC) has led an extensive consultation process; Budget 2017 established a funding framework over the next decade to support the strategy, although formal details remain to be released.

On June 1, 2017 in a speech to the Toronto Club, CMHC president Evan Siddall provided an update on the steps to date and publicly articulated the two planned outcome targets for the NHS:

- a 50 percent reduction in chronic and episodic homelessness
- a 50 percent reduction in core housing need of renters.

The second approach, reducing renter core need, is a much more challenging target. It is challenging not only due to the quantum of the aspiration (removing 500,000 households from core need), but because renter core housing need is a very weak and inappropriate measure to assess outcomes. In fact, it sets up CMHC and the federal minister for failure. As described below, this problem arises because the predominant issue is affordability. A majority of renters in core need depend on welfare income but the structure of welfare benefits seriously distorts the measurement of housing need.
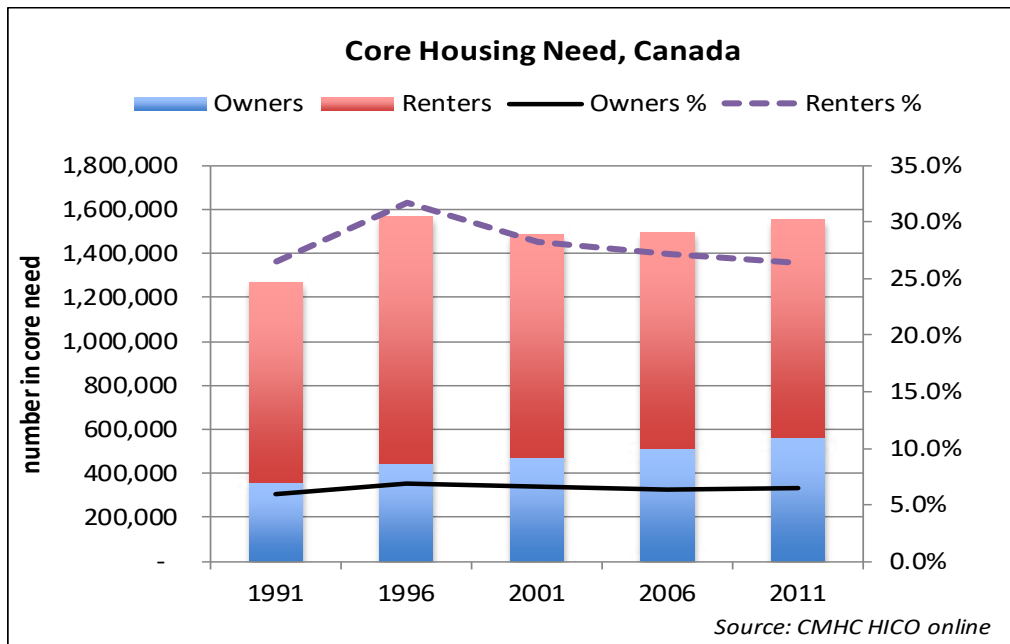
Core need

Core housing need is a concept developed by CMHC in the mid-1980s. It established three types of housing problem related to: adequacy (physical condition of dwelling), suitability (too many people for size of unit and number of bedrooms) and affordability (paying more than 30 percent of gross income). It also uses an income threshold based on income required to afford a median rent unit of appropriate size for that household in the local market without exceeding 30 percent of income.

Core need was initially designed as a way to allocate federal budgets between provinces/territories on the basis of housing need. It subse-quently became adopted as a threshold for eligibility for assistance and as an aggregate measure of housing need.

Core housing need (for both owners and renters) peaked in 1996 at 1.57 million (15.6 percent of all households). The incidence has improved since then, although after an initial decline to 2001, the absolute number in core need has increased marginally (Exhibit 1). Owners influenced this recent trend more than renters, although the latter tenure has not declined in absolute terms.

It is also notable that core need declined the most during a period of federal inactivity (1994-2002) with the absence of any federal housing programs for new supply. This decline suggests that it is broader economic change, especially creation of and access to jobs and income (as well as income assistance programs like the Canada Child Benefit) that have a more significant effect on reducing core need than specific housing measures.

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 4

Core Housing Need, Canada

In total, almost one million renter households remain in core need in 2011, the latest data available. The vast majority experience primarily an affordability problem – they pay more than 30 percent of income for shelter (Exhibit 2). Some experience additional problems, living in overcrowded or poor conditions. In some cases, households living in unsuitable (too small) housing may be doing so as a way to manage inability to afford a suitably-sized home.
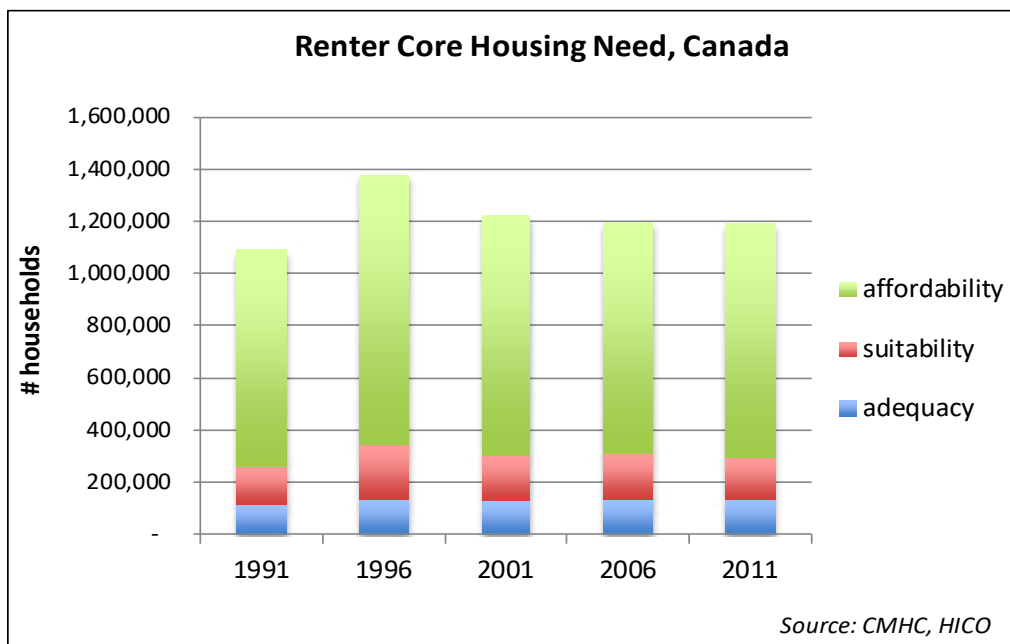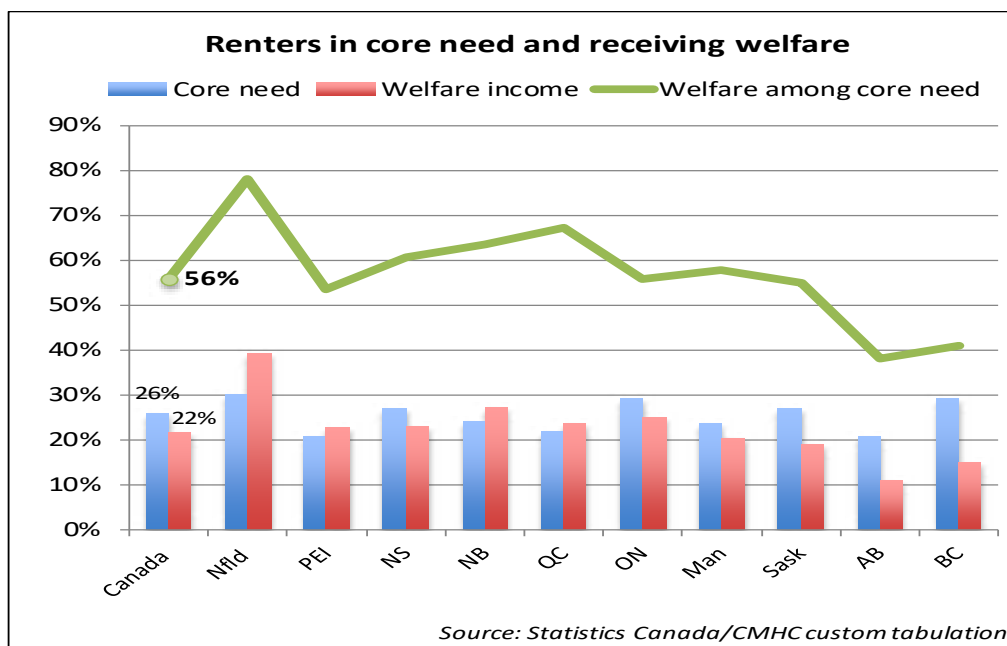
EXHIBIT 2: RENTERS IN CORE NEED

Renter Core Housing Need, Canada

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 5

Source: Statistics Canada/CMHC custom tabulation

The fact that the predominant problem is one of affordability points to income-related issues and suggests an important interface and set of interactions with income assistance policy and programs. For this reason, any effort to reduce renter core need must carefully and extensively embrace the current federal poverty reduction strategy.

Overlap with welfare income assistance

Among the 989,000 renter households estimated to be in core housing need in 2011, 65 percent identify government transfers as their main source of income.

- Seniors make up 220,000 (22 percent) of renter households in core need with 212,000 of these identifying government transfers as primary income, usually in the form of pension income.
- Non-senior households account for the remaining three-quarters of renters in core need and total 770,000 households. For some households, this income may include EI benefits. But most transfer payments are a proxy for welfare income assistance (augmented by tax credits such as the Canada Child Benefit), and these total 430,000.
- The remaining non-senior households in core need (340,000) are households with earned income – essentially the working poor. These represent one-third of all renters in core need and 44 percent of non-senior households.

Nationally, among non-senior renters, one in four (26 percent) are in core need with 22 percent identifying government transfers as their primary source of income. Using the government transfer proxy for welfare income, at the national level just over half of renter (56 percent) households in core need identify welfare as their main source of income. This proportion is exceeded in all provinces, except Alberta and BC.

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 6

Why income assistance (welfare) distorts core need

The first factor is the very high proportion of core need households that rely on income assistance: 56 percent among non-seniors. This reliance has a very large influence on core need.

Second, the structure of welfare assistance results in all welfare households (except those in social housing, where welfare rents are set differently) being in core need. In all cases, the relative size of the housing component, versus the basic living allowance portion of the total benefit payment, leaves the household paying more than 30 percent.

Moreover, a perverse outcome is that if a province increases the size of the housing component in the total benefit calculation, the share of total benefit used for housing will increase to a higher ratio. These households end up, statistically, in a worse level of core need, despite assistance specifically intended to ease their shelter burden!

Unless provinces/territories substantially increase the basic living allowance and supplements, these households will always remain captured by the core need measure. In short, augmenting income for non-shelter purposes is necessary to resolve the definitional statistical conundrum. That is not a solution that can or should be addressed by housing assistance.

For households whose income is primarily income assistance, their benefits are based on provincial/territorial income assistance programs. In all but three jurisdictions (Saskatchewan, Quebec and New Brunswick), the benefits include two main components: a basic living allowance and a shelter allowance, both of which are established in regulations by household size and composition.[1]

The critically important aspect is that in all jurisdictions with a separate shelter component, this part typically makes up close to half of the total benefit income. In all cases (especially singles), it is well above the 30 percent benchmark established for core need.

In addition, in most jurisdictions the shelter component is well below median rents. Unless the household is able to find a low-rent unit, it is forced to use part of the non-housing basic allowance to supplement their rent payment (and thus pay well over 50 percent).

There are two consequences. The first is that welfare households receiving and spending a benefit specifically intended to cover their housing costs will always be captured in the 30 percent core need affordability measure. Any effort to increase the shelter component will statistically place the household in a deeper level of core need.

The recent expansion of income-tested child benefits (now known as the Canada Child Benefit) and elimination of the Universal Child Care Benefit and the non-refundable Child Tax Credit have augmented total income for families with children, thereby reducing the affordability gaps for families. But single persons (who comprise a large proportion of those in core need) still have minimal levels of basic allowance and experience very high shelter cost burdens, almost always paying above 50 percent of total income for shelter.

For example, for a single person deemed employable in Ontario, the shelter component is $376, which amounts to 51 percent of the total benefit, including supplemental benefits (Exhibit 4).

A lone parent with one child in Ontario receives a basic allowance of $340 while the shelter component is $603. Additional supplements together with various child benefits raise total income, but still leave the shelter amount at 36 percent of total income (Exhibit 5). Households receive this amount of shelter assistance only if their rent is equal to or greater than the maximum. If they find cheaper housing, their benefit is reduced by the amount below the maximum shelter.

In the absence of substantial welfare reform, any federal assistance related to reducing high shelter cost burdens, such as a unilateral housing benefit, would simply supplement insufficient provincial/territorial welfare benefits. Moreover, depending on the design and generosity of a national housing benefit, it would tend to favour and reward those provinces and territories with the least generous income assistance programs.

Perversely, those provinces/territories with large shelter components would inadvertently subvert the target of reducing core need. If the shelter component becomes larger, it remains well above the 30 percent benchmark by which core need is measured.

Why core housing need is a poor metric to measure
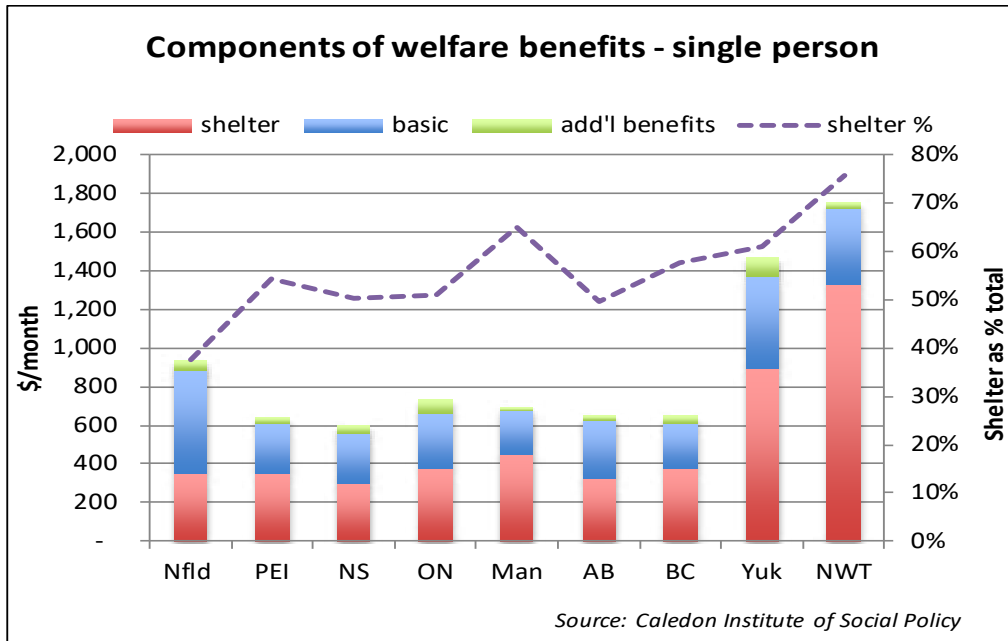outcomes of Canada's national housing strategy
June 2017
Page 7

Components of welfare benefits - single person

Source: Caledon Institute of Social Policy

EXHIBIT 5: COMPONENTS OF WELFARE - LONE PARENT

Components of welfare benefits
lone parent and one child

Source: Caledon Institute of Social Policy

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 8
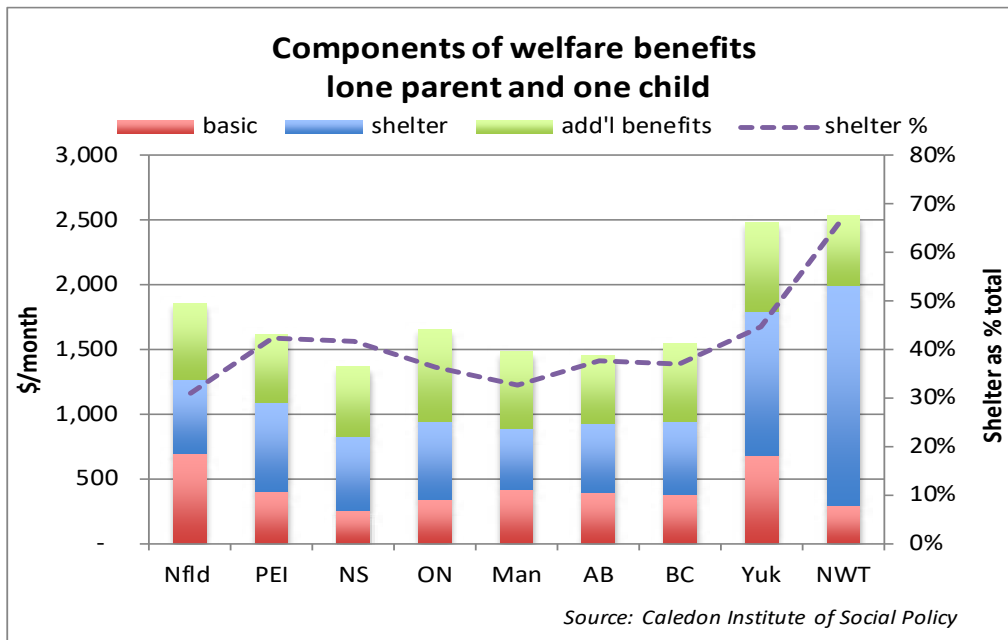
One way to manage this problem is to exclude welfare recipients from receiving a national housing benefit – i.e., target such a benefit only to the working poor. This measure would provide assistance to a sub-group that is currently not well served, but live in challenging situations with precarious employment and high shelter cost burdens. The proposal would have the added advantage of providing a transitional form of assistance to those seeking to exit welfare (i.e., they would retain some help with their housing costs) as well as creating a buffer that may help them from falling back onto welfare assistance if they lose work or face an income reduction.

However, the practical reality of insecure precarious income is that individuals and households in this part of the labour market and income band tend to ebb and flow between paid work and income assistance. There is not a distinct separate group of working poor that can be carved out as a target for a unilateral federal housing benefit and separated from the income assistance population.

It should be noted that Manitoba has introduced a separate housing allowance with two parallel streams, one for recipients of income assist-ance and the other for the working poor. The "Rent Assist" program provides rental assistance up to a benchmark set at 75 percent of median market rent. Welfare households receive full amounts up to this level; working poor households pay 25 percent of gross income and the benefit is calculated as the difference. With both components managed in parallel, it is possible to administratively manage the issue of clients ebbing and flowing between welfare and work.

As noted, while this program design has enhanced the amount of housing assistance provided, Rent Assist has become a larger proportion of total income. As a result, it has no effect in reducing core need and would fail to trigger a statistical improvement in core need counts in Manitoba.

It is also noted that typical of most housing allowance designs, the Manitoba program pays a percentage of gap, so it does not reduce house-hold net expenditure for working poor households below 30 percent, and as such does not remove them from core need.

The Manitoba model suggests an opportunity to reform welfare across the country and to ease housing affordability problems. However, it also suggests that the implementation of such programming is best managed directly at the provincial/territorial level where welfare policy and administra-tion are centred. This begs the question of how a national housing benefit might be designed, as distinct from a fiscal arrangement to share some of the costs of a provincially/territorially managed rental assistance housing benefit.

ALTERNATIVE METRICS AND MEASURES

Back to the main thesis of this essay – how to measure outcomes. As discussed, core need would not capture any improved outcome in Mani-toba, yet Manitoba households receiving Rent Assist are obviously much better able to afford housing.

One possibility would be to monitor and measure how such a rent assist housing benefit first moves households off welfare and then stabilizes them in work.

A second measure would be how such a program might reduce net out-of-pocket expenditures on housing (versus gross actual rent paid, part of which is subsidized).

In his speech to the Toronto Club on June 1, 2017, Evan Siddall argued that: "In short, our plan [the national housing strategy] isn't really about housing at all." He's right. It is actually about how to improve incomes such that households can afford housing. But it is also about ensuring a suf-ficient stock of housing at moderate rents that are reasonably affordable.

So a third measure is to monitor the number of moderately-priced rental units across each market and, more particularly, the ongoing process of erosion of such unit availability as properties are demolished through intensification and redevelopment, thereby gradually moving out of the afford-able range as rents increase.

CALEDON
INSTITUTE OF SOCIAL POLICY

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 9

CONCLUDING COMMENTS

The very high proportion of renters in core need that receive most of their income from welfare means that addressing the current structure and inadequacy of income assistance is a big part of the solution to housing affordability problems.

This is why the National Housing Strategy must be integrally linked to the National Poverty Reduction Strategy.

As CMHC and other actors seek to develop a national housing strategy and to create metrics to monitor its effectiveness, they will need to be aware of the impact that income assistance has had on the current measure of core housing need.

As this analysis has revealed, core need is an ineffective and distorted measure of outcomes. Indeed, the federal and provincial/territorial governments could invest hundreds of millions of dollars to reform welfare and create a national housing benefit only to find that the levels of core need have not declined, even though housing affordability problems for many households had been alleviated.

Alternative measures are required. These could include assessment of how well programs improve outcomes for families (e.g., reduced dependence on welfare, increased stability in the labour market and, ideally, improved earned income) and an assessment of improved affordability for working poor households. They should also monitor the availability (and loss) of moderate cost rental options on which rental assistance programs rely.

ENDNOTE

1. Data to calculate the proportion of the shelter component were provided by the Caledon Institute of Social Policy from background data for the *Canada Social Report*. The data use 2015 benefit levels, calculated over the full calendar year, and are presented here as a monthly average.

Why core housing need is a poor metric to measure
outcomes of Canada's national housing strategy
June 2017
Page 10