

What can be done to improve employment outcomes among people receiving housing assistance?

IMPROVING EMPLOYMENT OF HOUSING ASSISTANCE RECIPIENTS WILL REQUIRE REMOVING FINANCIAL DISINCENTIVES TO WORK IN PUBLIC HOUSING RENT AND INCOME ELIGIBILITY POLICIES, RETAINING SECURITY OF TENURE SO THAT TENANTS CAN STABILISE THEIR HEALTH AND BUILD SKILLS, AND PUBLIC HOUSING THAT IS BETTER LOCATED TO EMPLOYMENT OPPORTUNITIES.

KEY POINTS

- Poverty and unemployment traps (low or even negative financial returns to work) are more common among housing assistance recipients than other income-support payment recipients. But the financial assistance offered by Commonwealth Rent Assistance (CRA) has only small negative impacts on employment outcomes.
- Addressing tenant financial disincentives by applying CRA rules to public housing tenants could lift employment by only a modest amount but would leave many with housing affordability problems.
- Households enrolled on public housing waiting lists also face severe disincentives to enter work. This is because income eligibility rules deter job search and the acceptance of job offers until they have secured public housing: employment rates improve by as much as 12 percentage points following the transition of working age males into public housing. Longer waiting times and stricter income eligibility rules serve only to worsen these disincentives. The introduction of fixed-term tenancies might extend such disincentives through the course of the public tenants' tenancy.

*This bulletin is based on a three-year program of research directed by **Professor Gavin Wood** of the AHURI RMIT Research Centre; this study examined the impediments to economic participation among recipients of housing assistance (principally those in public housing and those receiving Commonwealth Rent Assistance). This bulletin reports the main findings and policy implications emerging from this research.*

- Policy initiatives to reduce waiting lists or relax reapplication of income eligibility tests when applicants reach the top of waiting upon entry might reduce the targeted nature of public housing but improve employment outcomes.
- Housing assistance recipients themselves argue that other factors are more important in explaining their poor employment outcomes – these include poor location, health and educational qualifications, as well as inaccessible public and private transport. The major barrier to economic participation identified by housing assistance recipients is poor health, and in particular mental health issues.
- The labour market decisions of female housing assistance recipients are less responsive to financial incentives than those of their male counterparts. Many women receiving housing assistance are parents; we believe on the basis of qualitative evidence that strongly held views about parenting responsibilities and the logistical difficulties of combining work and parenting is largely responsible for these findings.
- Policies to address financial incentives are unlikely to be effective if they do not also take into account the employability of groups such as sole parents and those with disabilities, and barriers such as the location of households in relation to employment opportunities.
- Tenants securing relatively well paid jobs are among the first to leave public housing. Singles and sole parents, particularly those occupying housing with relatively high market rents, have longer spells than most in public housing. These groups might be more likely to reduce workforce participation if faced with fixed-term tenancies.

BACKGROUND

Rates of joblessness among housing assistance recipients have reached very high levels. By 2002, over two-thirds of working-age households in public housing were 'job poor' (i.e. no-one of working age in the household is employed). This is in part due to the increasing incidence of one-adult households who receive housing assistance. Nevertheless joblessness among couple households has also

become more prevalent. This policy issue was raised in the context of the 2003 Commonwealth State Housing Agreement (CSHA). Schedule 1 of that agreement committed the States and Territories to 'introduce rent policies that reduce workforce disincentives associated with the current link between earned income and rent' (Commonwealth of Australia Gazette, 2003, No. S276, 17 July 2003).

The National Research Venture (NRV) was a three-year program of research (broadly coincident with the course of the CSHA) to examine the reasons for high rates of joblessness and to explore ways to improve economic participation outcomes for housing assistance recipients.

Of key relevance in this research program were key questions such as: do rent or other public housing income eligibility policies blunt work incentives for public housing tenants? Does Commonwealth Rent Assistance (CRA) have an adverse effect on work incentives or poverty traps? Do tenants want to work, and if so, what do they think are the barriers to entering employment? Does public housing encourage welfare dependence? What might help tenants enter work?

METHOD

The National Research Venture *Housing assistance and economic participation* has been conducted around a mixed-methods research approach that combines quantitative and qualitative methods. The quantitative research involved secondary and administrative data sets (including the confidentialised records of Western Australian public housing tenants) as well as the AHURI 3M model of the Australian housing market. The qualitative research involved in-depth interviews with over 100 recipients of housing assistance to explore the attitudes, values and behaviours of tenants in relation to the labour market. The research team has sought to use this research to help interpret the relationships uncovered by the quantitative modelling.

KEY FINDINGS

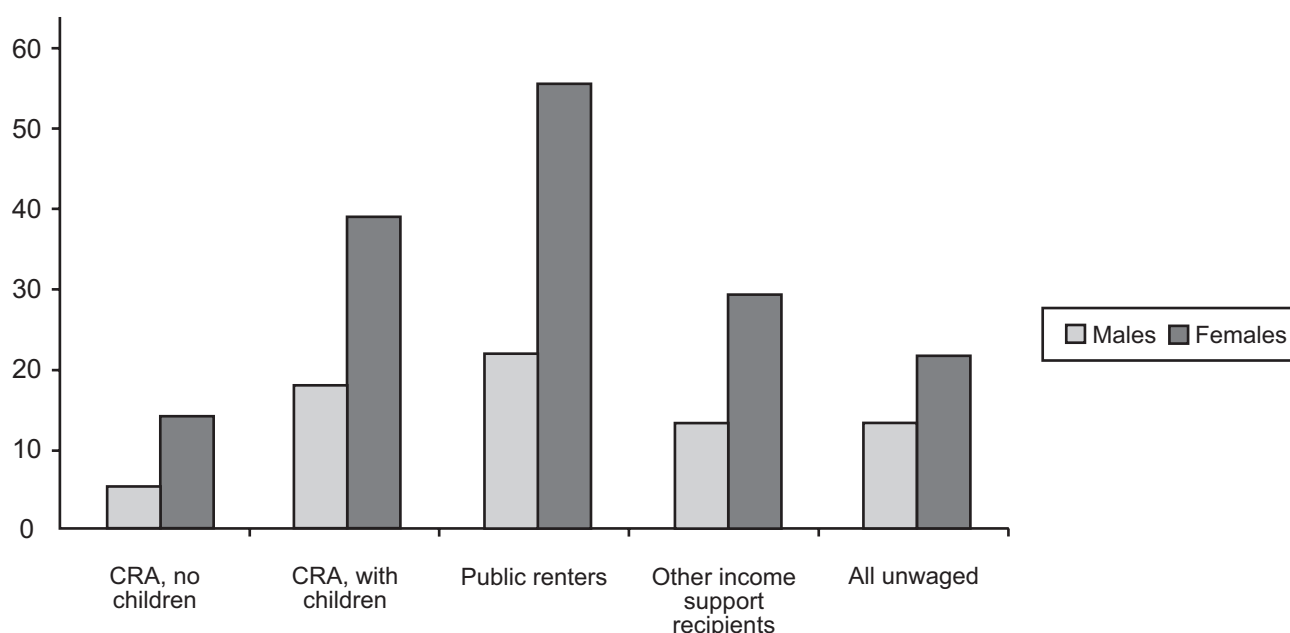
Do housing assistance programs blunt work incentives?

- Clients of housing assistance programs are more likely to be caught in poverty and unemployment traps compared to clients of other income-support programs (see Figure 1), and this is particularly evident among female sole parents. However, housing assistance programs themselves are not a main cause of this outcome.
- CRA in particular has a relatively small effect on work incentives. This is because reforms introduced in 1987 eliminated the stacking of CRA and other income-support programs, so that CRA is only withdrawn once entitlement to income-support programs has been withdrawn. The case for reform to CRA *in order to promote employment outcomes* is not compelling.
- The case for reform to public housing rent rebate formulae is stronger because income-related rent increases do accompany withdrawal of income support from allowances (such as Newstart) and pensions (such as Disability Support Pension). If the link between rents and assessable incomes were cut there would be a non-trivial improvement in the financial rewards to marginal increases in work hours, and transitions into employment.

Income eligibility rules deter public housing tenants from taking up work

- Public housing eligibility rules which make offers of tenancies conditional on satisfying income means tests might also have an effect on the willingness of those on the public housing waiting list to search for and take up employment. By contrast, once an offer of public housing has been accepted there is security of tenure and tenants are not evicted simply because their income is above the thresholds that are applied while on waiting lists.
- Our modelling indicates that this 'welfare lock' could have sizeable negative impacts on employment outcomes. This is most evident among males; we estimate on the basis of Western Australian data that male employment rates improve by as much as 12 percentage points following their transition into public housing. There is reason to believe that this gain is largely due to welfare locks rather than the positive benefits of housing stability, though the latter cannot be entirely discounted.

FIGURE 1: PER CENT OF UNWAGED WORKING-AGE PERSONS CAUGHT IN UNEMPLOYMENT TRAPS, BY HOUSING ASSISTANCE STATUS AND GENDER, 2002



Health, access to transport, skills and capacity to handle parenting responsibilities are crucial prerequisites for economic participation

- The health of recipients, in particular mental health issues (such as depression and anxiety disorders) was the single most important barrier to economic participation as identified by housing assistance recipients.
- Where people live is also important. Many housing assistance recipients do not drive or own a car and are dependent on public transport. Place also matters in terms of the logistics of working and caring and managing health conditions, as well as the stigma of living in an area which may affect capacity to enter paid work.
- Housing assistance recipients have low levels of educational achievement and the jobs they can get are often low skilled and low paid. Tenants thought that better levels of education and training would be the most important factor in improving their capacity to engage in paid work in the future, although there was some disenchantment with the usefulness of the types of education and training currently on offer. Of the Mutual Obligation Activities selected by housing assistance recipients, education and training delivers inferior employment outcomes as compared to the outcomes of those electing to receive employment assistance (such as help with preparation of resumes, job search, interviews and so on). Furthermore there was no evidence of synergies between housing assistance and Mutual Obligation Activities. This finding contrasts with those of a number of United States studies that find that welfare-to-work recipients also receiving housing assistance fare better than other welfare-to-work participants.
- Among women, cultural values and beliefs about being a good mother are important in shaping attitudes to paid work. For women (especially those with children), work is seen to be uncertain, episodic, financially unrewarding and will make parenting more difficult. These attitudes, allied with logistical and other problems of combining paid work and parenting, could well be a key reason why other quantitative data shows that

female labour market behaviour is (relative to males) less responsive to financial incentives.

Is welfare dependence apparent among public housing tenants?

- Welfare dependence is an idea based on the hypothesis that welfare recipients are less likely to exit 'welfare rolls' the longer they have spent on welfare. A long-term presence in public housing is believed to stifle initiative and erode self-confidence, while skills and workplace knowledge depreciate if not working, the latter effects making it increasingly difficult to re-enter the workforce.
- There is some evidence to suggest that welfare dependence exists. Modelling using Western Australian data reveals that the exit rate from public housing among high-earning employed tenants exceeds that for other employed tenants, and those of unwaged tenants. This is suggestive of a negative relationship between economic independence and the length of residence in public housing. However, there are other variables that also play an important role in shaping exit rates from public housing. Single individuals and sole parents tend to have longer spells in public housing compared to couples. The presence of additional children and a higher *market rent* are also associated with a lower likelihood of exiting public housing.
- Even so, rates of employment among public housing tenants increase over time after entry. Furthermore, housing assistance recipients surveyed often had unstable and fractured family, employment and housing histories and for them security of housing is likely to be of particular importance in facilitating economic participation.

POLICY IMPLICATIONS AND PROPOSALS

This research indicates that the policy challenge is not just about reconnecting people with paid employment, but rather addressing longer-term and difficult issues about family instability, low education levels, poor physical and mental health, and combining paid work and parenting.

Reform of public housing rent formulae

State Government Housing Authorities have responded to concerns about work incentives by introducing changes to formulae that are designed to sharpen incentives to work. Rent holidays that leave rents unchanged for a period of time following acceptance of a job offer (as in Victoria) aim to encourage the take-up of temporary or casual jobs. In Queensland the State Housing Authority sets rents in relation to after tax income, while Western Australia has a working allowance that exempts a threshold amount of earnings per week from rent calculations. However, impact analyses conducted with respect to the Western Australian working allowance suggest that impacts on work incentives are marginal at best.

An alternative would be to set rents at some minimum for all properties of a given size and type, and then adjust rent upwards as income increases above the threshold where entitlement to income-support programs is lost. This would then harmonise the withdrawal of public housing assistance with that of CRA, and avoid the multiple stacking of benefits and HA tapers that is a key source of unemployment and poverty traps. However, this proposal would introduce more complex rent formulae that are less transparent.

A potentially more radical reform would involve replacing rebated rents by market rents and extending eligibility for CRA to public housing tenants. Modelling indicates that the number of working age tenants caught in unemployment traps is cut by more than one half from 110,182 to 44,625 tenants. But the estimated effect on employment outcomes is modest

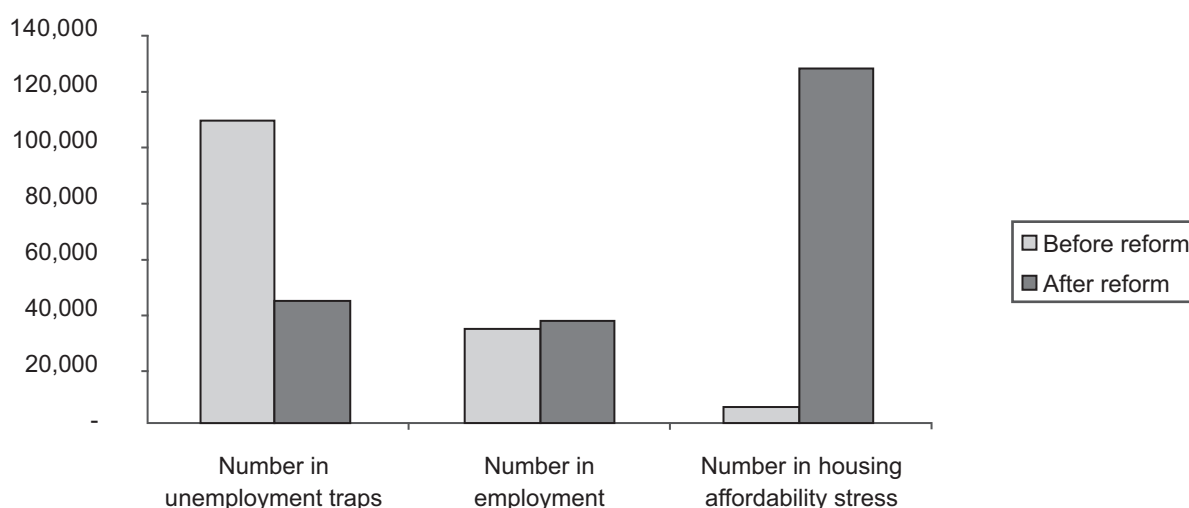
– only 2,460 tenants would make the transition into employment following this reform. There is also a trade-off with housing affordability stress because housing cost burdens are typically higher under the proposed reform. Under the existing system, rebated rents are typically 20 per cent of gross income, and only 5,914 (1.6%) working age public renter households are in housing affordability stress. After such reforms rents net of CRA would be 29 per cent of gross income and 128,700 (34%) working age public renter households would be in housing affordability stress (see figure 2).

Income eligibility rules and the Home Credit Fund

Waiting list applicants can face disincentives to enter work prior to entering public housing because income eligibility rules apply prior to entry but then are effectively relaxed after entry to public housing.

State Housing Authorities might reconsider the application of income eligibility rules to those on public housing waiting lists: income eligibility rules might be applied when an applicant joins waiting lists but not applied from then on (regardless of subsequent earnings and income, applicants admitted onto waiting lists receive an offer of public housing, and the lease continues to offer security of tenure, again regardless of income and earnings). To address concerns about the targeting of housing assistance, the market rent cap could be relaxed. If tenants secure employment and earnings such that rent formulae result in rents exceeding market rent, this is the amount that tenants are charged for their public housing unit. To empower tenants

FIGURE 2: IMPACTS OF REFORMING THE PUBLIC HOUSING RENT FORMULAE



and offer pathways to economic independence, the rent increment in excess of the market rent could be deposited in a Home Credit Fund that can be accessed on exit from public housing and used as a deposit on home purchase, or to meet bonds required by landlords of private rental housing.

Some jurisdictions (e.g. New South Wales) have sought to 'extend' income eligibility rules over the course of the tenure of a public housing tenant by offering fixed-term tenancies that are not renewable unless tenants can be shown to be in 'need'. This has been motivated by a desire to target the scarce stock of public housing to those most in need by requiring those on higher incomes to exit public housing. Unfortunately this could be counter-productive if they encourage tenants to 'game the rules' (not take up work or exit work prior to the end of the term) in order to renew tenancies. This might reduce employment outcomes for this group.

Tackling non-financial barriers to paid work

Strategies to address poor health, and in particular poor mental health, will be required to assist many housing assistance recipients into paid work. This will require coordination between health and housing agencies including improved and ongoing support to ensure stability of housing and personal circumstances as a precursor to considering paid work, and modification of activity requirements to take into account their impact on people with mental health issues.

Housing assistance recipients have poor levels of educational attainment. A potentially productive approach is to target housing assistance recipients for scholarships (funded from education budgets) to complete school and/or move on to tertiary

and further education. Better qualifications will help recipients to secure higher skilled jobs and escape the poverty and unemployment traps associated with low-wage work.

Although most single parents want to work, they are unwilling to enter paid work if they think that this will negatively affect their children in the short term, and are concerned that the jobs available to them do not fit with caring responsibilities. Offering support to assist sole parents with the demanding logistics of working and caring for children of school age, is critically important for this group. As many have interrupted work careers and report low self-esteem, help in updating skills and preparing for employment could also be important.

Improving the spatial outcomes of housing assistance could require a more geographically sensitive CRA formula and selling down social housing assets which are poorly located and reinvesting in appropriate locations. Housing agencies could also work with local government and others to improve public transport to areas of social housing.

FURTHER INFORMATION

This bulletin is based on AHURI project NRV1, Housing assistance and economic participation.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

Or contact the AHURI National Office on +61 3 9660 2300

www.ahuri.edu.au



HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

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