



Financial Workforce Disincentives in Public Housing

Shelter WA Occasional Paper 2005-1

October 2005

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1. Introduction

The 2003-2008 Commonwealth State Housing Agreement lists workforce disincentives for public housing tenants as one of the major areas of work. The CSHA's focus with regard to workforce disincentives is the income related rents applied in public housing, implicitly assuming that this policy causes disincentives to work that are substantially greater than for households in other tenures. The Agreement also implicitly assumed that financial factors are the most important, if not the only factor in a person's decision to enter or re-enter the workforce.

However, in practice a number of factors impact on an individual or household's decisions regarding work. Recent AHURI research has found that financial factors are not the only factor or even the most important factor in such decisions. For instance, a recent AHURI study found that a significant proportion of public housing tenants interviewed for the study would work even if this meant that they would be financially worse off.¹

With regard to financial workforce disincentives, it can be argued that the CSHA has overstated the importance of resolving this issue. Most significantly, after more than a decade of 'targeting' public housing to those most in need, only a minority of perhaps 1 in 6 public housing tenants are in the workforce.² However, relatively little evidence has yet been presented on the importance of financial factors compared to other benefits of working such as increased self respect, career opportunities, etc.

This paper asks three questions regarding the importance of financial workforce disincentives in public housing:

1. Are workforce disincentives faced by public housing tenants greater than for households residing in other tenures?
2. Are workforce disincentives faced by public housing tenants in Western Australia greater than those faced under the proposed new system in New South Wales?
3. Is the rent setting system used in public housing a major factor in creating workforce disincentives?

The paper presents an overview of rent to income and eligibility policies in the eight Australian States and Territories. It then presents an overview of modelling conducted by Shelter WA to assess the financial benefits of taking up paid employment for four household types in three tenures across two states. Finally, it presents some conclusions and policy implications.

¹ Kath Hulse, Bill Randolph, Matthew Toohey, Gillian Beer and Rob Lee, *The Changing Role of Allocations Systems in Social Housing*, Australian Housing and Urban Research Institute, September 2003.

² For instance, see Eringa, K., *Social Housing in the Western Suburbs: Do We Need It?*, Shelter WA, East Perth, 2004.

2. Rent and Eligibility Criteria in Public Housing

Allocations systems lie at the core of social housing. They determine who is eligible for housing, the order of providing assistance, and the matching of households with specific properties.³ In recent years public housing allocations have been targeted predominantly at Centrelink recipients and greatest and special housing need categories. Consequently a significant proportion of public housing tenants are now in the lowest income quintile.

In addition, public housing carries workforce disincentives unique to this tenure. For example, income related rent setting is used by all Australia Public Housing Authorities and is calculated on the basis of 25% of the household income. As soon as the household start to earn an income above the income limits, an additional 25% in the dollar is payable to the Housing Authority. This, along with high EMTRs', is a major concern to some Public Housing Authorities that want to encourage a greater income mix, improve the workforce participation levels of their tenants and reduce the growing gap between operational income and expenditure. This paper evaluates these emerging issues.

All of the eight State and Territory Housing Authorities in Australia employ a rent setting practice where rents are determined for each property [the property rent] and a rent for each household [the household rent]. The households rent [rent rebate] is effectively a concession on the rent chargeable for the property [property rent], which most public landlords in Australia currently set at market rent levels.⁴ Over 90 per cent of Australian public housing tenants are recipients of rent rebates and receive various forms of government pensions; therefore only a small proportion of tenancies actually pay market rents.

Income related rent rebates are paid for by the SHA as an internalised form of household subsidy. Commonwealth Rental Assistance recipients, on the other hand, receive housing assistance as a direct income supplement to assist with private rental costs.⁵ These different subsidy arrangements appear to be more detrimental to public housing tenants in the following ways:

- An income test for rent rebates for public rental tenancies that is separate to the income test for income support payment, leading to 'income stacking';⁶
- Rents are based on household rather than individual income and take into account income earned by non-dependent children. Minimum age for eligibility varies between 15 and 18 across jurisdictions although a number of jurisdictions do not specify minimum ages [see discussion below];
- Households in a high housing cost location continue to face rent increases at 25 cents in the dollar as income increases, while households in lower cost housing areas pay less, as rent is capped at lower market rents and;
- Some public housing authorities have not applied a 'free income test area' before additional rent is charged to public housing tenants. This represents an EMTR of 25%, when compared to the free income zone allowed for CRA recipients.

³ Hulse, K and Burke, T., 2005, *the Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

⁴ Hulse, K., Randolph, B., Toohey, Beer., G and Lee., R., 2003, *Understanding the Roles of Housing Costs and Housing Assistance In Creating Employment Disincentives*, AHURI, Melbourne.

⁵ CRA is available to recipients of income support benefits and who pay private rent above minimum thresholds, Productivity Commission, 2005, *Report on Government Services: Public Housing*, www.productivitycommission.gov.au.

⁶ Hulse, K., Randolph, B., Toohey, Beer., G and Lee., R., 2003, *Understanding the Roles of Housing Costs and Housing Assistance In Creating Employment Disincentives*, AHURI, Melbourne

Greater financial workforce disincentives faced by public tenants have been used to explain lower participation rates among this group. Labour force participation rates are highest amongst home purchasers [93 percent] and private renters [81 per cent] and distinctly lower amongst public tenants [30 per cent].⁷ However, as public housing authorities have increasingly targeting their stock to those in greatest need, this argument is to some extent circular, as public housing effectively selects people who are the least likely to find employment.

Section 3 of this paper describes the various public housing systems in Australia in some detail. Whilst identifying a high degree of convergence, it also finds some significant policy nuances in the various States and Territories that may affect workforce participation and eligibility criteria in different ways.

The impacts of these rental policies and subsidy arrangement on public housing tenants are investigated in detail in Section 4 of this paper. Finally, Sections 5 and 6 draw some conclusions and a number of policy implications.

⁷ Ibid.

3. Comparative Public Housing Policies

Up until the mid-1990's the eligibility criteria for access to public housing were generous than currently, reflecting its broader role at the time.⁸ Table 1 suggests that this has changed by revealing that all Australia Public Housing Authorities have developed a range of policies and practices aimed at setting gross income limits and other eligible criteria for all household formations. Table 1 also indicates housing policy convergence between the States and Territories.

New South Wales

The NSW State Housing Authority count all benefits, wages, and interest on investments and dividends on shares when assessing income eligibility. Although Table 1 shows that all SHA's apply a maximum of 25% of household's income for rental charges, between November 2005 and July 2006 the NSW Department of Housing will introduce some new eligibility criteria which include:

- Income limits for all households considered to be on moderate incomes [i.e. a single person receiving \$550 or more a week will pay 30% of their income on rent, capped at market rents].⁹ ;
- Retain very low income limits for the vast majority of public housing tenants, this will be achieved through continued targeting households in greatest need¹⁰ [maximum income for one person household = \$396 per week];
- Offering the longest term leases to households in greatest need;
- Ending security of tenure-all new tenants will sign fixed term arrangements;
- No cash asset limit; and
- An increase in the concessional rate of the family tax benefit from 11% to 15%.

Although the NSW Public Housing Authority does not require tenants to provide information of personal cash assets, the tenant is required to disclose any increase in personal income from wage earnings. Their income is immediately liable for an additional payment of 25% of household income on rent. This policy does not appear to take account of the predicament public housing tenants find themselves in relation to loss of government benefits and higher rents, when entering the workforce.

Long term fixed leases of 10 years shall only be available to those in greatest need; with the higher income groups.¹¹ By developing these eligibility criteria and fixed term leases Housing New South Wales have strongly indicated that moderate income households will not be given a choice of housing stability when occupying public rental.

⁸ Hulse, K and Burke, T., 2005, *the Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

⁹ Department of Housing NSW, 2005. *Changes to Rent Subsidy: Fact Sheet*, www.housing.nsw.gov.au. Accessed September 2005.

¹⁰ Ibid

¹¹ Ibid

Table 1: General Public Housing Eligibility Criteria, 2005.

Eligibility Criteria	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Income limits for all Households	✓	✓	✓	✓	✓	✓	✓	✓
Gross income of all household members assessed	✓	✓	✓	✓	✓	✓	✓	✓
Prioritised waiting lists	✓	✓	✓	✓	✓	✓	✓	✓
Asset limits		✓	✓	✓	✓	✓	✓	✓
Minimum age	✓	✓	✓	✓	✓	✓	✓	✓
Rent calculated at 25% of households income or market rents	✓	✓	✓	✓	✓	✓	✓	✓
Rent formula based on incomes of all members	✓	✓	✓	✓	✓	✓	✓	✓
Use of variable income limits			✓		✓			✓
Income levels sensitive to different household size	✓	✓	✓	✓	✓	✓	✓	✓
Income levels sensitive to aged		✓						
Income levels sensitive to disability status	✓	✓		✓				
Income levels sensitive to location				✓				✓

Sources: Family and Community Services, 2003;¹² Productivity Commission, 2005¹³; Various Australian State and Territory Public Housing Authorities.

Victoria

Victoria's State Housing Authority sets and reviews income eligibility for public housing with respect to Centrelink criteria for rental assistance in the private sector [applicants need to be in receipt of at least \$1 of Centrelink pension]. Victoria has a relatively low income limit for eligibility [see Figure 1 below]. Other eligibility criteria include:

- An allocation policy that predominantly targets households in greatest need;¹⁴

¹² Family and Community Services, 2003, *Housing Assistance Act 1996: Annual Report 2002-2003*, FaCS, Canberra.

¹³ Productivity Commission, 2005, *Report on Government Services: Public Housing*, www.pc.gov.au.

¹⁴ See Table 4.2.6: CSHA public housing: P6 priority access to those in greatest need, 2003-04, Australia Institute of Health and Welfare, 2005, *Commonwealth State Housing Agreement National Data Reports 2003-04: Public Housing*, AIHW, Canberra

- A segmented waiting list that appears to be most targeted compared to other rationing systems, in so far as homelessness is virtually the sole factor for allocation to segment one, whereas other public housing systems include a wider set of 'at risk' factors in their 'priority segments'; and
- Households that traditionally made up the 'wait turn' system are in segment four in Victoria, whereas in other jurisdictions, 'wait turn' is encompassed in segment 3.

Table 2 below reveals that in terms of public housing management, Victoria's eligibility policies, compared to some other jurisdictions, indicate highly effective targeting of those households in greatest need. This is achieved by the method of given preferential treatment to all persons registering as either short or long term homeless, and locating them in segment 1.

Table 2 Allocations to households in greatest need as % of all allocations of public housing, Victoria and Australia

% Greatest need allocations	VIC	Tas	Qld	SA	NT	WA	ACT	NSW	Australia
2000-01	49	82	5	49	16	16	66	42	36
2001-02	62	81	5	42	14	19	84	31	36
2002-03	67	87	9	42	20	23	87	30	38
2003-04	68	90	12	40	17	24	86	23	36

Source: Australian Institute of Health and Welfare, 2005¹⁵; Burke and Hulse, 2005.¹⁶

How will these strict income criteria and rigorous targeting effect workforce participation? The Victoria State Housing Authority, like its NSW counterpart does not allow for any income to be earned before it captures 25% of additional household income for rental revenue. It has no workforce incentive policy. The only income a public housing tenant can earn which is not assessed immediately is Centrelink Working Credits. In this respect, there does not seem much leeway for the public rental tenancies to break free of welfare dependency.

Queensland

The Queensland Department of Housing applies much more flexible income criteria than other jurisdictions. Figure 1 reveals that the income limits are significantly higher than are set for NSW, Victoria, Western Australia and Tasmania. This indicates that targeting of those households in greatest need is not the main policy objective of the Queensland Public Housing Authority.

A new set of public housing policies will be implemented between July 2005 and December 2006. The new policies do not indicate a greater tightening of the public housing allocation system, or that they will adversely impact on tenants seeking employment. For example:

- All public housing households will pay a standards rate of 25% of their household's assessable income as rents. This implies that the Housing Authority provided varying degrees of rent to income ratios prior the new policy being introduced;

¹⁵ Ibid

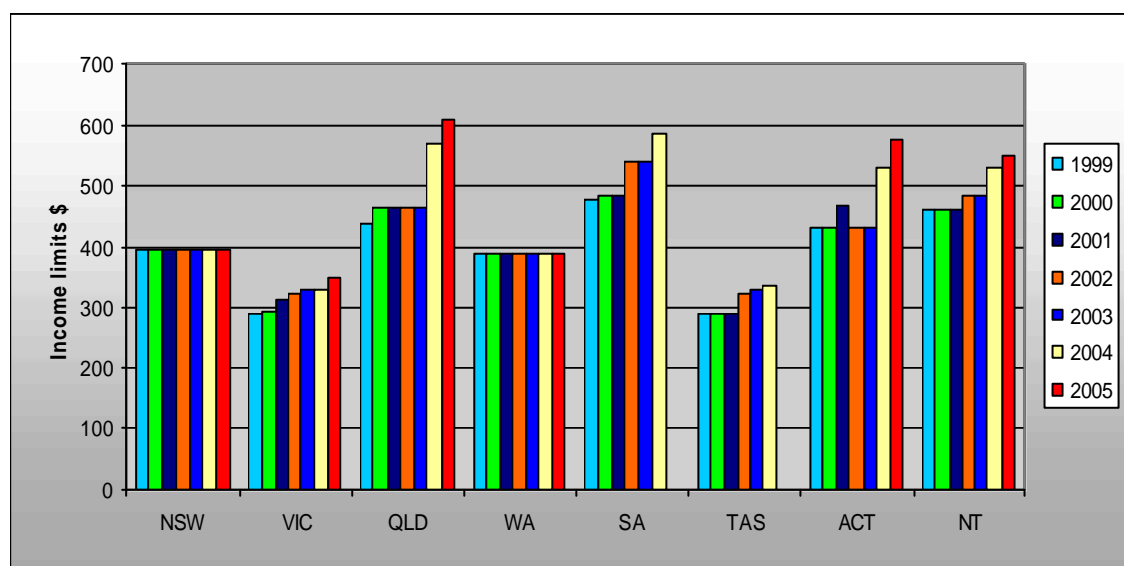
¹⁶ Hulse, K and Burke, T., 2005, *the Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

- Household members under 25 will contribute 10% of their assessable income towards rents.
- The 10% contribution may be offset by another new policy which allows working household members to benefit from an increase to the tax allowance scale which will result in the assessment of their working income after PAYE tax has been deducted and;
- Workforce participants will benefit from a guaranteed period of six months during which the households' rents will not be increased because of their new working income.¹⁷

It is always difficult to predict the outcome of new policies, especially when they are not yet fully implemented. There is however, some evidence which suggests that the allocations policies are incrementally targeting households in greatest need. Allocations to households in greatest need as a percentage of all allocations of public housing to new households increased gradually from 2000-01 to 2003-04 [see Table 2].

In general, it seems as if the new public housing policies are still flexible enough to stave off employment traps and/or poverty traps for some public housing tenants. This assumption is based on the new policy soon to be introduced, which allows the tenant to work for a six month 'rental holding period' before any additional rent is deducted at 25% of every dollar earned above the set income limits. The rental increase seizes when the market rent is reached. This indicates that the tenant can earn quite a significant amount of personal income before the income is affected by the additional rental charge.

Figure 1; Income Limits for Single Person, eight jurisdictions, 1999 to 2005 [a].



Sources: Department of Family and Community Services, 2003;¹⁸ Burke and Hulse, 2005,¹⁹ Various Public Housing Authorities. [a] Unable to access data for Tasmania and South Australia for 2005

¹⁷ Queensland Department of Housing, 2005, *Eligibility for Public housing*, www.housing.qld.gov.au.

¹⁸ Family and Community Services, 2003, *Housing Assistance Act 1996: Annual Report 2002-2003*, FaCS, Canberra.

¹⁹ Hulse, K and Burke, T., 2005, *the Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

South Australia

Eligibility criteria for public housing in South Australia for many decades had no set income limits, reflecting a progressive social planning role for public housing under the auspices of the South Australia Housing Trust.²⁰ This role has waned over the last two decades, as consecutive Commonwealth governments have reduced spending on public housing in preference to CRA. Nonetheless, the South Australian Housing Trust still retains one of the highest income limits for public rental in Australia [see Figure 1 above] and offers public housing tenure to a range of income types. Some of the Trust's policies include:

- Use of annual average weekly earnings published by the Australian Bureau of Statistics to determine income eligibility;
- Accepting higher eligibility for households whose gross income and assets are over the set limits, if they can verify their housing need cannot be met by other forms of housing;
- One of highest cash asset limits compared to other States and Territories [i.e. \$249,750 for single and \$301,500 for couple] and;
- Developing a system for ranking applications by opting for a segmented waiting list.

Figure 1 indicates that the South Australia Housing Trust has consistently used higher income criteria than many of the other Public Housing Authorities in Australia. In recent years however, the Housing Trust has introduced five segments in which to allocate public housing. Interestingly, segment 5 applicants are ineligible for any of the other four segments, but are made the offer of being placed on the waiting list in very low demand areas where there is vacant stock. This is effectively a segment for local allocations policies for low demand areas, and a move away from 'one size fits all model' in response to different supply and demand profiles for public housing.²¹

This indicates that segment 5 offers households who are in receipt of an income the opportunity to remain in public housing. However, it is difficult to predict the outcomes of this policy on workforce participation for public housing tenants. In particular, low housing demand is correlated with a relative lack of employment infrastructure and other services.²²

The South Australian Housing Trust has included housing affordability related need into segment 3. It is in segment 1, segment 2 and segment 3, where households in greatest need are catered for. Priority segment 1 and segment 2 are for urgent need [homeless] and high complex housing needs respectively, and this prioritising seems to have moved the South Australian system towards allocating an increasing proportion of public housing based on greatest needs [see Table 2 above], as opposed to its more traditional role of public housing provision for a range of income groups.

Tasmania

Figure 1 suggests that the Tasmanian Public housing Authority has consistently maintained very low income limits compared to the majority of the other Australia jurisdictions. This appears to be tailored not only to restrain growth on income limits, but also to target households in greatest need. In fact, public housing provision in this State had been targeted at special needs groups long before the CSHA implemented

²⁰ Stretton, 2001, *Ideas for Australian Cities*, Transit Australia Publishing, NSW.

²¹ Hulse, K and Burke, T., 2005, the *Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

²² Blunden, H. and Johnston, C., *Public Housing and Nonhousing Outcomes – a background paper*, Shelter Brief 25, Shelter NSW, 2005.

strict criteria on public housing provision.²³ Table 1 above emphasises this by revealing that income levels only apply to household size, which indicates the higher income pension groups are not considered by Housing Tasmania, to be in urgent need of public housing. The policies also exclude locational factors such as the costs of living in higher amenity areas and size and quality of housing.

In fact, Housing Tasmania eligibility criteria concentrate on consolidating public housing provision to the lowest income groups, which implies that it principally seeks to provide housing for welfare dependent groups only. For example:

- Income eligibility thresholds are based on eligibility for a Commonwealth Health Care Card;
- Ranks applications according to housing need by use of the allocation of points to different types of need to determine relative priority of individual applications [priority points system] and ;
- Fixed term leases, for all households, reviewed at the end of each year.²⁴

These policies seem to be achieving the objective of a greater emphasis on targeting. This is reflected in the allocations statistics in Table 2. The figures represent the highest proportion of greatest needs allocated public housing tenure, than any other State or Territory; note the significant differences in the percentage of priority allocations between the Tasmania and Queensland public rental systems.

The use of a priority points system, which gives priority to those in greatest need, has more than likely received policy approval as a consequence of lower to moderate income households being able to access private housing at rents and house prices which were very affordable in Tasmania, compared to other jurisdictions.²⁵

Western Australia

The immense size of Western Australia, coupled with its variable climatic conditions, renders the supply of public housing to regional and remote communities a significant task. The Western Australia State Housing Authority has developed criteria which take account of higher infrastructure costs, regional housing costs, and the higher cost of living associated with inhabiting remote and regional locations. Consequently there is a significant difference in the income limits between metro and non-metro areas. These income limits have nonetheless remained static for the last 10 years [see Figure 1 above for single households in metro locations] which reflects some of the objectives of the Western Australian public housing criteria listed below:

- Greater regulation of income criteria were introduced after Aug 1992 [100% of income of all household members, including 10% of Family Tax Benefit Part A and 5% of Family Tax Benefit Part B];
- An allocations policy were applicants must be eligible for housing assistance both at the time of original application and when they are allocated a rental property;
- Income levels are sensitive to special needs tenants;
- The operation of a priority system defined by administration guidelines and criteria [with no segments and no priority points] grafted onto a system based on application [date order plus priority];²⁶

²³ Department of Health and Human Service, 2005, *Public Rental Housing*, www.tas.gov.au.

²⁴ See Table 16.3 Public housing policy context, 2004, The Productivity Commission, 2005, *Report on Government Services: Public Housing*, <http://www.productivitycommission.gov.au>.

²⁵ Ibid

²⁶ Hulse, K and Burke, T., 2005, *the Changing Role of Allocations Systems in Social Housing*, AHURI, Melbourne.

- An allocations policy which requires applicant to nominate metro and non-metro zones; and
- In some cases [depending on reasons given for not accepting offer of public housing in specific zones] the applicant is moved to the bottom of the date order system, or taken of the list altogether.

The Western Australia Public Housing Authority does not target households in greatest need as vigorously as some other jurisdictions, such as Tasmania and Victoria. Western Australia does allow for some discretionary measures to be applied, for example tenants are given 6 to 12 months period in which they are permitted to remain in public housing, after their income has exceeded the income limits. As a result of this policy and relatively low rents in some areas, approximately 15% of public housing tenants pay full cost rent.²⁷

Nonetheless it has gradually increased the allocation to households in greatest need as a proportion of new tenancies, up from 16% in 2000-01 to 24% in 2003-04 [see Table 2 above]. This represents an increase of exactly one third of households in greatest need accessing public housing in Western Australia.

In terms of promoting greater workforce participation, there is a minority proportion of public housing tenants that receive some form of wage [11% in metropolitan locations and 10% in non metropolitan locations, and still remain eligible for public housing assistance].²⁸ However, these tenants are categorised as Low income A²⁹ and receive an income comparable to the higher government pension groups such as disability and aged pension. The workforce incentive policy constitutes a weekly working allowance of \$30 and is excluded from rent calculation for households in part-time or full - time employment.

Northern Territory

The Northern Territory has a smaller stock of public housing than any other jurisdiction except the ACT, reflecting its much lower population. The NT Public Housing Authority include assessable income of the public housing applicant, spouse or partner and any other member of the households 18 years of age or over, in its eligibility calculation. The NT Housing Authority employ the same system for ranking applications as Queensland does, for example applicants for public housing are listed in order of date of lodgement. The administrative priority system is used to 'catch' out of turn applicants who are homeless or at risk of becoming homeless.³⁰ Other NT public housing policies worthy of note include:

- Fixed term leases;
- Where a households income exceeds the income limits the tenant continues to pay the higher rental amount [i.e. the market rent] and is allowed to remain in public housing until the fixed lease runs out;
- A Maximum Rented Dwelling Rent which is calculated at 95% of the Darwin other market rent or 100% local market rent whichever is the lower. This applies to households on higher incomes, and eliminates any rental

²⁷ Department of Housing and Works, 2005, *Summary of Rental Subsidy and Market Rent as at 2005*, unpublished data, DHW, Perth.

²⁸ Ibid

²⁹ Low Income A captures households with an income above 100% of the government income support benefits at the pensioner rate, but below the effective cut-off for receiving government support benefits. This income group include some wage earners provide that their total income is not greater than 100% of the pensioner rate of government income support benefits, AIHW, 2005, *Commonwealth State Housing Agreement national data reports 2003-04: Public rental housing*, AIHW, Canberra.

³⁰ Northern Territory Housing, 2005, *General Eligibility for Access to Public Housing*, www.territoryhousing.nt.gov.au

anomalies in the system which could otherwise lead to the 25% income related rent exceeding the applicable market rent;

- Additional charges or reductions are made on the market rents and the MRDR on properties that are of higher or lower standards. For example, a 5% discount for housing without air cooling in the Southern region of the Northern Territory;
- The use of a variable income related rents;
- The application of a Community Service Obligation payment equivalent to the amount of the rental rebate to tenants. This is paid for by the Northern Territory Government and;
- A Superior Rent calculation. This relates to when there is a decrease in households size, and eliminates the problem of tenants receiving a rental rebate who are housed above entitlement. The SP is calculated on the difference between the MDRP for the correct entitlement and the MDRP payable on the occupied property. This does not apply to certain households [i.e. special needs groups]. Housing Managers are able to employ discretionary measures when dealing with specific households.

The Northern Territory Government introduced an Employment Incentive Scheme in 2002. Its purpose was to reduce the financial disincentives attributable to rent increases. The scheme also aims to reduce the disincentive to work caused by high EMTR's, by incrementally increasing household rents in three stages over a six month period. To ensure that the incentive provides a reasonable financial benefit, household's earnings must be above \$200 gross to be eligible for the scheme. The important part of this scheme is that it promotes workforce participation for households on the lowest income. For example, the NT's use of variable income related rents provide a sliding scale of rental contribution for households, which helps to alleviate poverty traps³¹ for those on the lowest income.

One of the more interesting features of the NT public housing systems is the CSO external funding, paid to the Housing Authority from central government. This system is used successfully in the UK and some Western European countries.³² In England it has led to the rapid growth of the Housing Association movement, and significant growth in private investment in social housing.³³ The Community Service Obligation or Housing Benefit as it is known in England is used for providing affordability outcomes and is the principal form of financial support to tenants. It is provided as a recurrent subsidy and is calculated on the difference between market and cost or income related rents.

The NT system appears to have used the CSO sparingly as it is only provided to households that require 100% rental rebates. The CSO policy in conjunction with more lenient criteria and higher income limits suggests that NT public housing system could end up with a much wider income mix, compared to other Australian systems. Provided the NT government continue to fund the CSO, and the workforce incentives and higher income limits are maintained, it is reasonable to predict that the Public Housing Authority could grow its portfolio and so increase their income mix, whilst attending to those in greatest need.

³¹ A poverty trap occurs where gains in work are offset by tax, reductions in means tested income support and other factors to the extent of significantly reducing the net benefits of earning more, Hulse, K., Randolph, B., Toohey, Beer., G and Lee., R., 2003, *Understanding the Roles of Housing Costs and Housing Assistance In Creating Employment Disincentives*, AHURI, Melbourne.

³² Hall, J and Berry., M, 2004, *Operation Deficits and Public Housing Policy Options for Reversing the Trend*, AHURI, Melbourne

³³ MacLennan, D., and More, A, 2001, *Changing Social Housing in Great Britain: A Comparative Perspective*, European Journal of Housing Policy, 1, 105-134.

Australian Capital Territory

The ACT along with Tasmania and Victoria has the most targeted allocations system [see Table 2 above]. The ACT rank applications according to need by use of segmented waiting lists. The criteria for these are located in four segments:

- Segment 1 - currently homeless;
- Segment 2 – Financial need where current private rent is greater than 40% of income;
- Segment 3 – Normal wait turn and
- Segment 4 – Transfers.³⁴

With the exception of segment 1, the criteria do not indicate a strong focus on predominantly targeting the lowest income households [i.e. those that are entirely welfare dependent]. Nonetheless, the proportion of households in greatest need, allocated public housing as a proportion of all new occupants has increased quite significantly, from [66% in 2000-01 to 86% -in 2003-04]. Other ACT eligibility policies worthy of note are:

- For single households income must not exceed 60% of the ACT Average Weekly Earnings as published by the Australian Bureau of Statistics;
- For a household with two persons, assessable income must not exceed 100% of AWE plus a further 10% of the AWE for additional households members; and
- A Rebate Extension for households that enter the workforce.

Over the last five years, the ACT Public Housing Authority has ushered in the highest increase in income limits of all Australian public housing systems. For instance, between 1999 and 2005 the income limit for single person households increased by 33%, from \$432 to \$576. That said, it does not seem as if this has induced a greater mix of income groups entering public housing in recent years [see Table 2].

One possible explanation is that segment one has been applied more often than the others, specifically to meet one of the CSHA principle objectives.³⁵ A second potential explanation is that the focus on those in greatest need is related to a tighter rationing of public housing results from the fact that ACT have a relatively small housing stock compared to the other jurisdictions. There could be many other factors contributing to the high number of greatest need households accessing public housing [i.e. accessible private rents for low to moderate income groups in capital and regional locations etc]

The ACT eligibility criteria do indicate that workforce participation is an important part of the Housing Authority agenda [i.e. the Rebate Extension continues for six months from the date the employment commences]. The effectiveness of this policy is further bolstered by the fact that there is no limit to the number of times the Rebate Extension can be accessed by the same household. Importantly, the policy offers some degree of tenure security for households entering the workforce.

³⁴ Northern Territory department of Housing and Community services, 2005, *Eligibility for Public Housing Assistance*, www.dhcs.act.gov.au.

³⁵ To provide appropriate, affordable and secure housing assistance for those who most need it, for the duration of their need, Commonwealth Government, 2003, *Commonwealth State Housing Agreement 2003-2008*, Commonwealth, Canberra.

4. Financial Workforce Disincentives in WA and NSW

This section estimates effective taxation rates faced by four household types residing in three tenures in two jurisdictions. The four household types selected are single persons, couples without children, singles with two children and couples with two children.

According to Census data, singles and couple-only households comprised 50.7% of public housing tenancies across Australia in 2001.³⁶ Single parent families accounted for 30.5% and couples with children for an additional 10.9% of households in this tenure.³⁷ Within this group, families with two children have been selected for modelling purposes as this family type is the most prevalent. However, it should be noted that modelling yields very similar conclusions for households with different numbers of children.

The three tenures selected are public housing, private rental and owner occupation. The fourth tenure, community housing, has not been included for three reasons. Firstly, this tenure accounts for less than half a percent of all households in Australia. Secondly, rent setting policies within community housing vary considerably between jurisdictions and even providers. Finally, the most prevalent rent setting policy appears to be for providers to set rent at 25% of the tenant's income, then appropriate any Commonwealth Rent Assistance that is applicable. Community housing tenants in this situation face identical workforce disincentives as their counterparts in public housing.

In order to isolate the impact of rent levels, the paper estimates effective taxation rates in both low and high rental areas in both jurisdictions. However, it examines only the direct financial implications of employment. In particular, the paper does not include the financial impact on households of losing their Health Care Card, and does not take into account the costs of child care. Both of these costs are very real, but as they vary between households modelling them requires making a large number of assumptions.

Finally, the two jurisdictions selected in this paper are Western Australia and New South Wales. With regard to Western Australia, the paper investigates the system as it currently stands. For New South Wales, however, the paper examines the system as it appears it will operate after 1 July 2006. One issue here is that the NSW Government and Department of Housing appear to have made a number of statements regarding how the system will operate to various individuals and organisations. Two such statements are of particular importance.

Firstly, it has been suggested that the income limits that are used to determine eligibility for public housing will be higher for sitting tenants who are up for review than for new applicants. It has also been suggested that the income limits used for continued eligibility may be the same as those where rents increase from 25% to 30% of income.

Secondly, it has been suggested that the 30% rent level may be phased in over an (undefined) income band rather than be introduced suddenly at a particular income level.

However, the assumptions on which the modelling underlying this paper is based do not take the above statements into account. Instead, the paper takes the announcement of the system by the NSW Government on 27 April 2005 in its 'Plan for Reshaping Public Housing', as described in Section 3 of this paper, as its guide. The reason for this is twofold. Firstly, neither the NSW Government nor the Department of Housing has formally confirmed these statements. Secondly, no

³⁶ Australian Bureau of Statistics, *Expanded Community Profile Australia*, Cat. No. 2005.0 tables X39 and X46

³⁷ Australian Bureau of Statistics, *Expanded Community Profile Australia*, Cat. No. 2005.0 tables X39 and X46

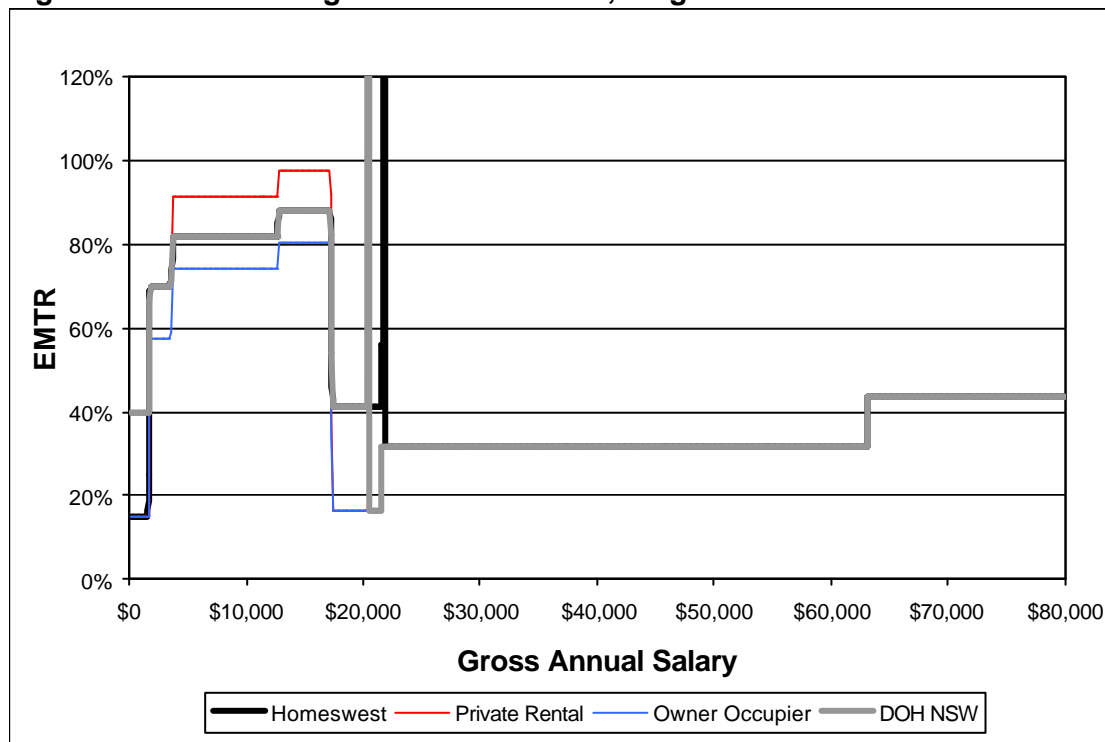
details have been released regarding how these supplementary changes might operate in practice.

Single Person

Figure 2 indicates effective marginal taxation rates faced by a single person for salaried income between \$0 and \$80,000 per year.³⁸ The figure indicates EMTRs in i) public housing in Western Australia, ii) public housing in New South Wales, iii) private rental and iv) home ownership. As the results are almost identical for low rental areas (\$175 per week) and high rental areas (\$275 per week),³⁹ only the EMTRs applying in low rental areas have been presented.

The figure highlights that EMTRs are remarkably similar across tenure. In the initial \$1,600 of wages EMTRs are relatively low (40% in public housing in NSW, 15% in all other situations). When salaried income rises above this level, the rates rapidly increase to between 80% for owner occupiers and 97% for private sector renters. Beyond salaries of around \$22,000 per year the differences between tenures disappear altogether, as recipients are no longer eligible for any housing related or Centrelink benefits.⁴⁰

Figure 2: Effective Marginal Taxation Rates, Single



³⁸ It should be stressed that this figure, as is the case with all of the graphs presented in this paper use only the *salaried income* of the individual or household in question on the horizontal axis, as opposed to total household income. The individual or household in question may therefore, in addition to the salaried income depicted in the graphs, receive payments from Centrelink and / or the Family Assistance Office. As State Housing Authorities do include all or part of these income sources in their rent and eligibility calculations, the cut-off points for eligibility depicted in the graphs cannot be compared directly with the cut-off points as stated in the policies of these Authorities.

³⁹ The only difference that results from increasing rents is that the peak associated with losing public housing becomes higher. For instance, this peak – which occurs at an income of \$20,600 for public housing tenants in New South Wales – is 3991.5% in low rental areas and 9191.5% in high rental areas.

⁴⁰ As noted in Section 3 of this paper, the new NSW system assesses eligibility only when public housing leases expire, at intervals of between 2 and 10 years. Different effective taxation rates apply during the transitional period that this policy creates. This transitional period is explored in the final part of this Section.

The main difference between the tenures is the high peaks in EMTRs that occur in public housing in both NSW and WA. These peaks results from tenants losing eligibility for public housing and the associated financial benefits. They occur at salaries of around \$21,000 in both states.

A second feature that stands out in Figure 2 is that, perhaps surprisingly, financial workforce disincentives are greater in private rental than they are in public housing for salaries between \$4,400 and \$17,200.

A final feature is that EMTRs are greatest for wages between \$1,500 and \$22,000. This observation is of importance, as many people entering or re-entering paid employment will find themselves in this salary bracket.

Despite this, Figure 2 highlights that the differences according to tenure are relatively minor compared to the impact that the phasing out Centrelink benefits has. For instance, a private tenant earning \$16,000 per year faces an EMTR of 97.7%. Most (80.5%) of this is related to Centrelink benefits phasing out, with only 17.2% associated with housing-related benefits (Commonwealth Rent Assistance). For public housing tenants in both WA and NSW only 5.7% of a total EMTR of 88.0% is related to housing.

Figure 3 shows that the above discussion understates the relative importance of public housing on financial workforce disincentives to some extent. This figure indicates effective average taxation rates for the same groups of singles as above. It highlights the financial effect of losing public housing on a person entering paid employment.

In particular, the figure shows that at the point where public tenants lose eligibility, the EATR jumps from 68.8% to 87.1% in low rental areas in Western Australia, and from 72.3% to 91.3% in New South Wales. For high rental areas the increase in EATRs is even more severe. Jumps from 68.8% to 110.8% in WA and from 72.3% to 116.5% in NSW indicate that the benefits of public housing in these areas are such that public tenants could be financially worse off accepting a job that would put them beyond the eligibility range.

Figure 3A: Effective Average Taxation Rates, Single – low rent area

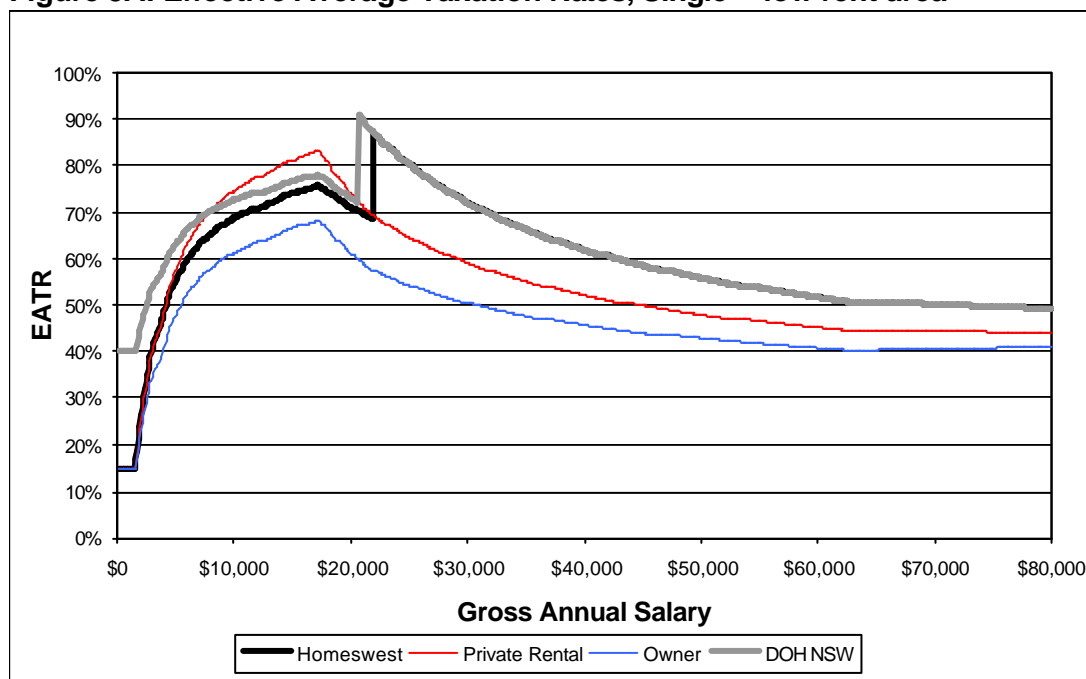


Figure 3B: Effective Average Taxation Rates, Single – high rent area

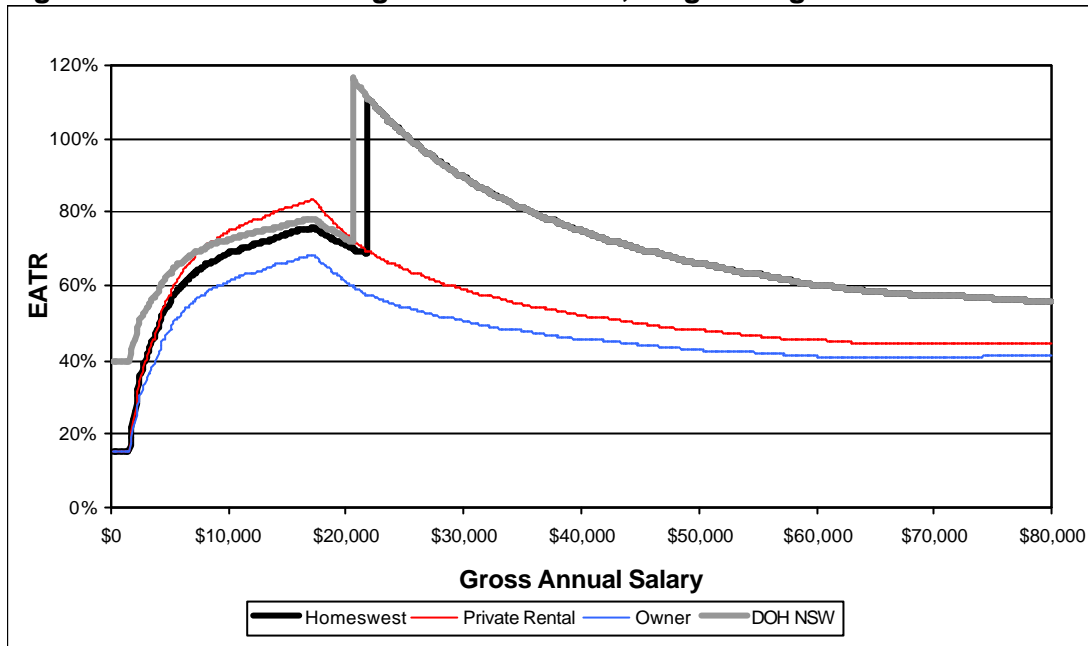


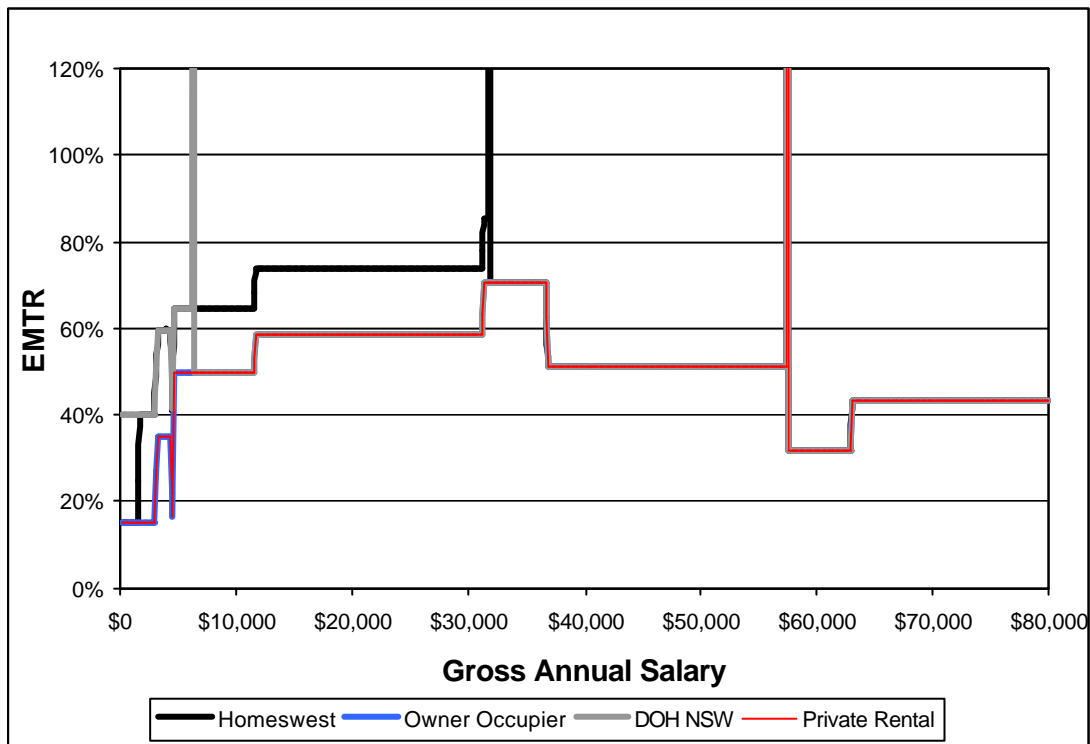
Figure 3 reinforces the findings of Figure 2 in that it shows that financial workforce disincentives are greater in private rental than they are in public housing for a range of salaries between \$10,000 and \$20,000. In addition, it gives an indication of the financial impact of losing eligibility for public housing, which is of far greater significance than both the increased rents payable under the rent to income policy in public housing and the reduction in Commonwealth Rent Assistance received in private rental. Finally, the figure demonstrates that in high rental areas, the financial benefits associated with public housing are such that public tenants would face EATRs in excess of 100% for jobs in the \$20,000 - \$25,000 range.

Financial Workforce Disincentives: Single with 2 Children

Figure 4 indicates effective marginal taxation rates faced by a single person with two children for salaried income between \$0 and \$80,000 per year. Again, the results are almost identical for low rental areas (\$225 per week) and high rental areas (\$325 per week),⁴¹ and only the EMTRs applying in low rental areas have been presented.

As was shown to be the case for singles without children, EMTRs for singles with two children are remarkably similar across tenure. After a brief range of relatively low EMTRs the rates rapidly increase to between 59% for owner occupiers and private renters and 74% for public tenants, with almost identical patterns after this band.

Figure 4: Effective Marginal Taxation Rates, Single with 2 Children



Peaks occur at two salary levels in public housing and at one salary level in private rental. The first peaks in public housing are associated with losing eligibility, and occur at a salary of \$6,300⁴² in NSW⁴³ and at \$31,700⁴⁴ in WA. The second peak occurs in both public housing and in private rental, at a salary of \$57,600, and is associated with tenants losing their Commonwealth Rent Assistance entitlement.

⁴¹ Again the only difference that results from increasing rents is that the peak associated with losing public housing increases with rent.

⁴² A single person with two children with a job paying \$6,300 per year is eligible to receive \$12,143 per year in Newstart Allowance as well as Family Tax Benefit (Parts A and B) of \$11,775 per year. This brings their total household income to \$30,218 per year or \$581 per week, just above the NSW DOH eligibility limit for a household with three persons of \$580 per week.

⁴³ There appears to be some confusion with regard to eligibility criteria for people with children for public housing in NSW. Until recently, the NSW DOH took 100% of any Family Tax Benefit received into account when assessing eligibility, but assessed Family Tax Benefit at 10% rather than 25% for rent assessment. Shelter WA has been informed that under the new system, Family Tax Benefit will continue to be assessed at 100% for eligibility, and at 15% for rent. These assumptions have been used for the purposes of this paper, but any changes will substantially affect the results of the modelling on which this paper is based.

⁴⁴ A single person with two children with a job paying \$31,700 per year is eligible to receive \$1,983 per year in Newstart Allowance as well as Family Tax Benefit (Parts A and B) of \$11,775 per year. This brings their total household income to \$45,394 per year. Of this, \$32,770 or \$630.19 per week is assessed by the WA DHW, which is just above the eligibility threshold of \$630 per week for single income families in the metropolitan area. Higher limits apply for people with disabilities and in North West and Remote areas.

However, unlike singles without children, the eligibility threshold for singles with children is set at a level where tenants are still eligible for Commonwealth Rent Assistance. The reason for this is that for this household type, CRA is tied to Family Tax Benefit Part A,⁴⁵ which phases out at a much higher income than the Newstart Allowance to which CRA is tied for singles without children. In addition, public tenants in NSW lose eligibility for public housing at a household income level where they are still eligible to receive the majority of their Newstart Allowance.

The upshot of this is that single public housing tenants with two children who find a job with a salary between \$6,300 (NSW) / \$31,700 (WA) and \$57,600 lose their eligibility for public housing but if they transfer to the private rental sector do receive Commonwealth Rent Assistance. For salaries in excess of \$57,600 these tenants also lose their entitlement to CRA.

Figure 5 indicates the effect of this on average effective taxation rates. The figure indicates that EATRs for owner occupiers and private renters reach a maximum of 78.5% at salaries of \$29,300. This occurs in both low and high rental areas. In addition, there is a small jump in EATRs for private tenants from 63.9% to 69.1% at \$57,600, when private tenants are no longer eligible for Commonwealth Rent Assistance.

EATRs for public housing tenants in low rental areas of Western Australia are some 10 to 15 percentage points above those faced by private tenants for most salaries. The jump associated with losing eligibility is minor, as it occurs at an income level where tenants are already paying market rent. In high rental areas, the difference is 15% for incomes below \$31,600, jumping to over 30% for incomes above this level. This reflects the fact that the financial benefit of public housing is more substantial in high rental areas. Nevertheless, EATRs in public housing in Western Australia do not remain below 85% even in high rent areas.

The situation for public housing in New South Wales is dramatically different. As tenants lose eligibility for public housing at a very low salary (\$6,300) in this State, the financial loss resulting from this is much greater. In low rental areas the EATR peaks just below 90%, while in high rental areas the peak is nearly 170%.

To put this last figure in perspective, consider the case of a single public housing tenant with 2 children in a high rental area in NSW. If this tenant does not work and relies solely on Centrelink benefits and Family Tax Assistance, their net income after housing costs is \$359.35 per week. If they find a casual or part time job that pays them \$6,300 per year, their gross earnings increase by \$121.15, but their Newstart Allowance drops by \$13.82, their tax increases by \$21.42 and their rental subsidy falls by \$171.10 per week. The overall result is a drop in their net income after housing of \$85.18, ie. to \$273.01 per week.

Another way of looking at this is that public housing tenants will be financially worse off if they find a job that pays between \$6,300 and \$16,000. This is of grave concern, as it corresponds with the salary range that is associated with the type of part time and casual jobs that many single parents may consider if they do wish to enter or return to the workforce.

⁴⁵ Tenants with children receive Commonwealth Rent Assistance as long as they receive more than the basic amount of Family Tax Benefit Part A.

Figure 5A: Effective Average Taxation Rates, Single with 2 Children – low rent area

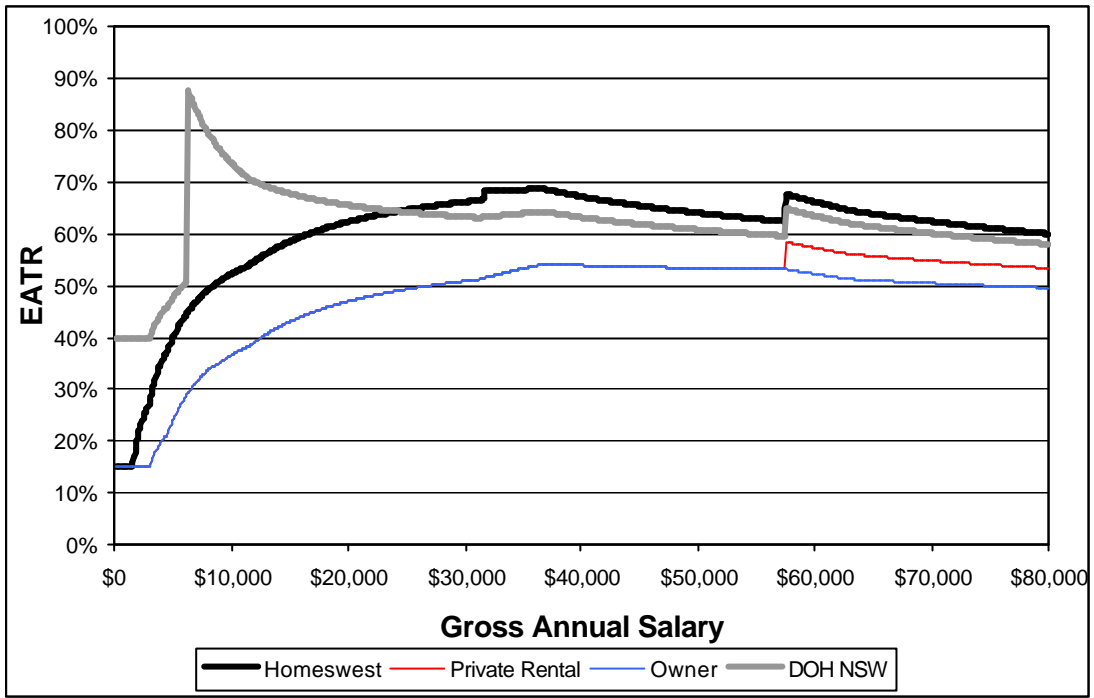
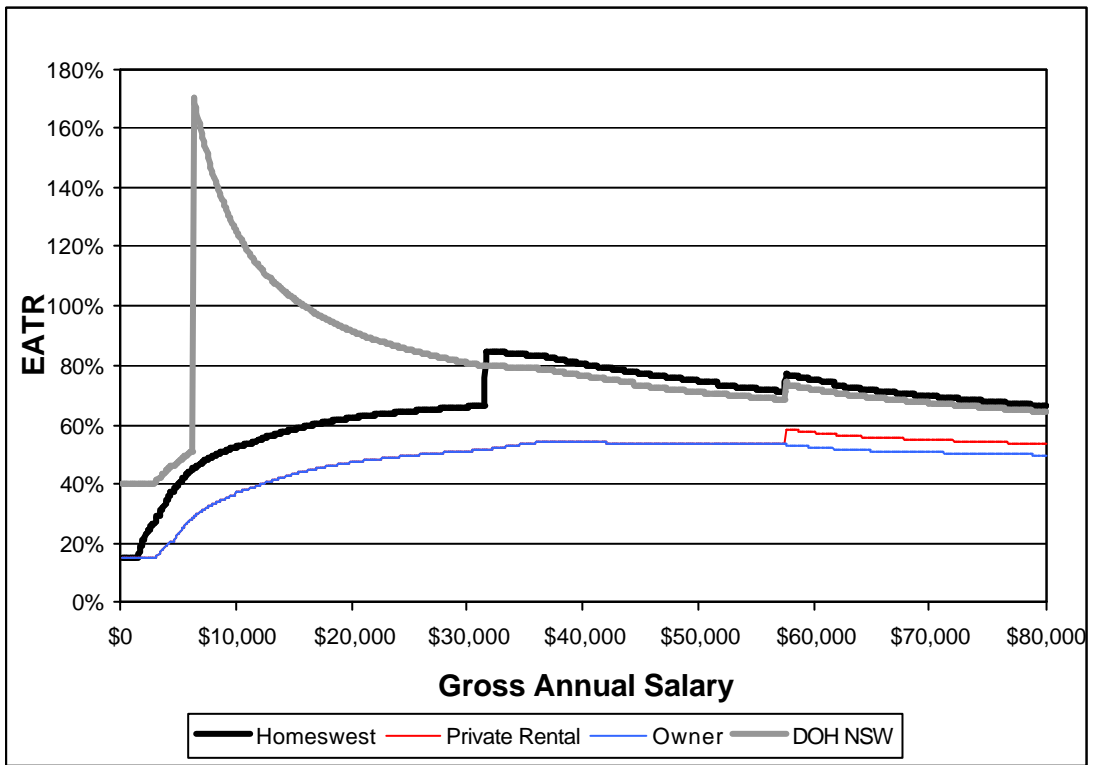


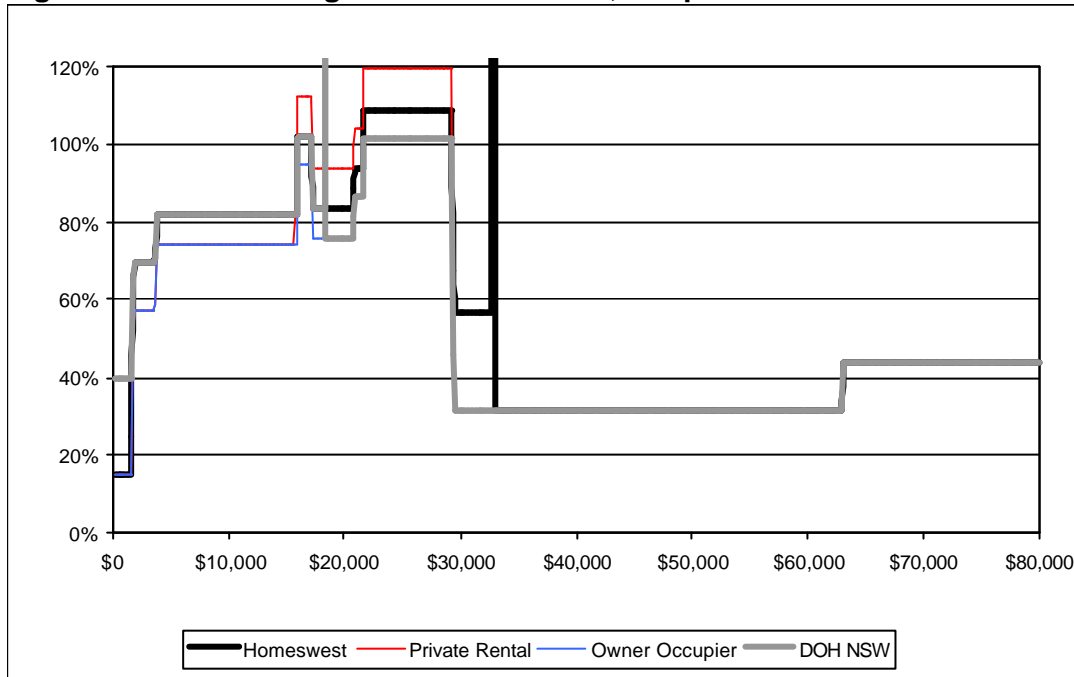
Figure 5B: Effective Average Taxation Rates, Single with 2 Children – high rent area



Financial Workforce Disincentives: Couple without Children

Figure 6 indicates the marginal effective taxation rates faced by a couple without children for salaried income between \$0 and \$80,000 per year. As with the other household situations, the results are almost identical for low rental areas (\$200 per week) and high rental areas (\$300 per week).⁴⁶ Only the EMTRs applying in low rental areas have been presented. It should be noted that the figure assumes that only one person in the household is in the workforce.

Figure 6: Effective Marginal Taxation Rates, Couple without Children



As is the case for singles, Figure 6 shows a remarkable similarity between effective marginal taxation rates across the different tenures. One feature highlighted in this figure is that all couples, regardless of tenure, face a band where their EMTRs are in excess of 100%. This band occurs for salaries between \$21,700 and \$29,300. For salaries between these levels, the employed partner faces a tax rate of 30% and a Medicare levy of 1.5%. At the same time, the dependent partner loses 70 cents of their Centrelink benefit for every dollar earned by the main income earner. The result is a household EMTR of 101.5%.

A second feature highlighted by Figure 6 is that for salaries between \$15,900 and \$29,300, private tenants face the highest effective marginal taxation rates of any tenure. This is due to the fact that over this income range, Commonwealth Rent Assistance paid to the couple phases out with the dependent partner's Centrelink benefits. For salaries between \$21,700 and \$29,300, private tenants face an EMTR of 119.5%.

Finally, couples in public housing in WA and NSW face peaks in their EMTRs associated with losing eligibility for this tenure. The difference with singles is that

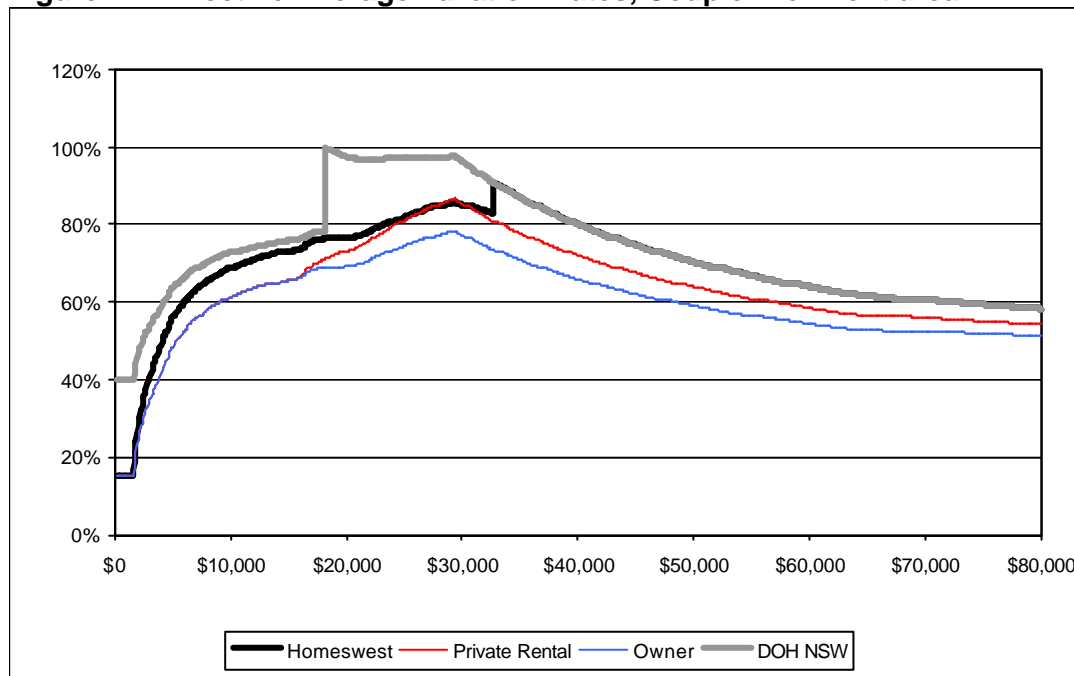
⁴⁶ Again the only difference that results from increasing rents is that the peak associated with losing public housing is increases with rent.

these peaks occur at different salary levels, \$18,300⁴⁷ in New South Wales and \$32,800⁴⁸ in Western Australia.

Figure 7 illustrates the effect of this on average effective taxation rates. The figure shows that EATRs for owner occupiers in both low and high rental areas peak at 78.5% at an income of \$29,300. EATRs for private tenants reach 86.8% at the same income. EATRs for public housing tenants in Western Australia are consistently around 5 percentage points higher than those for private tenants. EATRs for this group peak at 90.8% in low rent areas and at 106.6% in high rent areas, at the income level where tenants lose eligibility for public housing.

However, public housing tenants in New South Wales unambiguously face the largest workforce disincentives of all four groups depicted. In low rental areas, EATRs for this group peak just under 100%, while in high rental areas EATRs peak at 128.1%. Again, the main difference between public tenants in WA and NSW is that the latter group becomes ineligible for public housing at much lower income levels.

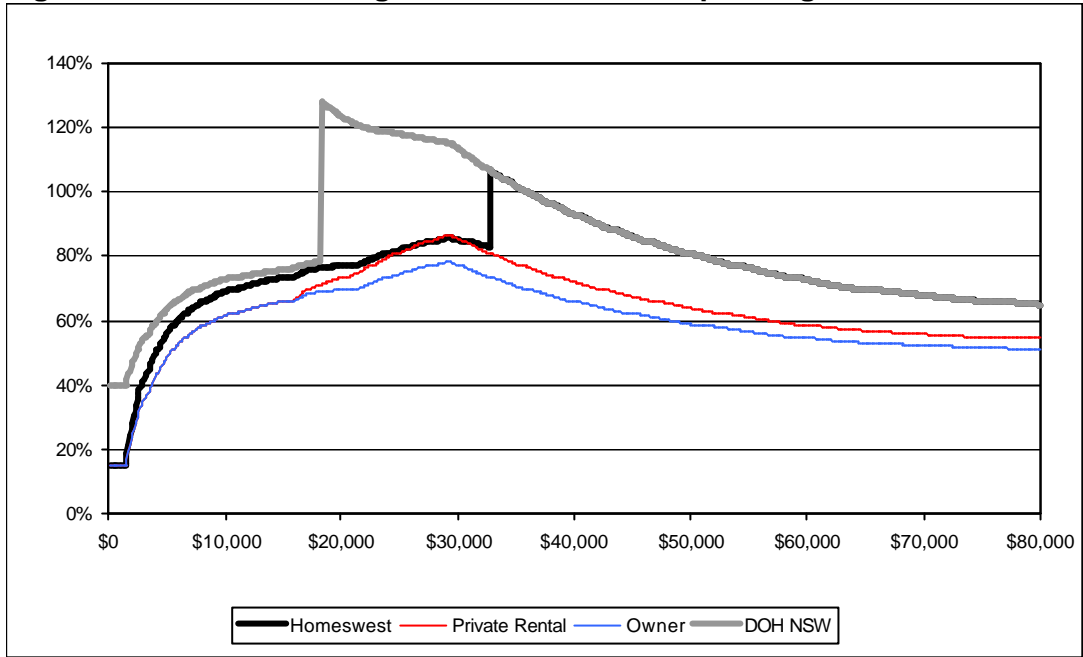
Figure 7A: Effective Average Taxation Rates, Couple – low rent area



⁴⁷ A member of a couple without children who earns a salary of \$18,300 per year does not receive any Centrelink benefits, but their partner receives \$7,714 in Newstart Allowance. This brings the couple's total household income to \$26,014 per year or \$500.27 per week, just above the NSW DOH eligibility limit for a household with two persons of \$500 per week.

⁴⁸ A couple without children, one of whom earns a salary of \$32,800 per year does not receive any Centrelink benefits. Of this \$31,240 or \$600.77 per week is assessed by the WA DHW, which is just above the eligibility threshold of \$600 per week for dual income families in the metropolitan area. Higher limits apply for people with disabilities and in North West and Remote areas.

Figure 7B: Effective Average Taxation Rates, Couple – high rent area



Financial Workforce Disincentives: Couple with 2 Children

Figure 8 indicates the marginal effective taxation rates faced by the final household, a couple with two children for salaried income between \$0 and \$80,000 per year. As is the case for the other household situations described in this paper, the results are almost identical for low rental areas (\$300 per week) and high rental areas (\$400 per week),⁴⁹ and only the EMTRs applying in low rental areas have been presented. It should be noted that the figure assumes that only one person in the household is in the workforce.

Figure 8: Effective Marginal Taxation Rates, Couple with 2 Children

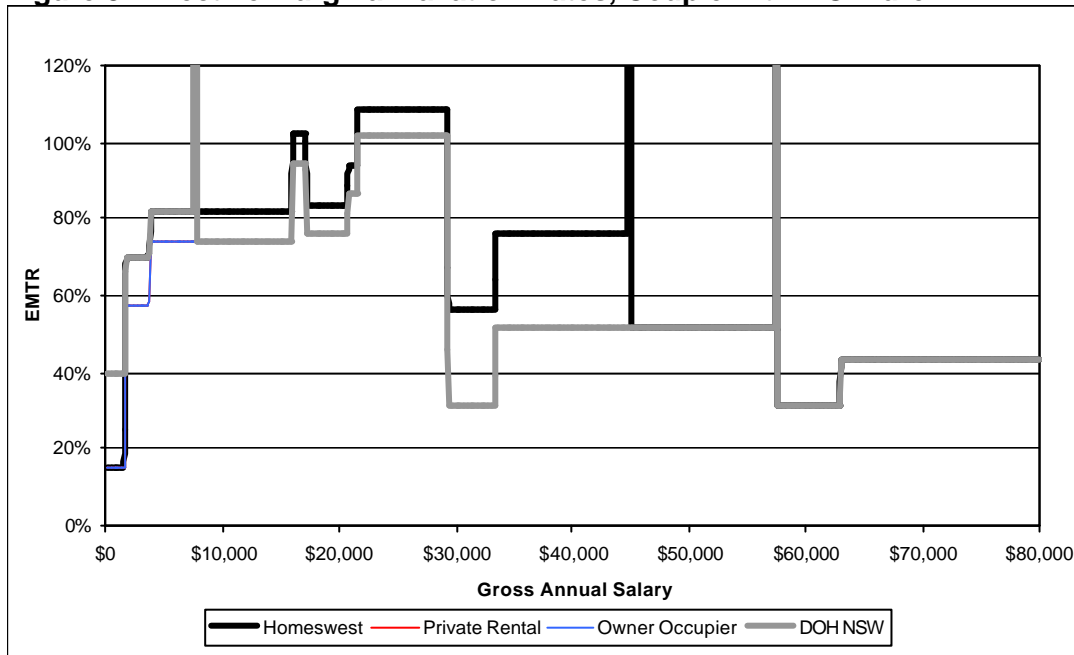


Figure 8 indicates that couples with children generally face EMTRs in excess of 75% until they reach a salary of \$29,400. The exception is public tenants in Western Australia, who continue to face these very high EMTRs up to the point where they lose eligibility for public housing, at \$45,000.

In addition to this general observation, Figure 8 highlights two issues. Firstly, couples with children face a significant band over which EMTRs exceed 100%. This is true for all tenures, and occurs for salaries between \$21,700 and \$29,300. As is the case with couples without children, this is associated with the dependent partner losing 70 cents of their Centrelink benefit for every dollar earned by the main income earner, in addition to income tax (30%) and Medicare levy (1.5%).

The second issue highlighted in Figure 8 is that the peak associated with losing eligibility for public housing occurs at very different salary levels in the two states investigated in this paper. For public tenants in NSW, this peak occurs at a salary level of \$7,700,⁵⁰ while Western Australian public tenants remain eligible to remain in public housing until their salary reaches \$45,000.⁵¹

⁴⁹ Again the only difference that results from increasing rents is that the peak associated with losing public housing increases with rent.

⁵⁰ A member of a couple with two children who earns a salary of \$7,700 per year is eligible to receive \$5,644 per year in Newstart Allowance, while their partner is entitled to an additional \$9,490. The couple also receives Family Tax Benefit (Parts A and B) of \$11,775 per year. This brings their total household income to \$34,609 per year or \$665.56 per week, just above the NSW DOH eligibility limit of \$665 per week for a household with four persons.

⁵¹ A couple with two children, one of whom earns a salary of \$45,000 per year does not receive any Centrelink benefits. However, such a couple does receive \$9,448 per year in Family Tax Benefit (Parts A and B). This brings

Figure 9 indicates that average effective taxation rates for couples with children peak at just under 80% at a salary of just over \$30,000 for both owner occupiers and private sector tenants. Private sector tenants face a minor second peak at \$57,600, which is associated with the loss of eligibility for Commonwealth Rent Assistance.

Public sector tenants in Western Australia face EATRs that are 5 to 10 percentage points higher than their private sector counterparts for salaries below \$32,000. For higher wage levels the gap widens before two relatively minor peaks associated with the loss of eligibility for public housing at \$45,000 and the subsequent loss of eligibility for Commonwealth Rent Assistance at \$57,600. The maximum EATR faced by Homeswest tenants is 86% in low rent areas and 96% in high rent areas.

Finally, Figure 9 shows that public sector tenants in New South Wales again face the highest financial disincentives to work. In low rental areas, these tenants face a peak EATR of 136.1% for the salary at which they lose eligibility for public housing (\$7,700). EATRs don't fall significantly below 100% until salaries reach \$30,000, after which they decline slowly. There is a further minor peak at \$57,600 associated with the loss of eligibility for Commonwealth Rent Assistance.

In high rent areas, the peaks occur at the same salary levels. The main difference is that the first peak, associated with the loss of eligibility for public housing, is much higher (203.6%). In this situation, the EATR does not drop below 100% until the salary reaches \$38,000.

The practical implication of tenants facing such extreme EATRs are severe. For instance, an unemployed couple with two children living in a high rental area of NSW has an after-housing net income of \$446.09 per week. If one of the couple finds a part time or casual job that pays them a gross salary of \$148.08 per week, the couple's after-housing net income actually falls to \$292.62 per week. \$11.12 of this fall in income is due to increased income tax and \$73.95 due to lost Centrelink benefits. The remaining \$216.47 results from a loss in housing-related subsidy, as the value of their Commonwealth Rent Assistance is substantially lower than the value of their rent subsidy in public housing.

Another implication for this couple is that they will be financially worse off if one of the partners finds a job with a gross annual salary between \$7,700 and \$38,000. For this salary range, the financial loss associated with the loss of public housing combined with higher income tax and the loss of Centrelink benefits more than offsets their employment income.

As is the case for singles with children, this situation is of grave concern, particularly because many unemployed public housing tenants will have difficulty finding a job that pays more than \$38,000 per year.

Figure 9A: Effective Average Taxation Rates, Couple with 2 Children – low rent area

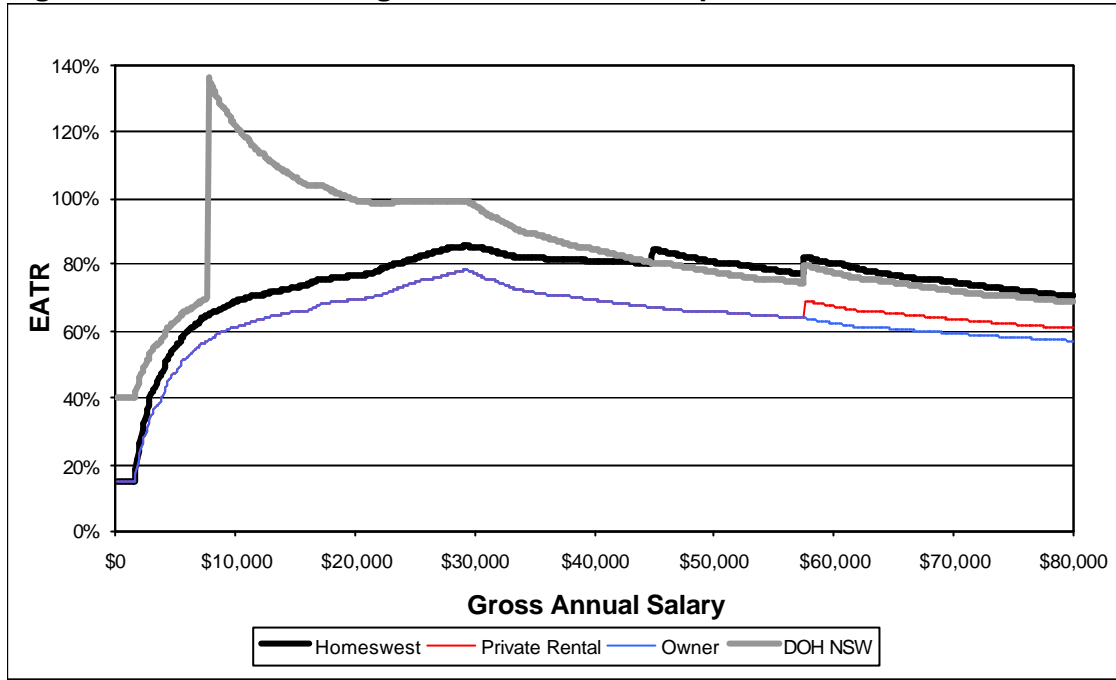
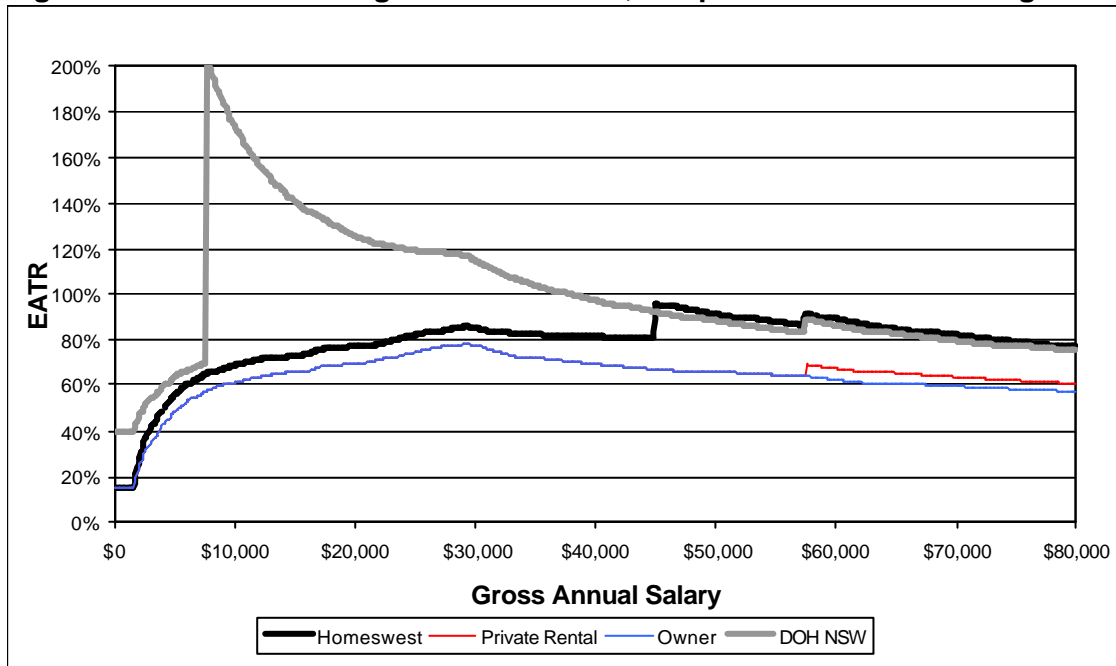


Figure 9B: Effective Average Taxation Rates, Couple with 2 Children – high rent area



Financial Workforce Disincentives: Transitional Situation

The above discussion has demonstrated that public tenants in New South Wales face some extreme disincentives to find paid employment. In order to reduce these disincentives, the *Plan for Reshaping Public Housing* in NSW proposes to reassess tenants for income eligibility at predetermined intervals of 2 to 10 years rather than continuously. At the same time, tenants whose income increases beyond certain levels will pay 30% rather than 25% of their income in rent.

As this policy does not affect long term eligibility limits, this does not alter the discussion above except in that it relates to a longer term situation. However, in the shorter term this policy does create a transitional period during which tenants face a different set of workforce disincentives. In particular, in the period between the tenant entering paid employment and their lease expiring, a different set of marginal and average effective taxation rates applies.

Depending on the renewal date of the lease, this transitional situation may last for a shorter or a longer period of time. However, as the new system reserves longer term leases for tenants who are least likely to find employment, it is to be expected that in many cases the transitional period will be shorter rather than longer.

Public tenants will respond by placing correspondingly greater or lesser importance to the transitional over the longer term effective taxation rates. For instance, tenants will apply transitional ETRs if their lease renewal is scheduled to occur years into the future, but will apply long term ETRs if the renewal is only weeks away. For intermediate periods, tenants may use a combination of both.

In addition, some tenants may use particularities within the policy to their advantage, eg. accepting jobs at early points in the cycle but resigning later on. Much will depend on the detail of the policy.

Figures 10 and 11 illustrate that the marginal and average effective taxation rates faced by public tenants in NSW in the transitional period differs markedly from those that apply in the long term. While these figures pertain to a single person household, the general conclusions are very similar for different household types.

Figure 10 shows that in this transitional situation there is no spike associated with losing eligibility for public housing. Instead, a different spike occurs at a salary of \$28,700, at which incomes tenants start to pay 30% of their income in rent, rather than 25%.⁵²

⁵² Shelter WA understands that the DOH is now proposing to phase in the higher percentage over incomes between \$28,700 and around \$33,000. This would result in EMTRs plateau-ing at a very high level for this income bracket, rather than spiking at one particular income. However, these changes have not yet been formally announced and their impact is limited.

Figure 10: Effective Marginal Taxation Rates, Single Person

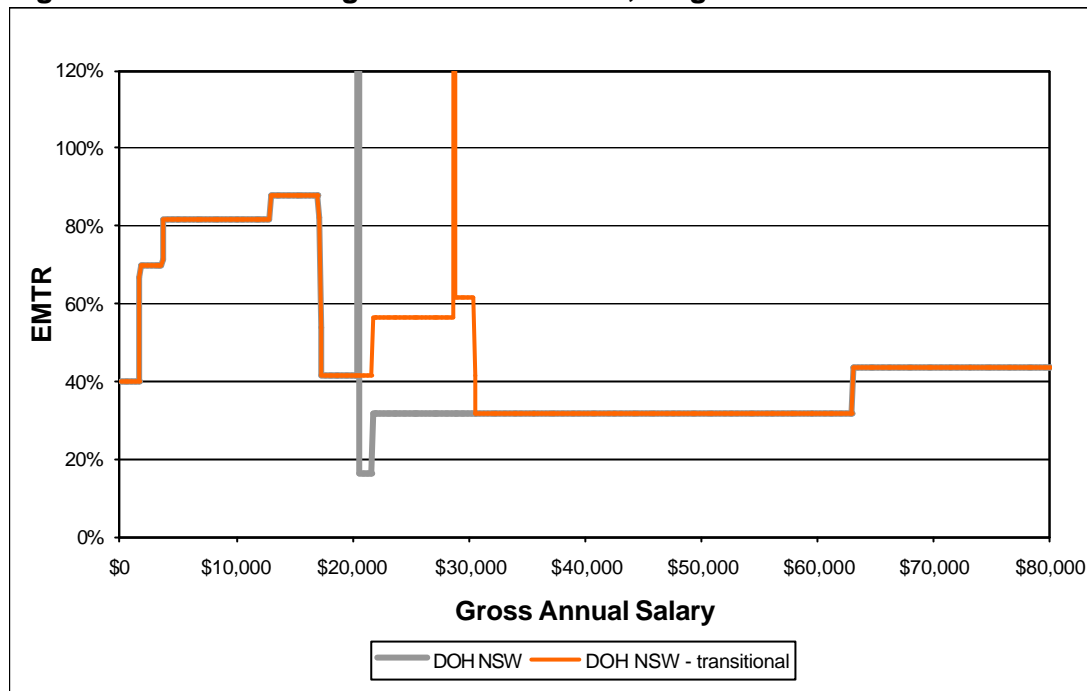


Figure 11 shows EATRs in low and high rental areas. This figure illustrates that the major peak associated with losing public housing disappears in the transitional system, and is replaced by a small 'bump' where tenants start to pay 30% of their income in rent. The effect of this increase in rent is limited because public housing rents are capped at the market rent level.

Overall, Figure 10 illustrates that reviewing eligibility on a set interval rather than continuously markedly improves workforce disincentives faced by public tenants. Despite the higher proportion of income taken as rent, the effective removal of the threat of eviction from public rental significantly reduces effective taxation rates. Unfortunately, as noted above, the improvement only applies for a limited period of time, which is likely to be shorter rather than longer for those tenants who are most likely to find paid employment.

Depending on the renewal date of the lease and the specifics of the as yet to be written policy, public tenants in NSW will therefore face a new but no less adverse set of workforce disincentives. For instance, tenants may have an incentive to accept offers of employment made early in their lease, but to subsequently resign when eligibility for public housing becomes an issue. Tenants with longer time horizons will be less likely to actively seek employment than those with shorter time horizons. Tenants will favour short term contract employment over long term career opportunities.

Perhaps the most important conclusion that can be drawn from Figures 10 and 11 is that retaining eligibility for public housing is of much greater importance in terms of financial workforce disincentives than the rent to income policy, even if this is calculated at a higher rate.

Figure 11A: Effective Average Taxation Rates, Single – low rent area

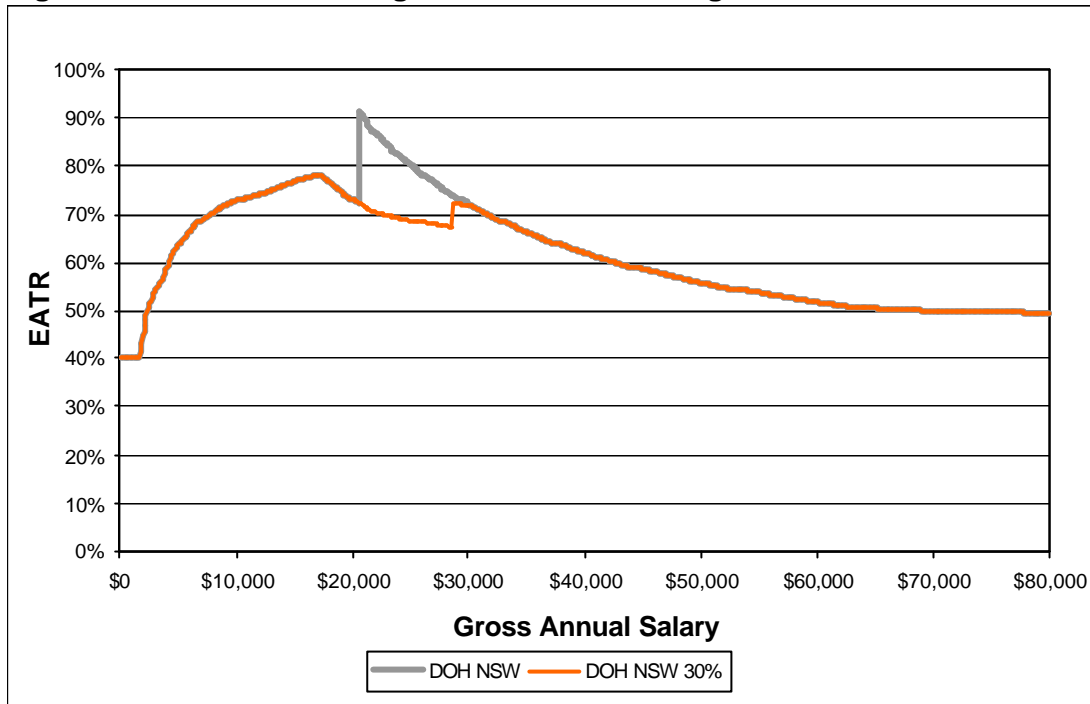
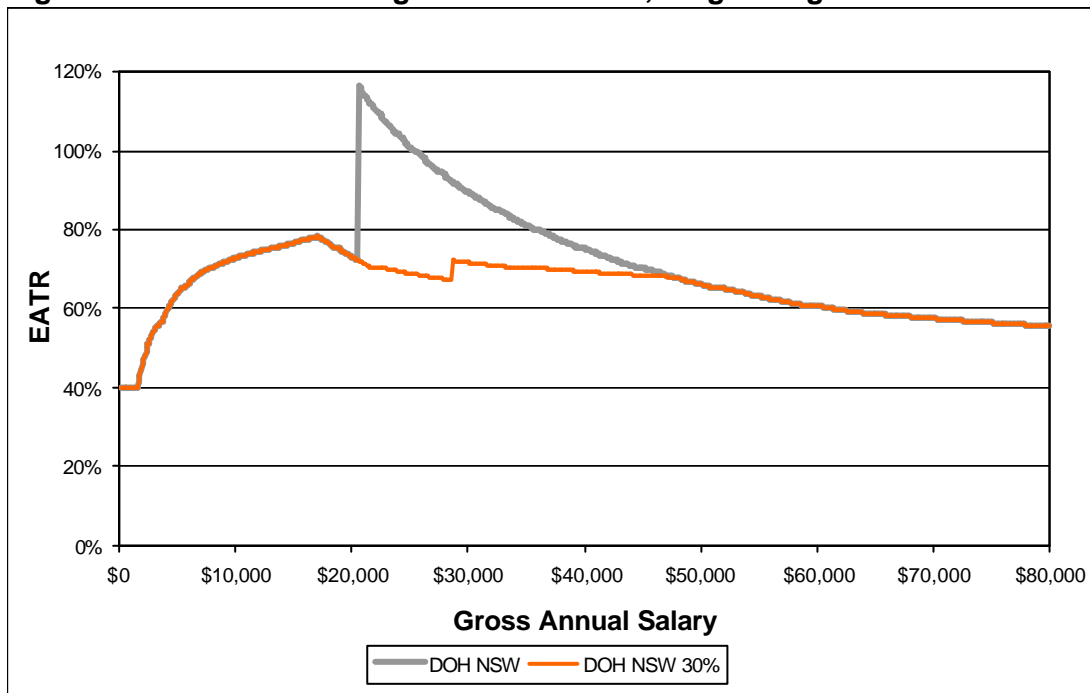


Figure 11B: Effective Average Taxation Rates, Single – high rent area



5. Conclusion

This paper has presented significant evidence that all household types studied in this paper face very high and in some cases extreme financial workforce disincentives. In many cases, both marginal and average effective rates of taxation exceed 100%, indicating that households are worse off if they enter paid employment. With regard to the differences between tenures and states, the modelling presented in this paper has yielded the following insights:

1. Financial workforce disincentives are caused primarily by the rapid loss of Centrelink benefits as salaries rise.
2. Nevertheless, in the majority of situations public housing tenants face greater financial workforce disincentives than people in other tenures. However, there are a number of situations household types and income ranges in which private sector tenants are in the worst position with regard to workforce incentives.
3. As expected, financial workforce disincentives are greatest in areas where rents are higher, because the value of the subsidy provided by public housing is greater in these areas.
4. Couples with and without children face greater financial disincentives to work than do singles.
5. Households with children face greater financial workforce disincentives than do households without children, even if the costs of childcare are not taken into account.
6. The changes to the NSW public housing system will produce financial workforce disincentives that are far greater than those produced by the WA public housing system, even if differences in rent levels between the two states are ignored.
7. The main causal factor of higher financial workforce disincentives faced by public housing tenants is not, as is commonly assumed, related to the rent to income policy. Instead, the threat of losing eligibility for public housing and the associated drop in the level of housing subsidy received appears to be the main determining factor.
8. When eligibility is left out of the equation, public housing tenants still face greater financial workforce disincentives than do households that reside in other tenures. This difference is the effect of the rent to income policy.
9. Perhaps surprisingly, the rent to income policy results in an increase in effective marginal taxation rates of less than 25% compared to owner occupiers. In the majority of situations presented the difference with private sector tenants was in the 5 to 10 percent range. In view of the fact that none of the households investigated faced maximum effective average taxation rates of less than 68.4%, the additional impact of the rent to income policy is marginal.
10. The transitional system as proposed in NSW illustrates that reviewing eligibility at set intervals rather than continuously can improve workforce disincentives faced by public tenants. However, as the improvement only apply for a limited time, the system is likely to produce a set of new but no less adverse financial workforce disincentives.

Within the public housing system, the paper also highlights some similarities and differences between the various jurisdictions that affect workforce incentives. In particular:

11. With the exception of South Australia, Australian allocations policies pay little regard to local housing markets and local conditions, such as housing quality or location. This indicates that equity considerations between households, in terms

of rents paid relative to services received, is an issue that is not being addressed. This also implies that Housing Authorities are unable to adapt their housing allocations to respond to high demand areas as opposed to low demand areas.

12. The study indicates that the date order plus priority access system used by Queensland, WA and the NT provides for a greater range of income groups to access public housing. These jurisdictions revealed relatively low percentages of new allocations by greatest need and in the case of Queensland and NT; much higher income limits, progressive workforce incentives and the use of variable income limits to accommodate a wider income range. Perhaps it is the date order component [which guarantees applicants will be housed and therefore indicates certainty] which is a key factor in promoting broader community access to public housing?
13. The priority points system used by Tasmania appears to be the most successful at targeting public housing to those in greatest need. In fact, the research indicates that the 'success' of this system is predicated on keeping a tight rein on income growth and income limits. This also seems to lock out the higher income pension groups such as aged and disabilities from accessing public rental. Housing Tasmania does not incorporate income sensitive criteria as part of its primary rationing system.
14. NSW, ACT, SA and Victoria operate segmented waiting lists. This study suggests that segments offer a variety of ways to exercise control over allocations. Nonetheless, the four jurisdictions which apply segmented waiting lists have used this system more or less to enable explicit targeting. Table 2 verified this. However, in South Australia one of the segments is being used to promote choice of housing location, albeit the strategy seems to be geared more at addressing the problem of vacant stock.
15. Interestingly the NT is the only Housing Authority receiving external funding from government to cover rental rebate costs. Targeted at the households in greatest need, the Community Service Obligation seems to be carefully managed. Some compelling research has showed that the NT Housing Authority mix of public housing policies have contributed to them having the highest levels of net income growth over the last 15 years.⁵³

⁵³ Hall, J and Berry., M, 2004, *Operation Deficits and Public Housing Policy Options for Reversing the Trend*, AHURI, Melbourne

6. Policy implications

The modelling presented in this paper suggests some strong policy implications. In particular:

1. Any serious attempt to improve workplace incentives for people on low incomes should focus on reforming statutory benefits, the income tax structure and the way in which the Medicare levy is phased in.
2. Any efforts to reduce workforce disincentives for public housing tenants should be focused on reviewing eligibility criteria rather than the rent to income policy.
3. Households with children is the group that faces the most severe financial workforce disincentives. This is overwhelmingly associated with the very low income levels at which these households lose eligibility for public housing. Public housing authorities, particularly in NSW, should review eligibility criteria for this group as a matter of urgency.
4. Allocations policies should pay more regard to local housing markets and local conditions, such as housing quality or location.
5. The NSW public housing authority should review its proposed policy to provide those tenants who are least likely to find employment with leases of the longest duration due to the negative impact this policy has on financial workforce incentives.
6. All jurisdictions should join the Northern Territory in funding the community service obligation performed by public housing authorities from central revenues.

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Appendix: Definitions

Effective Taxation Rates (ETR):

ETRs give an indication of the extent to which a person or household benefits financially from entering employment by measuring the change in net after housing income resulting from a given increase in salaried income. In addition, other costs and benefits associated with employment have not been included in the calculation of ETRs in this paper. These costs and benefits are nevertheless very real and include the benefits associated with the Health Care Card as well as employment costs such as transport and childcare have not been included in calculating Effective Taxation Rates.

Effective Marginal Tax Rate (EMTR):

The EMTR is the additional amount of taxation payable, Centrelink benefits lost and additional amount of rent that result from an individual or household earning one additional dollar of waged income. EMTRs are important in measuring the financial implications for a household that is given an opportunity to increase its salaried income by a limited amount, eg. a wage increase.

Effective Average Tax Rate (EATR):

The EATR is the increase in taxation payable, Centrelink benefits lost and increased rent for a given amount of waged income. EATRs are important in measuring the financial implications for a household that is given an opportunity to increase its salaried income by a relatively large amount, in particular entering or re-entering paid employment.