

'Reshaping Public Housing' and Work Disincentives

A research paper by the Tenants' Union of NSW

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Summary of research

- Aspects of the recent 'Reshaping Public Housing' reforms have generated serious work disincentives for public housing tenants. These aspects of the reforms should be repealed.
- The first aspect of the reforms is the moderate income rents policy, which introduced higher rent rates for tenants on 'moderate incomes'. The moderate income rent rates contribute to high effective marginal tax rates – in some cases more than 100 per cent.
- There has been a shortfall in the additional revenue expected from moderate income rents. This is consistent with the moderate income rents work disincentive having had a real effect on tenants' work decisions.
- The second aspect of the reforms is the loss of eligibility policy, under which tenants may lose their housing if their incomes increase. The incomes at which tenants lose eligibility are insufficient to afford the median rents for private rental housing in most local government areas in Sydney.
- The number of tenants found to have lost their eligibility is tiny – less than one per cent. This indicates that the loss of eligibility work disincentive has had a real effect on tenants' work decisions.

Introduction

This paper is about how two aspects of the NSW State Government's 'Reshaping Public Housing' (RPH) reforms generate work disincentives – that is, they discourage public housing tenants from increasing their incomes through work. These two aspects of the RPH reforms are:

- increased rents for tenants whose household incomes are in a 'moderate income' band; and
- reviews as to tenants' continuing eligibility and termination of tenancies where tenants' household incomes exceed certain thresholds.

Increased rents for moderate income tenants are a work disincentive because they consume such a large proportion of tenants' additional income that many tenants may find that it is not worth doing the extra work. In this paper we will refer to this aspect of the RPH reforms as the 'moderate income rents policy', and the related work disincentive as the 'moderate income rents work disincentive'.

The reviews as to continuing eligibility are a work disincentive because they force tenants to choose between working and keeping their homes. In this paper we will refer to this aspect of the RPH reforms as the 'loss of eligibility policy', and the related work disincentive as the 'loss of eligibility work disincentive'.

The TU first considered these issues in our 2006 research paper, *'Reshaping Public Housing' and Working Disincentives*. The present paper updates the analysis and, in some respects, presents it a little differently. The calculations presented here are based on:

- the moderate income bands and income thresholds for loss of eligibility as stated by Housing NSW at 1 September 2008;
- income tax rates and thresholds for 2008-09 as stated by the Australian Tax Office at 1 September 2008;
- social security payments as stated by Centrelink and the Family Assistance Office at 1 September 2008;
- pay scales for various Awards commencing 1 October 2008 as stated by the Australian Workplace Authority; and
- median rents for private tenancies commencing in the June quarter 2008, as stated in Housing NSW's *Rent and Sales Report* no 84.

'Reshaping Public Housing' (RPH) is the name of a platform of reforms introduced by the NSW State Government in 2005. The RPH reforms included changes to the funding of Housing NSW, its relations with other human services agencies, its portfolio management, as well as changes to rents and eligibility. It is with these last two aspects of the RPH reforms that this paper is concerned.

Work disincentives are costs or conditions that discourage persons from increasing their incomes through work.

Work disincentives are a growing area of public policy interest. Most attention has been on the work disincentives generated by the tax and social security systems, but they may also be generated by housing assistance, including public housing.

The current Commonwealth-State Housing Agreement commits governments to 'reducing workforce disincentives to social housing tenants to facilitate greater social

The moderate income rents work disincentive

In public housing, almost all tenants pay income-related rents – that is, Housing NSW credits rental rebates to tenants so that the rent they actually pay is, in most cases, about 25 per cent of the tenant's household income. This means, of course, that as tenants' incomes increase their rents increase, and this contributes to effective marginal tax rates (EMTRs – see box, right). Under the RPH reforms, tenants whose households receive a 'moderate income' pay even more, and this contributes even more heavily to EMTRs.

Moderate income rents

Under the moderate income rents policy, tenants whose household income is in a 'moderate income' band pay rents at a rate between 25 and 30 per cent. This rate increases according to a sliding scale over the moderate income bands. The moderate income bands vary according to household composition:

<i>Household</i>	<i>Moderate income band starts at...</i>	<i>Moderate income band ends at...</i>
Adult	\$1100 per fortnight (pf)	\$1376 pf
+ additional adult	+\$290 pf	+\$362 pf
+ first child	+\$220 pf	+\$276 pf
+ additional child	+\$150 pf	+\$188 pf
<i>Moderate income rent rate</i>	25 per cent (thereafter rising towards 30 per cent)	30 per cent (thereafter remaining at 30 per cent)

The moderate income rent rate is not a marginal rate that applies only to that part of a tenant's household income lying in the moderate income band; rather, it applies to all of the tenant's household income. If it were expressed as a marginal rate, the moderate income rental rebate rate for most households would be about 50 per cent – that is, about 50 cents in every dollar of additional income in the moderate income band goes to Housing NSW.

This means that moderate income rents approximately double Housing NSW's contribution to EMTRs faced by tenants whose household incomes are in the moderate income bands.

Effective marginal tax rates (EMTRs) are one way of measuring work disincentives.

EMTRs measure the costs faced by a person from increasing their earned income by, for example, doing some overtime, or getting a better-paid position.

EMTRs express how much of an additional dollar of a person's earned income is taken by income tax, the social security system (through the reduction of social security payments) and, in the case of public housing tenants, Housing NSW (through income-related rents and water charges).

EMTRs of 60 per cent and above are regarded as 'high' (Polette, 1995; Wood & Ong, 2005). High EMTRs indicate a 'poverty trap', because they discourage or prevent people from increasing their incomes.

Moderate income rents and other work disincentives

The moderate income rents work disincentive operates in combination with work disincentives generated by the income tax and social security systems. The following figures show, in terms of EMTRs, the combined work disincentive generated for three public housing households, along with an illustrative hypothetical case study:

- a single person with a disability ('Andy')
- a single parent ('Beth') with two children under five years of age, and
- a young person ('Cass') in a multiple-adult household.

The EMTRs for each of these households represent the combined effect of income tax (including tax offsets and the Medicare levy), the withdrawal of social security payments (including Family Tax Benefit) and public housing rents, including moderate income rents.¹ The figures also show the lower EMTRs that these households would face if the moderate income rent policy did not apply and they paid rent according to the usual 25 per cent rate.

The figures show that all of these households face high EMTRs (that is, EMTRs higher than 60 per cent) in their respective moderate income bands – and in some cases, they face EMTRs that are very much higher:

- A single person with a disability faces EMTRs of 85 per cent, 86 per cent, 91 per cent and 109 per cent throughout the moderate income band;
- A single parent faces EMTRs of 81 per cent, 85 per cent, 96 per cent and 103 per cent throughout the moderate income band;
- A young person in a multiple-adult household faces EMTRs of 72 per cent, 78 per cent, 43 per cent, 53 per cent and 45 per cent throughout the moderate income band, and they enter the moderate income band when they earn a wage of just \$286 per fortnight.

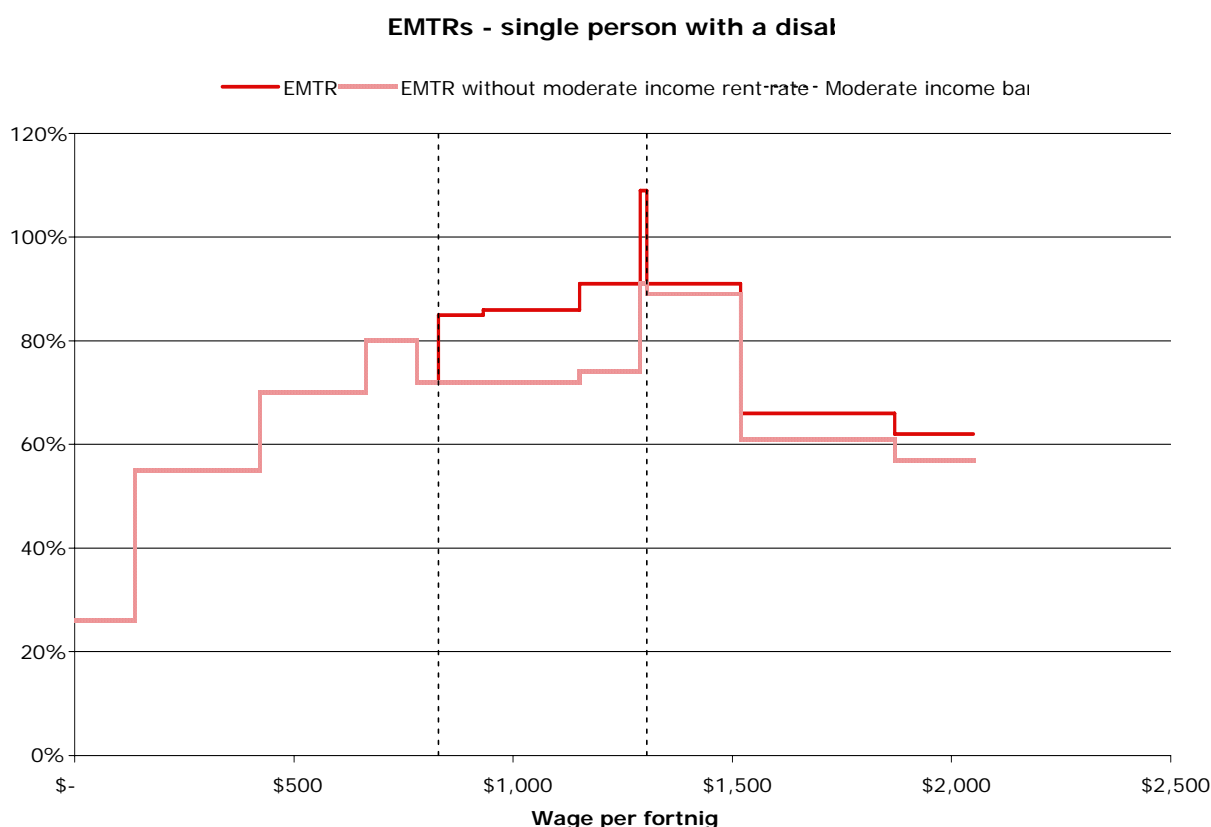
Aggregate effect

When the RPH reforms were announced, the NSW State Government estimated that the introduction of moderate income rents would raise an additional \$4 million each year. It has in fact raised only about \$2.5 million each year – a shortfall of 37 per cent. This result is consistent with the work disincentive having had a real effect on tenants' work decisions.²

¹ The EMTRs do not include costs of childcare or loss of health care, travel and other concessions.

² A qualification: at least part of the shortfall is explained by another factor. The \$4 million was based on an early version of the policy that proposed a flat rate of 30 per cent, rather than the sliding scale of 25-30 per cent that was actually implemented. This operation of this factor is not inconsistent with the operation of the moderate income rents work disincentive; we suggest that both have contributed to the shortfall.

Figure 1. Single person with a disability



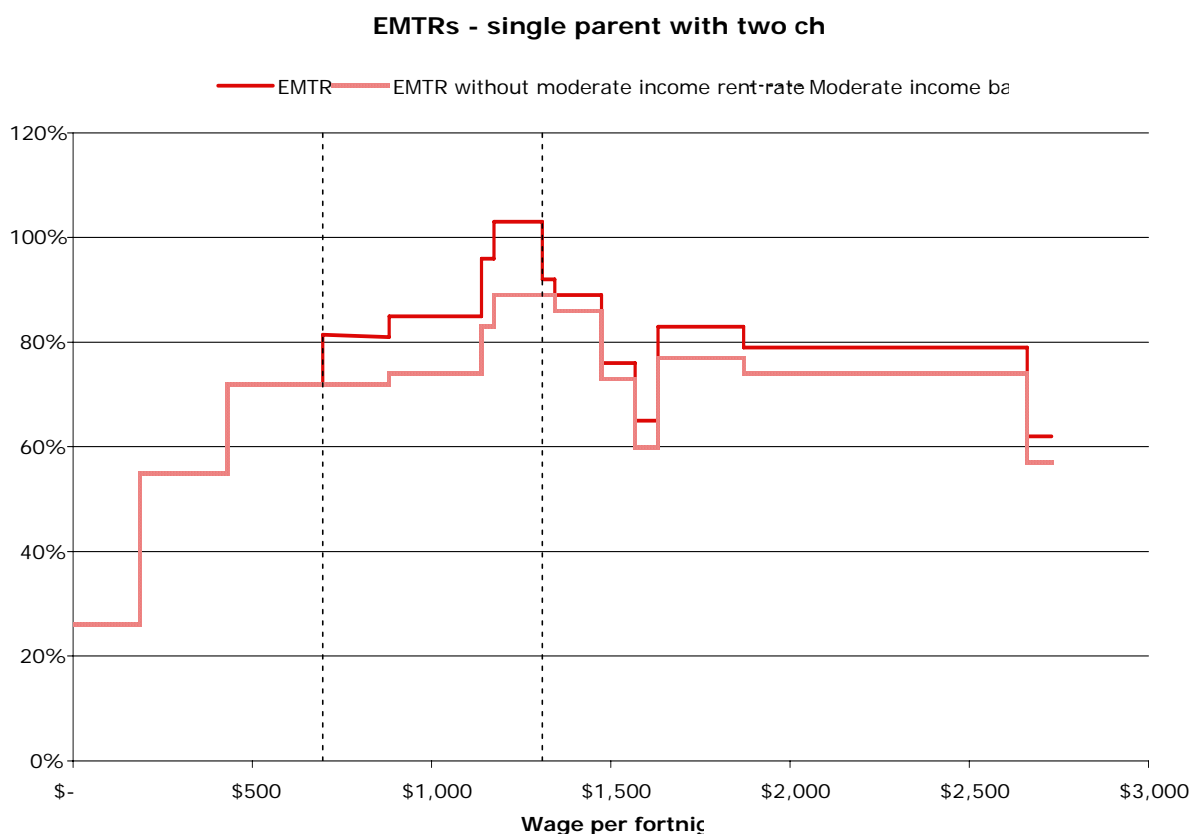
Case study: Andy, a single person with a disability

Andy is a person with a disability who works 40 hours per fortnight for a community centre as a caseworker (Social and Community Services Employees Award, grade 3 year 1). His income, comprising wages and reduced Disability Support Pension, is just under the starting point of the moderate income band.

Andy's employer asks if Andy would be able to work additional hours on a casual basis – they can offer up to 20 additional hours. This would put his income in the moderate income band. For the first additional \$320 he can earn (about 14 additional hours of work), Andy's EMTR is 85-86 per cent. This means that Andy would get to keep about \$48.50 for two days' work. Thereafter, for the next additional \$140 (about six hours of work), Andy's EMTR is 91 per cent – he keeps less than \$13 for almost a day's work.

Andy enjoys working, but this just isn't worth it. Andy regretfully declines the offer.

Figure 2. Single parent with two children



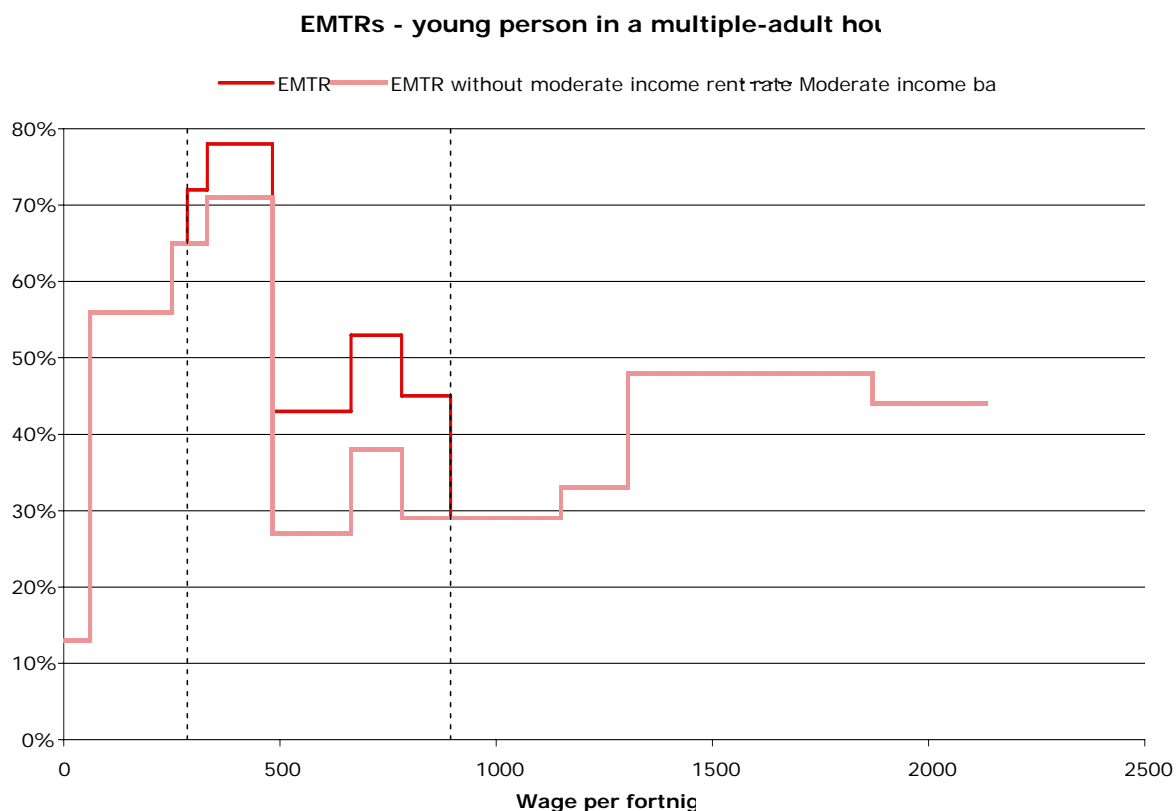
Case study: Beth, a single parent

Beth has two young children and is currently working six days (42 hours) per fortnight in the local library (Local Government Award administrative band 2, level 1, casual rate). Her wage is \$1142 per fortnight. This income, plus her reduced Parenting Payment (Single) and Family Tax Benefit, puts Beth well into the moderate income band.

Beth's employer asks Beth to work an additional day (seven hours) each fortnight. For these additional wages, Beth faces EMTRs ranging from 92 per cent to 103 per cent. Overall, if she works the additional hours she would be about a dollar worse off than if she had not – and that's not including the cost of childcare.

Beth says no thanks, but worries that her employer might give her job permanently to someone who can work the additional hours.

Figure 3. Young person in a multiple-adult household



Case study: Cass, a young person in a multiple-adult household

Cass lives with her parents, Di and Ed, who are public housing tenants, and her brother, Frank, who has a severe disability. Di and Ed care for Frank and Cass has just left school. Cass works in a shop each Thursday night and Saturday (20 hours per fortnight) for \$13.87 per hour (Shop Employees Award, junior rate, with penalty rates). Her fortnightly wage of \$277, plus her reduced Youth Allowance, plus her parents' Carer Payments and Carer Allowance and Frank's Disability Support Pension, brings the household's income to just under the moderate income band.

Cass's boss needs someone to work an additional two days (16 hours) each fortnight. If Cass picks up these shifts, her household's income will be in the moderate income band. Because Cass is a young person, Housing NSW assesses her income for the purposes of the household's rebated rent at the concessional rate of 12.5 per cent; however, Di's, Ed's and Frank's incomes would be subject to the moderate income rate, even though their incomes have not increased.

Cass figures that if she earns the additional income, she should pay the additional rent. On this basis, Cass would face an EMTR of 71 per cent on the additional income earned from the first four additional hours of work: in other words, she would get to keep about \$3.21 per hour. Thereafter, for next additional 12 hours, she would face an EMTR of 78 per cent, and so keep just \$2.44 per hour of additional work.

Cass decides not to ask for the additional shifts.

The loss of eligibility work disincentive

Before the introduction of the RPH reforms, public housing was a relatively secure tenure. Provided tenants paid their rent and complied with their other obligations under the lease, they were entitled to remain in public housing. If a tenant's circumstances changed – for example, they got a job, or another person joined their household – and their household income increased, the tenant's rent would increase but they could keep their tenancy.

Since the introduction of the RPH reforms, new tenants have not had this security, and may lose their tenancies if their household incomes increase.

Loss of eligibility

Under the loss of eligibility policy, tenants are signed up to fixed term agreements (see box, right) and, towards the end of the fixed term, are subject to a review by Housing NSW as to their continuing eligibility. Tenants lose eligibility if their household income exceeds certain thresholds, which vary according to household type and disability.

<i>Household</i>	<i>Loses eligibility at...</i>
Adult	\$1488 per fortnight (pf)
+ additional adult	+\$388 pf
+ first child	+\$300 pf
+ additional child	+\$200 pf
+ disability	+\$150 pf
+ exceptional disability	+\$300 pf

Fixed term tenancies are another aspect of the RPH reforms that are associated with the reviews as to continuing eligibility.

Since July 2005, Housing NSW has signed up all new public housing tenants to tenancy agreements with fixed terms of two, five or 10 years (a few early agreements had fixed terms of 18 months, as an interim measure). The length of the fixed term depends on the severity of the tenant's circumstances. Housing NSW reviews the continuing eligibility of the tenant shortly before the end of the fixed term.

Where a tenant is found to be ineligible to continue in public housing, Housing NSW will proceed to terminate the tenancy. Housing NSW may make exceptions in some circumstances, such as where moving out would put the health of a persons with a disability at 'serious risk', or where the tenant has a special need to live in a particular area and renting there would consume more than 50 per cent of their income.

The work disincentive of losing eligibility for public housing is difficult to measure in terms of EMTRs, because the financial cost of moving out of public housing into the private rental market varies from place to place. Instead, we will consider it in terms of the affordability of private rental housing, because it can be assumed that loss of eligibility has a work disincentive effect where the median rent for private rental is unaffordable.

Loss of eligibility and the affordability of private rental housing

Unaffordable median rents in the private market represent a work disincentive for public housing tenants because the tenant will, upon losing eligibility, experience either a reduction in their disposable income (that is, as a result of paying the unaffordable rent), or constraints as to the quality and quantity of available housing (that is, by confining their search for housing to the lower end of the market), or constraints as to location (that is, they will have to move elsewhere).

Figure 4 shows the median rents for properties of various sizes in each LGA in Sydney and for all of New South Wales, and indicates whether these rents are affordable, unaffordable or very unaffordable for tenants with typically-sized households whose incomes are just over the thresholds for loss of eligibility. As the figure shows, at these incomes tenants will find median rents unaffordable or very unaffordable in almost every LGA in the inner and middle rings of Sydney, and in many LGAs in the outer ring of Sydney. Single persons, and especially single parents, face the worst affordability problems.

Further illustration is provided by case studies that revisit our hypothetical public housing tenants, 'Andy', 'Beth' and 'Cass'.

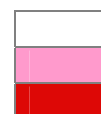
Figure 4. Affordability of median rents relative to the incomes at which public housing tenants lose eligibility

Key

Affordable (median rent is less than 30 per cent of income)

Unaffordable – housing stress (median rent is more than 30 per cent of income)

Very unaffordable – housing crisis (median rent is more than 50 per cent of income)



Local Govt Area	One Bedroom				Two Bedrooms				Three Bedrooms			
	Median rent (\$ pw)	Single	Single + disab (Andy)	Couple	Median rent (\$ pw)	Single +1 kid	Single + 2 kids (Beth)	Couple + 1 kid	Median rent (\$ pw)	Single +2 kids	Couple +2 kids	Couple + 2 adults + disab (Cass)
SYDNEY SD	350				375				360			
Inner Ring	380				495				670			
Ashfield	275				350				495			
Botany Bay	240s				350				530			
Lane Cove	325s				400				590			
Leichhardt	350				530				650			
Marrickville	265				380				515			
Mosman	350				500				830			
North Sydney	380				500				700			
Randwick	360				450				630			
Sydney	410				560				700			
Waverley	380				500				750			
Woollahra	380				500				900			

(figure 4 continued)

Local Govt Area	One Bedroom				Two Bedrooms				Three Bedrooms			
	Media n rent (\$ pw)	Single	Single + disab (Andy)	Couple	Media n rent (\$ pw)	Single +1 kid	Single + 2 kids (Beth)	Couple + 1 kid	Media n rent (\$ pw)	Single +2 kids	Couple +2 kids	Couple + 2 adults + disab (Cass)
Middle Ring	330				350				445			
Auburn	360				340				390			
Bankstown	165s				298				350			
Burwood	263				380				493			
Canterbury	215				275				400			
Canada Bay	390				480				550			
Hunters Hill	280s				400s				650			
Hurstville	265				310				420			
Kogarah	295s				350				450			
Ku-ring-gai	335s				450				620			
Manly	385				500				720			
Parramatta	265				320				380			
Rockdale	320				360				465			
Ryde	260				350				480			
Strathfield	310				380				485			
Willoughby	408				490				700			
Outer Ring	220				280				300			
Blacktown	180				265				300			
Blue Mountains	170				220				270			
Camden	-	-		-	255s				310			
Campbelltown	-	-		-	220				270			
Fairfield	175				220				300			
Gosford	165				240				300			
Hawkesbury	170s				230				288			
Holroyd	185				290				350			
Hornsby	295				370				450			
Liverpool	178				235				320			
Penrith	170				220				280			
Pittwater	300				420				600			
Sutherland	250				330				450			
Warringah	330				420				600			
Wollondilly	-	-		-	210				270			
Wyong	150				220				260			
NEW SOUTH WALES	310				300				300			

(s) 30 or fewer bonds lodged; (-) 10 or fewer bonds lodged; 'SD' – Statistical Division

Source: Rent and Sales Report No 84, Table 2. Weekly Rents for New Bonds – Greater Metropolitan Region – All Dwellings – June Quarter 2008

Case studies: 'Andy', 'Beth' and 'Cass'

Case study: Andy, a single person with a disability

At the community centre where Andy works, the position of co-ordinator becomes vacant and Andy thinks about applying. The job is 56 hours per fortnight and would pay at SACS Award grade 6 year 1. Andy's wage would be \$1691 per fortnight, making him ineligible to continue in public housing when the fixed term of his tenancy ends.

Andy looks into the cost of renting privately. He lives and works in North Sydney LGA: the median rent for a one-bedroom property here would consume more than 30 per cent of his income. Every other inner ring LGA, except Botany, and middle ring LGA, except Canterbury and Bankstown, is similarly unaffordable.

Andy understands that Housing NSW may make an exception if he can show that moving out would put his health at 'serious risk', but he decides he cannot take the chance, and so does not apply for the job.

Case study: Beth, a single parent

Beth's casual job in the library is being replaced by a permanent full-time position (at band 2 level 2 of the Award). If she gets the job, Beth's income (her wage plus her Family Tax Benefit) would make her ineligible to continue in public housing.

Beth lives in a two-bedroom property in Riverwood, in Canterbury LGA. The median rent for like properties in the private market in this LGA costs more than 30 per cent of Beth's income; looking further afield, median rents in all the LGAs in middle or inner Sydney would be unaffordable for her too. The median rent in most of the outer LGAs would be affordable, but these locations are too far from the library and childcare.

Beth does not apply for the permanent job, and asks her employer to keep her in mind for any casual work.

Case study: Cass, a young person in a multiple-adult household

Cass's boss offers Cass a full-time job as a shop assistant (Shop Employees Award, group 4). With penalty rates, her fortnightly wage would be \$1387, which would put the household's income above the threshold for continuing eligibility.

Cass's family considers its options. The first option is that Cass takes the job and they move out of public housing. This would mean renting privately, and the median rent for a three-bedroom property in their LGA, Sutherland, would consume more than 30 per cent of their income. They decide they cannot afford to lose their public housing.

The second option is that Cass takes the job and the family tries to remain in public housing through one of the exceptions in Housing NSW's policy. But this is too risky: they cannot be sure that, when the time comes, Housing NSW will make an exception.

The third option is that Cass takes the job, and Di and Ed try to arrange for their names to be removed from the tenancy and for Frank to be the tenant instead – this is to take advantage of a provision of the policy that provides that the incomes of a tenant's carers, where the carers are not tenants themselves, are not counted towards household income. Di and Ed decide against this: it diminishes their tenancy rights, it is not fair on Frank, and it just feels like too much of a contrivance.

The fourth option is that Cass takes the job, and Di and Ed ask Cass to move out, while they and Frank remain in public housing. But they don't want her to go, and Cass doesn't want to leave home yet either.

The fifth option is the simplest and surest: Cass says she cannot take the job.

The aggregate effect

Housing NSW reviewed 3 514 tenants in the 10 months to the end of May 2008. It found just 28 tenants – less than 0.8 per cent of those reviewed – had increased their incomes beyond the thresholds for loss of eligibility.

This is a remarkable result. The number of tenants found to have lost eligibility is tiny, and indicates that the loss of eligibility work disincentive is very strong.³

It should also be noted that the tenants reviewed, being the first to be so reviewed, were those who were signed up to two-year fixed terms and the shorter interim terms. This means that these tenants were in less severe circumstances than those who signed up to five- and 10-year fixed terms, and so are more likely to be willing and able to participate in work and increase their incomes.

There are other implications of the tiny number of tenants found to be ineligible. First, it means that the loss of eligibility policy has not benefited persons on the waiting list for public housing. When it introduced the RPH reforms, the NSW State Government stated that this aspect of the reforms would 'allow the Government to assist greater numbers of people in the longer term.' It has not: the 28 vacancies created are negligible. Had the loss of eligibility policy not been implemented, it is possible that a greater number of tenants might have found work, increased their incomes, become sufficiently secure in their employment and moved out of public housing on their own volition.

Secondly, the loss of eligibility policy must be considered a failure in terms of the demands the reviews make on Housing NSW's resources. For the sake of 28 ineligible tenants, Housing NSW has had to conduct reviews of 3 514 tenants – plus develop operational policies about the reviews, plus train its staff in the conduct of the reviews, plus provide new information resources for tenants about the reviews. This is a waste of Housing NSW's time, effort and money.

³ A possible alternative explanation is that the incomes at which they become ineligible are set too high; that is to say, the income thresholds are too generous. We submit that this is not so: on the contrary, the income thresholds are modest, as figure 4 shows in relation to median rents. They are also modest relative to the distribution of incomes throughout the community generally. Considering this distribution in terms of quintiles (that is, the bottom 20 per cent of households according to income is the first quintile, the next 20 per cent is the second quintile, and so on), the threshold incomes for each household type are between the mean incomes for the second and third quintiles, with the threshold incomes for larger households closer to the mean of the second quintile (see ABS (2007) *Housing Occupancy and Costs 2005-06*, cat no 4130.0.55.001).

Conclusion

The RPH reforms have been in operation for about three years. Those aspects of the reforms relating to moderate income rents and loss of eligibility have not produced the benefits for which the Government had hoped, and instead have generated serious work disincentives for public housing tenants. Public tenants, and the public housing system generally, are poorer for it. It is time to put an end to the moderate income rents policy and the loss of eligibility policy.