

Final Report

Work disincentives and housing assistance

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CONTENTS

EXECUTIVE SUMMARY	I
1. INTRODUCTION.....	1
2. POLICY CONTEXT	3
2.1. Disincentives for public housing renters: Rent increases	3
2.2. Disincentives for private renters: Losing RA.....	5
3. HOUSING AND WORKFORCE DISINCENTIVES	6
3.1. Introduction.....	6
3.2. Unemployment and poverty traps and work disincentives	7
3.3. Behavioural factors.....	8
4. RESEARCH METHODS	10
4.1. Introduction.....	10
4.2. Literature review of the links between housing costs, housing assistance and work disincentives.....	10
4.3. Survey of unemployed renters.....	10
4.4. A note on the analysis	13
5. THE IMPACT OF RENTAL HOUSING COSTS AND CONDITIONS ON WORK DISINCENTIVES 14	
5.1. Introduction.....	14
5.2. Access to rental housing and the ‘compositional effect’	14
5.3. Rent setting and financial disadvantage.....	16
5.4. Capacity to maintain rental arrangements.....	19
5.5. Housing costs and conditions and labour market position	20
5.6. Summary	23
6. DESIGN AND ADMINISTRATION OF GOVERNMENT RENTAL HOUSING ASSISTANCE AND WORK DISINCENTIVES.....	24
6.1. Introduction.....	24
6.2. Calculating the financial returns from working: The role of housing assistance.....	24
6.3. Understanding the impact of getting a job on rental housing assistance	28
6.4. Location and work disincentives.....	31
6.5. Summary	33
7. BEHAVIOURAL RESPONSES TO WORK DISINCENTIVES	35
7.1. Introduction.....	35
7.2. Financial and non-financial reasons for taking on paid work.....	35
7.3. Difficulties in getting a job: The role of housing related work disincentives..	38
7.4. Trade-offs: Getting a job and location of residence.....	42
7.5. Summary	44

8.	A REVIEW OF POLICY APPROACHES	46
8.1.	Introduction.....	46
8.2.	Making work pay': Getting ahead financially	46
8.3.	Skills, education and jobs	51
8.4.	Location: Housing and jobs	53
8.5.	Summary	55
9.	CONCLUSIONS.....	57
9.1.	Private rental	58
9.2.	Public rental.....	59
9.3.	Final comments	59
	REFERENCES	61

LIST OF TABLES

Table 4.1: Final sample, by renter type.....	11
Table 4.2: Final sample, by location of interview	11
Table 4.3: Final sample: renter type, by LOTE and non-LOTE status	12
Table 4.4: Final sample: renter type, by income support status	13
Table 5.1: Age and gender of unemployed job seekers, by rental housing arrangement	14
Table 5.2: Living arrangement of unemployed job seekers, by renter type	15
Table 5.3: Highest level of education of unemployed job seekers, by renter type	16
Table 5.4: Total rent paid per week by respondent (personal rent payment), by renter type	17
Table 5.5: Current employment status by median weekly income after tax and other deductions, by renter type	20
Table 6.1: Mean weekly current unemployed income and mean net weekly income in previous job for those who have worked in the last two years and are currently receiving benefits.....	27
Table 6.2: Mean maximum and minimum weekly income expected from next job and mean additional income required to match current benefits income after working expenses (all cases)	28
Table 6.3: Public renters' perceptions of rent setting and work disincentives.....	30
Table 6.4: Public renters' perceptions of rent administration	30
Table 6.5: Renters' perceptions of the link between security and flexibility associated with rental type.....	32
Table 7.1: Most nominated difficulties in getting a job, by renter type	41

LIST OF FIGURES

Figure 2.1: Households by tenure and labour force status, 1999	4
Figure 3.1: Elements of housing and housing assistance that may impact on work disincentives	7
Figure 5.1: Unemployed private renters reporting difficulties in paying the rent, by location	17
Figure 5.2: Unemployed renters' car ownership, by location	18
Figure 5.3: Length of time that unemployed renters have lived in their current home, by renter type	19
Figure 5.4: Time in receipt of Centrelink payment, by renter type	21
Figure 5.5: Length of time since unemployed people last did any paid work, by renter type	22
Figure 6.1: EMTRs for a single unemployed adult on Newstart moving into paid work	26
Figure 6.2: 'If you get a job or work more hours, how concerned are you about the effect this might have on your rent?', by renter type	29
Figure 6.3: Unemployed renters' views on 'Do you think that living in this area makes it difficult for you to get a suitable job?', by renter type	31
Figure 6.4: Unemployed renters' views on 'Do you think that living in this area makes it difficult for you to get a suitable job?', by location	32
Figure 7.1: 'What type of job are you looking for?', by renter type	35
Figure 7.2: Respondents' attitudes to taking a job or working more hours under a range of scenarios about net income compared to current net income	37
Figure 7.3: Three main reasons for wanting to work (in priority order), all renters	38
Figure 7.4: Three main difficulties nominated by unemployed renters in getting a job (in priority order)	39
Figure 7.5: Main (first priority) difficulty in finding work, by renter type	40
Figure 7.6: Percentage of respondents nominating locational disadvantage as one or more of the three main difficulties in getting a job	41
Figure 7.7: Most important additional cost associated with working (first priority), by renter type	42
Figure 7.9: Choice of living in own area with no job or moving and getting a job, by renter type	44

EXECUTIVE SUMMARY

In recent years there has been increasing recognition that housing policies and programs can also affect other aspects of individual and community wellbeing, so called 'non-shelter outcomes', such as participation in paid employment, health status, education levels and community cohesion. There has been most interest at a policy level in the linkages between housing assistance and participation in paid employment, driven largely by the Commonwealth's 'welfare reform' strategy.

But despite the flurry of activity by housing policy makers in trying to come up with measures to improve employment participation by unemployed renters, for example, as part of urban renewal projects, the interrelationship between housing, housing assistance and work disincentives is not well understood in the Australian context. Moreover, the impacts of this interrelationship are tenure specific. The disincentives faced by unemployed public housing renters are different from that faced by unemployed private renters. For the former, taking a job usually means an increase in rent. For the latter, it usually means the loss of Commonwealth Rent Assistance (RA).

This report aims to fill a gap in our knowledge about the role of housing and housing assistance in contributing to disincentives to taking up paid work or working more hours. Based on a survey of 400 renters in both the public and private sectors in Sydney and Melbourne who were actively seeking work, it confirms that there are significant barriers and disincentives stemming from the housing position of these renters.

In particular, the report aims to answer the four specific research questions:

What impact do the costs and conditions associated with housing tenure have on the capacity of unemployed people to move into work?

To begin with, the different profile of unemployed renters living in the three rental types identified in the research – public rental, private rental and sharers – suggests that the 'compositional effect' of different rental tenures is important in explaining different rates of economic participation and may be important in understanding responses to work disincentives. In particular, the survey findings suggest that public renters could be expected to face the greatest workforce disincentives due to issues around gender, age, family responsibilities and length of time out of the workforce and in receipt of Centrelink payments. Private renters, particularly those living in Sydney, also face considerable disadvantage while unemployed due to high rental costs, consequent financial stress, insecurity about their housing and inability to afford car ownership. In addition, the findings confirmed the highly marginal and generally low skilled labour market positions of unemployed renters in the survey. Two-thirds had been employed on a casual or part-time basis in their last job and wages were low, with median take-home pay around \$400 per week.

Does the design and administration of government housing assistance contribute to financial disincentives to taking a job?

Government rental housing assistance does contribute to work disincentives. The design of RA works reasonably well in minimising work disincentives for sharers and private renters in receipt of assistance due to a single rate of withdrawal of Centrelink payments. As people earn more from work, withdrawal of RA does not stack on top of already very high effective marginal tax rates (EMTRs) of between 65 and 85 per cent caused by the combined effects of Centrelink payment withdrawal and income tax/Medicare levy. However, since RA provides additional income, it extends the income band over which Centrelink payments are withdrawn and over which very high EMTRs apply. The high levels of effective taxation extend for much of the working

income range of the typical unemployed renter interviewed in the survey. These effects are likely to be higher in high cost areas, such as Sydney and Melbourne. In the public housing sector, the financial disincentive effect is more marked. The effect of setting rents based on income in most public housing is to increase EMTRs potentially by up to 25 per cent, although this type of rent setting does not necessarily extend the income band over which very high EMTRs apply.

Turning to the financial benefits of working, the real return from getting a job is to almost double an average unemployed renter's take-home income. This increase amounts to just under \$200 per week on average. However, this is before both the loss of concessionary payments (not included in this research project) and the additional costs of working are allowed for. For private renters, the loss of RA will have a further impact, while for many public renters the increase in rents cuts the net financial gain by around a quarter. Renters in the sample were well aware of these financial returns and the likely incomes they will get when they get a job.

These findings suggest that unemployed renters face a considerable unemployment trap which means that it is difficult to move into work, and a poverty trap in terms of getting ahead financially when in work in the context of the low wages typically earned by this group. The design of housing assistance is a contributor to these traps although most of the disincentives result from the interaction of the tax and income support systems more generally.

What behavioural responses result from this calculation and what other factors are important in making decisions about paid work?

Despite the desire to get ahead financially, a clear majority (71 per cent) said that they would still take a job if they only came out 'about even' in terms of net income compared to their income whilst looking for work. Indeed, a sizeable minority would work for less than they were getting as an unemployed person. Whilst financial improvement was a very strong motivator, many respondents indicated that getting a job was also important for their self-confidence and self-esteem and for them to maintain their skills. The longer a person had been out of work, the more important these non-financial reasons for getting a job became.

Many face significant barriers to getting a job. The main difficulties in getting work nominated by the unemployed job seekers in our sample were discrimination by employers who considered them to be either too old or too young, the location of current residence relative to jobs, and lack of skills, education and poor health status. In terms of implications for housing policy, location was an important factor across the three rental types, highlighted by the associated significant concern with the importance of the costs of travel to work. As three in five of the sample did not own a car, such costs are clearly an important issue.

A further implication for housing policy was the significant minority of public renters (25 per cent) who saw increased rents when in paid work as the most important additional cost of working. In contrast, we found no indication that the loss of RA played a significant role in the job decisions of respondents who rented privately. This may be a result of the fact that RA is bundled with other income support payments, so recipients simply do not perceive it to be a specific housing subsidy. Alternatively, it may be that RA makes only a limited contribution to meeting rents in the higher-cost metropolitan areas in which this research was conducted. This aspect of the issue required further research.

The significance of housing location and transport costs as barriers to employment was reflected in answers to questions about moving to get work. Just under half of the sample indicated that they would willingly move to another area to find a suitable job.

Few said they would not be prepared to move at all, although public renters were more willing than other groups to stay in their current area without a job. It appears that they are reluctant to trade away the benefits of public housing (security, affordability and community) for a job elsewhere, especially if they are likely to get casual or episodic work. Private renters do not have these benefits to trade and may have less to lose if they move to get a job.

However, given appropriate housing and job opportunities, few respondents in our sample would not consider moving to get a job. This suggests that their current location has to do with the availability of low cost rental housing rather than any intrinsic attraction to the area or the availability of appropriate employment opportunities.

What examples are there of initiatives to link housing assistance with incentives for people to work or to work more hours?

A review of nineteen potential policy interventions from existing practice both in Australia and overseas are presented in the report and indicate a wide range of potential policy approaches to this issue. These are grouped into four main headings.

1. Interaction of the income support, RA and tax systems

Option A.1: Change the design of RA to take into account the higher rental costs typically associated with areas with strong job markets.

Option A.2: Move towards individualised assistance as a component of mutual obligation packages, particularly targeting those who have been out of work for the longest and who face the greatest difficulty in finding work.

Option A.3: Convert RA into a specific rental housing payment or housing allowance for low-income private renters, whether they were on Centrelink payments, in paid work or a combination of the two.

Option A.4: Housing payment plus housing tax credit for working households: continue RA as a cash transfer for people who are unemployed, but move to a housing tax credit for private renters who are working in low paid jobs.

Option A.5: Address the more general problem of high EMTRs for those moving from Centrelink benefits and into work. Make changes to the income support or taxation systems to boost in-work income in order to reduce the need for specific assistance with rental housing costs.

2. Rent setting in public housing

Option B.1: Change the definition of assessable income, for example, to assess rent on after tax rather than before tax income.

Option B.2: Disregard some or all earned income in assessing rents, possibly as a short-term measure to assist the transition to work or over a longer time period.

Option B.3: Mutual obligation packages: Offer renters arrangements in which the rent increases that would have been charged due to increased earnings from work are deposited in a savings account.

Option B.4: Place-based approaches, including making changes to rent setting selectively in targeted areas where unemployment among public renters is high to encourage participation.

Option B.5: Move away from setting rents based on incomes to property based rents that do not change whether the renter is in or out of work. This would need underwriting through an effective RA scheme.

3. *Skills, education and jobs*

Option C.1: Develop skills and self-confidence as a component of community renewal projects.

Option C.2: Develop skills and self-confidence through specific initiatives.

Option C.3: Contractual agreements between unemployed people and public housing agencies, comprising a mixture of incentives and compliance elements to encourage renters keeping a job.

Option C.4: Longer-term investment in education and vocational training to improve unemployed renters' prospects of getting jobs other than casual or unskilled work.

4. *Location: housing and jobs*

Option D.1: Create jobs in, or attract jobs to, areas where unemployed renters live.

Option D.2: Assistance with transport to work in areas with jobs or transitional assistance in transport cost on getting a job.

Option D.3: Reconfigure public housing to ensure that it is located in areas with available jobs.

Option D.4: Introduce housing management policies that enable public renters actively seeking work to live in or move to areas with better prospects of getting a job.

Option D.5: Reconfigure RA and state/territory assistance for private renters according to labour market conditions.

No single option will address the range of issues that unemployed renters face in getting a job. It is therefore likely that a range of initiatives will be needed to act in unison to offer unemployed people living in the three rental arrangements a better chance of accessing and maintaining a job.

1. INTRODUCTION

In the past few years, government and others have expressed a growing concern over the way that housing assistance and income support systems interact to provide incentives or disincentives for unemployed people to enter paid employment (Industry Commission 1993; Croce 2000). While there is a growing literature in Australian social policy and labour market studies looking at work disincentives (e.g. Keating and Lambert 1998; Redmond 1999), none has an explicit housing focus. Nevertheless, housing costs are the single most important financial outlay for most households and have long been recognised as a key element in studies of poverty and household wellbeing. Various types of assistance, including public housing, community housing and Commonwealth rent assistance (RA), attempt to address the problem of high housing costs faced by low income households, but little is known about their effect on work incentives and disincentives.

In one of the few studies to examine the role of housing assistance in relation to work disincentives in Australia, Burke and Wulff's (1993) study of public housing renters in Queensland and Victoria found that they faced a real and not just a statistical poverty trap in entering employment. Despite this, some still undertook paid work for a range of reasons, not just related to income. However, the study was limited in terms of non-behavioural assessment of work disincentives, and did not consider the position of private renters or home owners. Moreover, the nature of the housing assistance has changed markedly since 1992-93 when the research was undertaken.

There has also been growing recognition since the early 1990s of massive changes in labour markets in Australia which have impacted in different ways not only on types of households but also on local and regional areas (e.g. Borland, Gregory and Sheehan 2001). Low cost housing is found increasingly in areas with limited job opportunities so that households who live in or move to such areas to obtain cheaper housing may experience more difficulty in finding work. Conversely, those living in, or moving to, areas with better job opportunities are often faced with high housing costs.

This report aims to fill a substantial gap in our knowledge about the role of housing and housing assistance in contributing to disincentives to taking up paid work or working more hours. In particular, it aims to answer four specific research questions:

- What impact do the costs and conditions associated with housing tenure have on the capacity of unemployed people to move into work?
- Does the design and administration of government housing assistance contribute to a situation where people decide that it is not in their interests to enter the labour force because there is little or no increase in disposable income as a result of moving into work or working more hours?
- What behavioural responses result from this calculation and what other factors are important in making decisions about paid work?
- What examples are there of initiatives to link housing assistance with incentives for people to work or to work more hours?

These questions are addressed in the following report. Chapter 2 summarises the policy context within which the research questions are based. Chapter 3 offers a brief overview of the concept of work disincentives and presents a conceptual framework for the analysis of these effects, differentiating broadly between structural and behavioural factors. It then outlines the ways in which disincentive effects have typically been quantitatively analysed in previous research, and concludes with a discussion of behavioural aspects of disincentives. Chapter 4 outlines the research method. The key four research questions outlined above are then sequentially addressed in the following four chapters. Chapter 5 reviews the evidence for the

tenure specific influences on job search decisions. Chapter 6 looks at the way in which the operation of assistance programs deters unemployed renters from taking a job, including the extent of financial disincentives. Chapter 7 explores the wider behavioural factors that underlie the job search decision that renters in different tenures make. Chapter 8 presents the findings of a review of approaches and ideas for minimising the work disincentive effects of housing assistance drawn from examples of current practice in both Australia and overseas. Finally, Chapter 9 presents some brief conclusions.

2. POLICY CONTEXT

Housing policies and programs have traditionally been assessed in terms of housing outcomes such as affordability, appropriateness and adequacy of housing and security of tenure. More recently, there has been increasing recognition that they can also affect other aspects of individual and community wellbeing, so called 'non-shelter outcomes', such as participation in paid employment, health status, education levels and community cohesion (Bridge et al. 2003). There has been most interest at a policy level in the linkages between housing assistance and participation in paid employment, driven largely by the Commonwealth's 'welfare reform' strategy.

But despite the flurry of activity by housing policy makers in trying to come up with measures to improve employment participation by public housing renters, for example, as part of urban renewal projects, the interrelationship between housing, housing assistance and work disincentives is not well understood in the Australian context, as an extensive literature review conducted as part of the research confirmed (Hulse et al. 2003). In essence, the issue is different for unemployed public and private housing renters. For the former, taking a job means an increase in rent. For the latter, it usually means the loss of RA. We will review these positions in turn.

2.1. Disincentives for public housing renters: Rent increases

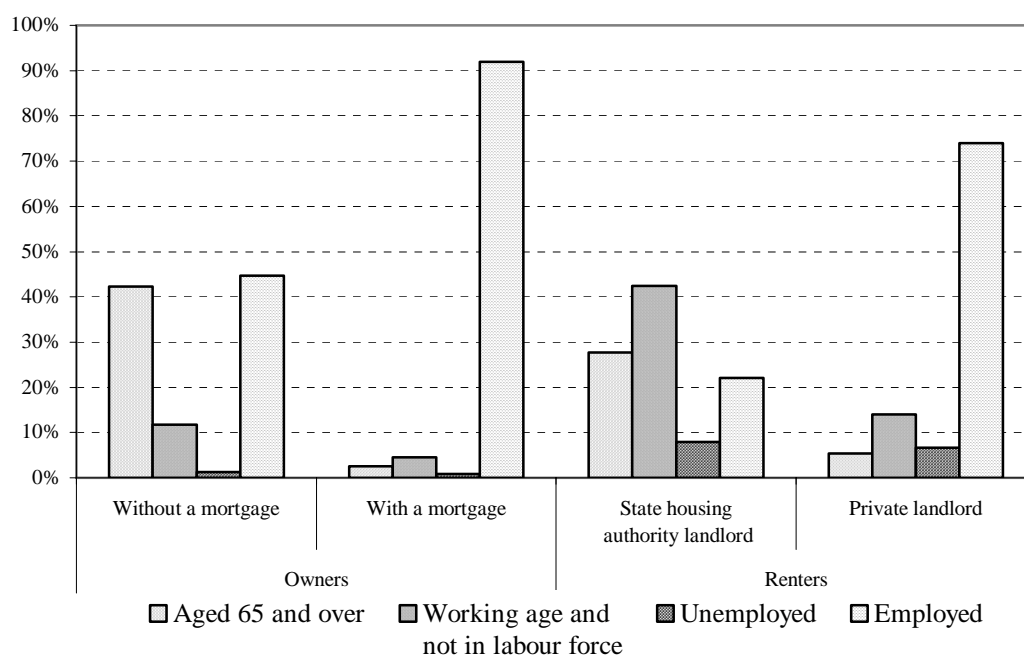
A major stimulus for increased attention to the role of housing costs and housing assistance in creating work disincentives has been the observation that rates of participation in the labour force for public renters are lower than for any other tenure group. Three in ten public renters are in the labour force, comprising 22 per cent in work and 8 per cent who are unemployed and actively seeking work. More than four in ten (43 per cent) are of workforce age but not in the labour force (Hulse et al. 2003: Figure 2.1). These observations raise many questions. Does the design of public housing assistance, such as setting rents based on a percentage of income, contribute to disincentives to work? Do other aspects of management create difficulties for renters in accessing work, such as limited mobility due to transfer policies or restrictions on home working? Does the location of public housing make it difficult for renters to undertake paid work? Has targeting to those with the highest support needs meant that public renters are increasingly the most marginalised and face the greatest difficulties in terms of the labour market?

The key issue facing any unemployed public housing renter is the potential impact on their rents when they accept a job. Public housing rents are set as a proportion of eligible household income, usually at 25 per cent, with a maximum level charged at the deemed market rent. This retains the principle of affordability, but it means that when household income changes, so does the rent the renter pays. Anyone moving from unemployment into work therefore faces an increase in rent (assuming they earn more in work than out of work). One of the questions this report addresses, therefore, is the extent to which public housing renters factor in the potential increase in rent when they decide to take a job. How much is this potential loss of income a disincentive to entering the workforce? Importantly, the fact that renters moving from unemployment to work face an increase in rent that relates solely to their new income level means that the only real locational effect will be one that relates to differential wage rates in different areas. There is no inherent implication that renters in urban areas will face a greater disincentive effect than in other areas.

Until recently, policy settings only recognised in the most general terms the linkages between housing, housing assistance and potential disincentives to work. One of the guiding principles of the 1999 Commonwealth-State Housing Agreement (CSHA) was that housing assistance should 'be designed to minimise work disincentives' (Commonwealth of Australia 1999: 1(1)(e)(ii)). Similarly, the Reference Group on

Welfare Reform (2000a: 15) reported that: 'It is important that housing is not a barrier to social and economic participation and that housing policies, both public and private, support people's ability to find, access and take-up paid work'. Neither the CSHA nor the federal government's 'welfare reform' strategy, however, indicated the nature of the linkages between housing, housing assistance and participation in paid employment, nor which policy levers or changes in housing programs might be expected to improve employment outcomes.

Figure 2.1: Households by tenure and labour force status, 1999



Source: Calculated from ABS (2000: Table 1)

The new 2003 CSHA reiterates that one of its guiding principles is 'to ensure that housing assistance supports access to employment and promotes social and economic participation' (Commonwealth of Australia 2003: 1(1)7). However, it goes much further than its predecessor in detailing a number of strategies that states and territories may pursue to reduce the workforce disincentives associated with housing assistance under the Agreement. These include improving the location of public housing relative to employment markets, improving access to services and transport for public housing renters, estate renewal, enabling transfers within public housing, and reviewing rent setting methods. There will be a financial penalty for states and territories that do not meet performance targets in reducing workforce disincentives (Commonwealth of Australia 2003: Schedule 1).

Not surprisingly, policy makers are looking for means of changing housing assistance policies and practices to achieve demonstrable improvements in rates of participation in paid employment by those in receipt of assistance provided under the CSHA. The focus has been mainly on public and community housing renters as the CSHA only covers some types of housing assistance. Relatively little attention has been paid to the employment outcomes of other types of housing assistance such as RA and the First Home Owners' Grant.

2.2. Disincentives for private renters: Losing RA

In the private rental market, the provision of rent assistance (RA) by the federal government is a key support for unemployed renters. RA is a means tested allowance paid in addition to major payments, such as Newstart and Youth Allowance, to assist with rental payments for those in private rental arrangements. It is not available to public housing renters (although it is paid to renters of some community housing associations and housing cooperatives). The rate of payment varies depending on the composition of the household and the number of dependents associated with the 'income unit'. Payment of RA begins when the rent reaches a minimum threshold level and is set at 75 cents in the dollar of rent above that level up to a set maximum. Both the minimum threshold and the maximum rates are set by type and composition of household. When an unemployed person enters paid work, their payment, inclusive of RA, is tapered away at the rate applicable to the main payment. Apart from some households with children, RA is lost when the main benefit payment, for example, Newstart or Youth Allowance, is withdrawn on gaining employment.

In addition, RA is paid at the same rate regardless of locality. This means its effectiveness is severely reduced in areas of high housing costs, such as Sydney and Melbourne, and especially in inner city areas where rents are likely to be highest. We might expect, therefore, that its disincentive effect is considerably reduced in areas of higher rental costs, such as Sydney and Melbourne.

The administration of RA is complex and the payment is usually bundled in with the total income benefits each person receives. This in itself is an important point, for it is not at all clear whether recipients fully disassociate this component of their benefit income from the pure income support components. As just one of a range of income supplements, RA is therefore not necessarily distinct from other benefit payments for many people. It may well be that recipients simply do not see its loss on gaining employment as specifically relating to their housing costs. It is just part of the total benefits equation that is set against potential earned income.

While there has been no research in Australia on the impact of the withdrawal of RA on the willingness to take work, research outside Australia has highlighted the critical role that housing assistance plays in the decisions that unemployed people make when offered work (Hirsch 1994; Randolph 1994; Giles et al. 1996; Ford, Kempson and England 1996; Wilcox and Sutherland 1997). This research suggests that decisions about moving into paid employment typically involve trade-offs between the financial, personal and family benefits expected from participation in paid employment relative to costs in terms of loss of income support payments and impact on personal and family wellbeing. In particular, these studies have pointed to the complex interactions between incomes from paid employment and government benefits, including the combined effect of withdrawal of government benefits and housing assistance, the type and nature of housing costs, and the behaviour of those seeking employment. The research reported below has sought to examine these issues and trade-offs in the Australian context.

3. HOUSING AND WORKFORCE DISINCENTIVES

3.1. Introduction

There are many possible explanations for the differences in labour force participation rates and unemployment rates between groups of people, including restructuring of the labour market, skill levels, and mismatches between the skill levels of those not in paid work and the types of jobs available in proximity to where they live. Substantial changes in labour markets in Australia over almost two decades have impacted in different ways, not only on types of households but also on local and regional areas (Borland, Gregory and Sheehan 2001). As low cost housing is found increasingly in areas with limited job opportunities, households who live in or move to such areas to obtain cheaper housing may experience more difficulty in finding work. Conversely, those living in or moving to areas with better job opportunities are often faced with high housing costs.

Consideration of all the complex interactions between housing tenure and local labour markets is beyond the scope of this research. The particular focus here is on one key element: 'work disincentives' that people may face in taking up paid work. In conceptualising work disincentives, there is a basic distinction between those seen as resulting primarily from *structural* factors in which individual decision making about work is shaped by a combination of market forces and government policy settings (such as the interactions between income from work and the tax and income support systems) and a view that *behavioural* factors such as individuals' skills, capacities, attitudes and motivation are highly significant as barriers to participating in paid work. Views differ on the relative importance of these two sets of factors, reflecting 'diverse theoretical and ideological assumptions and biases about such themes as the nature of the individual, the roles and responsibilities of the housing and welfare system, and the wider social and economic structures' (Burke and Wulff 1993: 4-5). Some types of work disincentives have also received more explicit attention and are at the *core* of the welfare reform debate, whereas others can be regarded as *underlying* issues.

Using this framework, the research identified a number of possible housing related work disincentives, as outlined in Figure 3.1. The significance of each of these was explored in various stages of the research through methods such as modelling of the effect on disposable income of moving into work and earning additional income, interviews with policy makers, and a survey of unemployed renters (Hulse et al. 2003).

Figure 3.1: Elements of housing and housing assistance that may impact on work disincentives

	Structural	Behavioural
Core	<p><i>Tax, income support and concessional charges</i></p> <ul style="list-style-type: none"> • Contribution of RA to high effective tax rates as people move into work <p>Effect of withdrawal of concessional charges (rent rebates) as income from paid work increases</p>	<p><i>Individual characteristics</i></p> <ul style="list-style-type: none"> • Lack of information about housing and housing assistance • Skills and capacities in obtaining a workable combination of employment and housing
Underlying	<p><i>Market issues and broader government policies</i></p> <ul style="list-style-type: none"> • Lack of affordable housing in areas with good job opportunities and transport • Disadvantaged communities with low cost housing but limited job opportunities • Additional costs of working such as transport due to location of housing relative to jobs • Barriers to moving to areas with better work opportunities, e.g. effectiveness of RA in high rent areas, public housing transfer policies, role of private RA schemes, residential tenancies legislation 	<p><i>Social values and expectations</i></p> <ul style="list-style-type: none"> • Ideas about security of housing • Predictability in housing costs to facilitate budgeting • Appropriateness of housing in view of parenting and caring responsibilities, health status, disability and age • Ability to work at home or near to home to balance work and other commitments • Strong attachment to housing and/or community

3.2. Unemployment and poverty traps and work disincentives

Two key concepts are central to the debate about work incentives: the ‘unemployment trap’ and the ‘poverty trap’. The former refers to ‘the existence of social security benefits for the out-of-work that erode any incentive for the unemployed to take a job’ (Bannock, Baxter and Davis 1999). By this definition, the incentive of unemployed people to find a job is said to depend on the level of income support payments, the level of income available from paid work, and taxation of that income. This has been called the ‘Why work?’ problem and is commonly measured by the income replacement ratio or rate (RR), which corresponds to the ratio of net income out of work compared to the ratio of net income from paid work (UK Parliament 2000: App. 24). To illustrate this, a single person on Newstart Allowance with no private income would have a disposable income of \$182 per week. If they had a job paying \$450 per week, their disposable income would be \$379 per week. In this case, the RR would be 48 per cent (182/379). The closer to unity the ratio moves, the greater is the financial disincentive to taking a job. For most unemployed people, this is a very real calculation.

The poverty trap refers to how much of each additional dollar earned translates into disposable income or what happens at the margin as income from paid work increases (Atkinson 1993). This is the ‘How much work?’ problem and is primarily the result of the combined effect of means tested income support systems and taxation on earned income (OECD 1998). The extent of poverty traps is typically measured by effective marginal tax rates (EMTRs) which show how much of any increase in earned income translates into additional disposable income after taking into account withdrawal of income support payments and the operation of the tax system.

An EMTR can be defined as the proportion of a one dollar increase in private income that is lost to income tax and withdrawal of government cash payments and government concessions.¹ Hence, it is calculated as:

$$\text{EMTR} = 1 - \frac{\text{Change in family disposable income}}{\text{Change in earnings}}$$

where ‘change in earnings’ is equal to one dollar.

Disposable income for an *individual* is calculated as the sum of private income (that is, wages and salaries and investment income), plus any government transfer income received, less total income tax paid (which includes the Medicare levy and is net of any income tax offsets). For a *family*, disposable income is the sum of the individuals’ disposable incomes.

So, for example, an EMTR of 60 per cent means that 60 cents of the one dollar increase in private income is lost to taxes and reduced government cash payments and the person or family is better off by 40 cents, that is, their disposable income increases by 40 cents.

Both these measures have been used to explore the financial work disincentives effects of housing assistance for public and private renters in the following report. Whether renters themselves worry about the EMTR is debatable. What is less debatable is the fact the financial rewards of work as opposed to staying on benefits are likely to be a major factor in the decision to take a job. However, other factors are likely to mediate in the decision making process for most renters.

3.3. Behavioural factors

Much of the debate about housing related work disincentives has centred on financial disincentives, in particular, the contribution of particular forms of housing assistance to high effective tax rates, both average and marginal. Whilst the financial implications of moving into work can be modelled, little is known about whether and to what extent factors such as high marginal tax rates actually influence people’s decisions and behaviours in deciding to enter the labour force or to work additional hours. They may not be aware of high effective tax rates generated by (additional) income from wages, or they may not have calculated the impact of working on their disposable income (Millar, Webb and Kemp 1997). They may have done these calculations but decide to work anyway for other non-financial reasons, such as self-esteem or pride. For example, one small-scale qualitative study in the UK found that a quarter of people were working for less money than they could have received in benefits, about a half had done the calculations and acted accordingly, whilst the remaining quarter had not calculated the financial implications of working (Ford, Kempson and England 1996). People may accept adverse financial outcomes in the short term in the expectation of wages increasing in the medium term. They may also decide not to work because

¹ For a more detailed discussion of this, see Hulse et al. (2003).

they see other priorities as important, such as providing a supportive and caring environment for their children or stabilising their health and personal circumstances.

There is increasing recognition of the complex reasons that underlie individual decisions about work, leading one Canadian social policy analyst to assert that:

These decisions cannot simply be taken as given according to the usual simplistic assumptions of traditional economic theory. Issues such as social expectations, opportunities, transportation, childcare, workplace policies and many other factors fit into the equation. It is not clear, nor does economic theory suggest, that the effective marginal tax rate is the most important of these variables (Battle 2001: 48).

The Reference Group on Welfare Reform (2000b: 48) also considered that research into the behavioural aspects of work incentives and disincentives in general was 'in its infancy in Australia'. In this context, the survey of 400 unemployed renters conducted as part of this research is an important contribution to understanding people's perceptions, attitudes and behaviours in relation to taking on paid work. It is worth noting that the research from the UK referred to above was generally based on considerably smaller sample sizes.

The research reported in this report sought to explore both the structural and behavioural aspects of the impact of housing assistance on the likelihood of taking a job for both public and private renters.

4. RESEARCH METHODS

4.1. Introduction

The research questions outlined in the introduction were pursued through a three-stage research method:

- A review of the research literature on work disincentives;
- A face-to-face survey of 400 unemployed renters in Melbourne and Sydney;
- A review of the main policy alternatives to the current tax and income support system, with particular reference to housing assistance.

4.2. Literature review of the links between housing costs, housing assistance and work disincentives

A detailed review of the literature on housing costs, housing assistance and work disincentives both in Australia and overseas enabled the development of a conceptual framework for consideration of housing related work disincentives. It also identified current problems and refined issues that guided the development of the questionnaire for the survey of unemployed renters. In addition, as part of the first stages of the project, detailed modelling of the effective marginal tax rates and effective average tax rates faced by a number of hypothetical household types was carried out by NATSEM researchers to supplement the literature review. The substantive results of these two exercises were incorporated in the Positioning Paper for this project (Hulse et al. 2003). A summary of the key findings from the NATSEM modelling is presented in Chapter 6 of this report. An analysis of the replacement ratios experienced by unemployed renters is also incorporated in Chapter 6.

4.3. Survey of unemployed renters

The bulk of this report is based on the results of the survey of 400 unemployed renters in Melbourne and Sydney. The purpose of the survey was to collect primary data on the housing circumstances of unemployed renters and the impacts, if any, of the characteristics of different housing tenures and types of housing assistance on incentives or disincentives to taking up paid work. It was originally intended to include unemployed home owners and purchasers but, after discussion with the AHURI National Office, it was decided that the sample size for each group would be so low that it would be preferable to concentrate on unemployed renters since this was the group of most concern to policy makers.

The research team negotiated agreements with Mission Australia in Sydney and Salvation Army Employment Plus in Melbourne for recruitment of interviewees in their local Job Network offices. The project could not have been undertaken without the cooperation and support of these two agencies and, in particular, their staff in individual offices. This support needs to be fully recognised as a major contribution to the research by both organisations.

The target was to complete twenty face-to-face interviews with unemployed renters in each of ten Mission Australia Job Network offices in Sydney and ten in Salvation Army Employment Plus offices in Melbourne to achieve a final sample of 400. Sites were selected which were located in areas with high rates of unemployment and high rates of rental according to 2001 Census and other data. Particular care was taken to select some sites in areas with a concentration of public renters. Selection was intended to cover inner, middle and outer suburban locations within the constraints of the location of offices operated by the two Job Network providers.

Interviews took place between March and May 2003 by Surveys Australia, and the research team spent considerable time in ensuring that Job Network staff were aware of the project and trouble-shooting any problems. Interviews were conducted with those job seekers who rented public housing, rented private housing or lived in share arrangements. Interviewers were briefed to screen out home owners and purchasers and people living at home with their parents or in-laws.

A final sample of 400 unemployed renters was achieved, with 208 completed interviews in Melbourne and 192 in Sydney. Despite the selection of Job Network offices in areas of high unemployment with a concentration of public renters, interviewers found it hard to complete interviews with public renters. The number using Job Network offices proved much lower than anticipated. Data subsequently supplied by the Department of Family and Community Services indicated that relatively few public renters are active job seekers. Unpublished Centrelink data for December 2002 showed that of those income units recorded as being in public housing, 57 per cent were in receipt of an Age or Disability Support Pension and 21 per cent in receipt of Parenting Payment Single. Only 11 per cent were in receipt of Newstart Allowance (communication from FaCS) and likely to be using Job Network offices. In addition, around one in eight interviews were conducted with individuals who were sharing accommodation and not primarily responsible for the rent payment. These are analysed as a separate group in the following report.

Table 4.1: Final sample, by renter type

Renter type	Number	Percentage
Public renter	57	14.3%
Private renter	293	73.3%
Sharer	50	13.5%
All	400	100%

The interviewers struggled to complete twenty interviews in some locations. This was due to a lower throughput of clients through Job Network offices and a higher rate of refusal than anticipated. Lower than expected client use of Job Network offices has affected all providers in the Network recently and has been the subject of some debate. There was a particular problem in Sydney where, after agreement was reached with Mission Australia, contracts within the Network were re-tendered and some Mission Australia offices were to close as a result. This led to a reduction in clients visiting these offices and the closing of some central locations. As a consequence, no interviews were conducted in inner Sydney. This was disappointing and limited some of the comparisons between areas.

Table 4.2: Final sample, by location of interview

Location	Melbourne		Sydney		Total	
	Number	Percentage	Number	Percentage	Number	Percentage
Inner	63	16%	0	0%	63	16%
Middle	74	19%	107	27%	181	45%
Outer	71	18%	85	21%	156	39%
Total	208	53%	192	48%	400	100%

Interviewers also reported a high refusal rate, which may have introduced a degree of sample bias. Privacy and university ethics requirements meant that interviewers could not recruit potential interviewees directly; a Job Network staff member provided clients with key information about the project and then referred them to an interviewer if they agreed to participate. This protocol meant loss of some potential interviewees. The interviewers reported that some also refused when they realised that they would not be paid for their participation. The protocol did, however, emphasise that the researchers were independent of Centrelink, that responses were both anonymous and confidential, and that participating in an interview would in no way affect Centrelink entitlements. Whilst there was potential for bias in terms of fears that information would be given to Centrelink, a review of the verbatim responses indicated that this did not appear to be a problem. Those interviewed made direct and often pithy comments about their reasons for seeking a job, the difficulties of job seeking and whether they were prepared to consider moving or not to get a job.

Although the interviews were conducted in English, the final sample is satisfactory in including a good representation of people who speak a language other than English (LOTE). Almost four in ten respondents said that they spoke a language other than English at home, as shown in Table 4.3, spread across all three tenure categories.

Table 4.3: Final sample: renter type, by LOTE and non-LOTE status

Renter type	LOTE (%)	English only (%)	Total (%)
Public renter	37%	63%	100%
Private renter	40%	60%	100%
Sharer	33%	67%	100%
All	38%	62%	100%
N	151	242	393

Respondents in the final sample were active job seekers since they were recruited through Job Network offices. More than three-quarters were in receipt of either Newstart or Youth Allowance, as seen in Table 4.4. This is considered satisfactory since the focus of the research was on people who are currently unemployed and seeking work. The final sample comprised relatively few people in receipt of other types of Centrelink payments such as Parenting Payment Single or Disability Support Pension. These two groups are increasingly expected to move towards participation in at least some paid work as part of the Commonwealth's *Australians Working Together* strategy (Commonwealth of Australia 2002) but are not currently active job seekers using Job Network offices. As seen above, this is the primary reason for the relatively small sample achieved of public renters. A different research method would be required to ascertain the views and attitudes of public renters who are non-participants in the labour market rather than labour force participants who are currently unemployed. It is also worth noting that 15 per cent of respondents were not in receipt of any income support payment. The attitudes of this group will be particularly useful in understanding the impact of the income support system in determining attitudes to taking work.

Table 4.4: Final sample: renter type, by income support status

Income support status	Public renter (%)	Private renter (%)	Sharer (%)	All respondents (%)
Newstart	74%	68%	68%	69%
Youth Allowance	4%	8%	10%	7%
Parenting Payment	9%	5%	0%	5%
Other Centrelink	7%	4%	2%	4%
Not on Centrelink payment	7%	16%	20%	15%
Total	100%	100%	100%	100%
N	57	293	50	400

4.4. A note on the analysis

It is important to emphasise that the survey of unemployed renters was primarily exploratory. There has been very little empirical research into the behavioural aspects of work disincentives generally, a field described by the Reference Group on Welfare Reform (2000a: 48) as being 'in its infancy in Australia'. In particular, there has been negligible empirical research into the behavioural aspects of housing related work disincentives. The purpose of detailed face-to-face interviews with 400 unemployed renters was to explore the work disincentives faced by this group, particularly those associated with housing such as housing costs and location, and to develop an understanding of how unemployed renters respond to such disincentives in making decisions about job search and moving into paid work.

The research findings report on the characteristics and perspectives of the sample of 400 unemployed renters, which is quite large for this type of detailed, qualitative work. Where applicable, three sub-samples of public renters, private renters and sharers are compared. In technical terms, this was a non-probability quota sample,² and further research would be required to establish whether these findings can be generalised to the three sub-samples or to the population of unemployed renters as a whole.³

² There is no sampling frame of unemployed renters across different rental arrangements from which to draw a random sample. Job Network offices were selected in areas with high levels of unemployment and a relatively high level of both public and private rental housing. Within each of these offices, a quota of 20 completed interviews was set.

³ The only test for statistical significance that was applicable to this type of sample was chi square testing, and then only in terms of categorical variables and where the number of cases in each cell was sufficient. The small size of some of the sub-samples ('public renters' n – 57 and 'sharers' n – 50) meant that chi square tests could not be used in many of the comparisons between renter types. For this reason, and in view of the primary purpose of the research that was exploratory and qualitative, chi square test results are not routinely reported.

5. THE IMPACT OF RENTAL HOUSING COSTS AND CONDITIONS ON WORK DISINCENTIVES

5.1. Introduction

The research focused on three types of rental arrangements: *public renters* who pay rent to a state housing agency, *private renters* who pay rent to a private landlord or real estate agent or 'for profit' organisation, and *sharers* who pay rent to a relative or non-relative who lives with them. These comprised 14, 73 and 13 per cent respectively of the unemployed renters interviewed. The costs and conditions associated with each rental arrangement differ, particularly in forms of access, rent setting and ongoing tenancy arrangements. This chapter indicates ways in which these can impact on incentives or disincentives for moving into paid work.

5.2. Access to rental housing and the 'compositional effect'

Living in a particular type of rental reflects a combination of choice, or adaptation to life events, and different forms of access to rental housing. Access to public housing is determined by bureaucratic allocation policies and procedures. Increasingly this has involved targeting to those on the lowest incomes and with the most disadvantages. Access to private rental is determined by ability to pay market rent, either as an independent household or as part of a group household, and by the selection processes of private landlords and real estate agents. Private renters must have both an ability to pay market rent and characteristics that private landlords and agents accept as indicative of a reliable renter. Access to sharing involves informal negotiation with a person who either owns a home or is responsible for the rent.

Whilst all those interviewed were, by definition, of workforce age and actively seeking work via Job Network offices, the findings indicate that the profiles in the three rental types did differ, partly as a result of these access arrangements. Firstly, there were differences in age and gender, as indicated in Table 5.1. A higher percentage of public renters were women (four in ten), whilst sharers were predominantly men. Public renters were also older, with one in five aged over 50. Moreover, female public renters were more likely to be older: three-quarters were aged over 35, compared to a third of female private renters and sharers. Private renters comprised a spread of ages whilst sharers were predominantly young and male, with more than a third being under 25.

Table 5.1: Age and gender of unemployed job seekers, by rental housing arrangement

	Public renter	Private renter	Sharer	All
Age	(%)	(%)	(%)	(%)
16-24	11%	23%	36%	23%
25-34	23%	26%	28%	26%
35-49	46%	33%	24%	34%
50 plus	21%	17%	12%	18%
N	57	293	50	400
Gender				
Male	58%	64%	70%	64%
Female	42%	36%	30%	36%
N	57	293	50	400

Note: May not add up to 100% due to rounding

Secondly, the sample was predominantly comprised of single people living alone or sharing with others. Overall, 30 per cent of the sample lived alone and 29 per cent shared with non-relatives. Public renters were more likely to live with other family members⁴ with 57 per cent living with some combination of partner, children or other relatives, compared to 38 per cent of private renters and just 12 per cent of sharers. More than a third (37 per cent) of public renters had dependent children living with them, compared with 21 per cent of private renters and only 4 per cent of sharers, as indicated in Table 5.2.

Table 5.2: Living arrangement of unemployed job seekers, by renter type

	Public renter	Private renter	Sharer	All
Living alone	37%	33%	4%*	30%
Couple only	11%	10%	0%	9%
Sole parent and dependent children	14%	6%	2%	7%
Couple and dependent children	23%	15%	2%	14%
Living with non-dependent children	4%	1%	8%	2%
Group household with non-relatives	7%	29%	56%	29%
Living with relative (not parent)	5%	5%	28%	8%
Other	0%	1%	0%	1%
Total	100%	100%	100%	100%
N	57	293	50	400

Notes: May not add up to 100% due to rounding.

* Two people classified as sharers (that is, paying rent to a relative or non-relative who lived with them) self-reported as 'living alone'. The self-reporting appears to reflect their 'single' status rather than their living arrangements.

Thirdly, public renters and sharers had a lower level of educational achievement than private renters. More than a quarter of public renters and a fifth of sharers had not completed Year 10 compared to one in ten private renters, as shown in Table 5.3. It is also worth noting that across all renter types, those who speak a LOTE at home⁵ had significantly higher levels of education than those who do not. More than a third (37 per cent) of LOTE speakers had a university degree or above, compared to only 8 per cent of non-LOTE speakers, suggesting specific disadvantages faced by LOTE speakers in finding paid work, despite a relatively high level of educational achievement.

⁴ Family members refers to the following living arrangements: couple only, sole parent with dependent children, couple and dependent children, parent(s) and non-dependent children, and living with a relative other than a parent.

⁵ Overall, 38 per cent of those interviewed were LOTE speakers at home. Percentages by rental type were: public renters (37 per cent), private renters (40 per cent) and sharers (33 per cent).

Table 5.3: Highest level of education of unemployed job seekers, by renter type

	Public renter (%)	Private renter (%)	Sharer (%)	All (%)
Less than Year 10	26	10	20	14
Finished Year 10	23	30	28	28
Finished Year 12	14	18	20	18
Apprenticeship/TAFE	23	21	22	22
University or higher	14	21	10	19
Total	100	100	100	100
N	57	293	50	400

Note: May not add up to 100% due to rounding

Means of access to rental housing (bureaucratic, market and informal) are significant in that they help determine the profile of unemployed people in the different rental types. The differences in age, gender, living arrangement, level of education and speaking a LOTE at home between the three rental tenure categories are likely to be associated with differences in experience of the labour market, in the calculation of the financial returns from working, and in behavioural responses to workforce disincentives. In other words, the characteristics of people living in different rental arrangements, the so-called 'compositional effect', may well be critical in an understanding of workforce disincentives and form the context for the following analysis. This issue is explored further in Chapter 7, which examines the behavioural aspects of work disincentives.

5.3. Rent setting and financial disadvantage

Unemployed renters face rental costs calculated in quite different ways, depending on the type of rental arrangement they live in. Most public renters pay rent based on a percentage of income (typically 25 per cent) such that when they are unemployed and in receipt of Centrelink payments their rent is less than if they are in paid work and earning a higher amount.⁶ Private renters pay market rents which do not vary whether they are in paid work or not. Sharers may be able to negotiate their rental payments on an informal basis as they move in and out of work.

Not surprisingly, given these different systems, unemployed public renters and sharers pay less per week in rent than unemployed private renters, as shown in Table 5.4. The median weekly rent payment for unemployed renters in the survey was \$69 for public renters, \$75 for sharers and \$125 for private renters.⁷ Three-quarters (73 per cent) of private renters paid \$100 a week or more compared to 27 per cent of public renters and 22 per cent of sharers. For most public renters, this represented the whole rent of the property. In contrast, 40 per cent of private renters reported that they shared the rent payment with other residents. Sharers, by definition, paid rent to someone who lived with them, either a relative (45 per cent) or a non-relative (55 per cent).

⁶ 77 per cent of the sample of public renters said that they paid rents based on income, 10 per cent paid market rents and the remaining 13 per cent either did not know or paid rent on some other basis such as a sub-tenancy arrangement.

⁷ These figures refer to personal rent payment (gross rent).

Table 5.4: Total rent paid per week by respondent (personal rent payment), by renter type

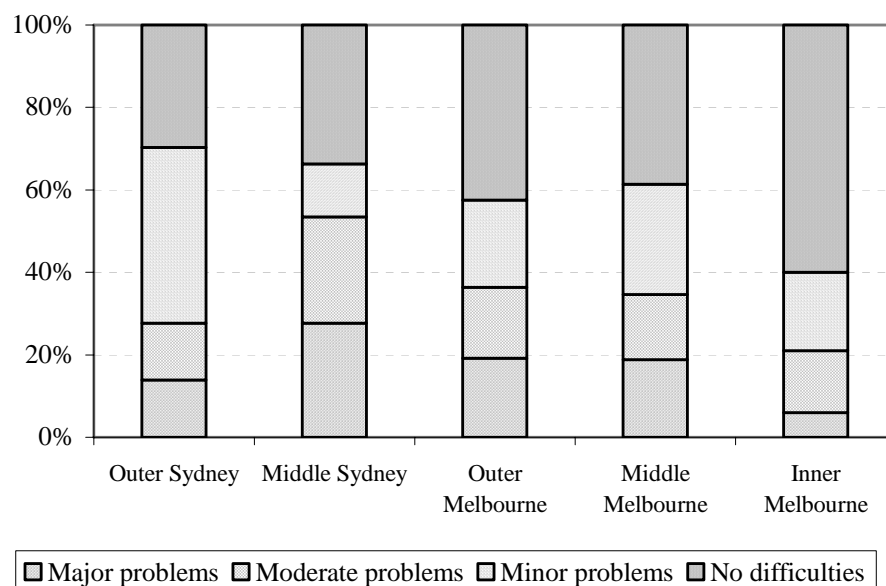
Personal rent payment	Public renter	Private renter	Sharer)	All)
Mean	\$78	\$134	\$75	\$119
Median	\$69	\$125	\$75	\$105

n = 400 (public renter = 57, private renter = 293, sharer = 50)

What impact did these different rent setting systems have on unemployed renters as they looked for paid work? Just over half (53 per cent) of all respondents said that they were experiencing difficulties with their rent payment whilst unemployed, with a third (31 per cent) experiencing moderate or major problems paying the rent. Private renters were much more likely to experience moderate or major problems (37 per cent), compared to either public renters or sharers (13 and 14 per cent respectively).

Location also has an impact. Private renters in Sydney were more likely to report that they were experiencing difficulties in rent payment than private renters in Melbourne, as indicated in Figure 5.1. Problems in paying the rent were described as moderate or major by 54 per cent of those renting in Sydney's middle suburbs, whilst those in Sydney's outer suburbs were more likely to report minor problems (43 per cent) than moderate or major problems (27 per cent). These findings are supported by recent research showing that housing stress⁸ in middle suburban areas of Sydney was higher than in outer areas (Randolph and Holloway 2003). The finding that renters in inner Melbourne have the lowest levels of concern is a reflection of the higher proportion of public renters in this sub-group. Given these findings, it is not surprising that two-thirds (67 per cent) of private renters agreed that 'I have been constantly worried about keeping up my rent payments' while looking for work compared to just over a third of public renters and sharers (37 and 38 per cent respectively).

Figure 5.1: Unemployed private renters reporting difficulties in paying the rent, by location



Note: Inner Sydney was not included in the survey

n = 400 (Inner Melbourne = 63, Middle Melbourne = 74, Outer Melbourne = 71, Middle Sydney = 107, Outer Sydney = 85)

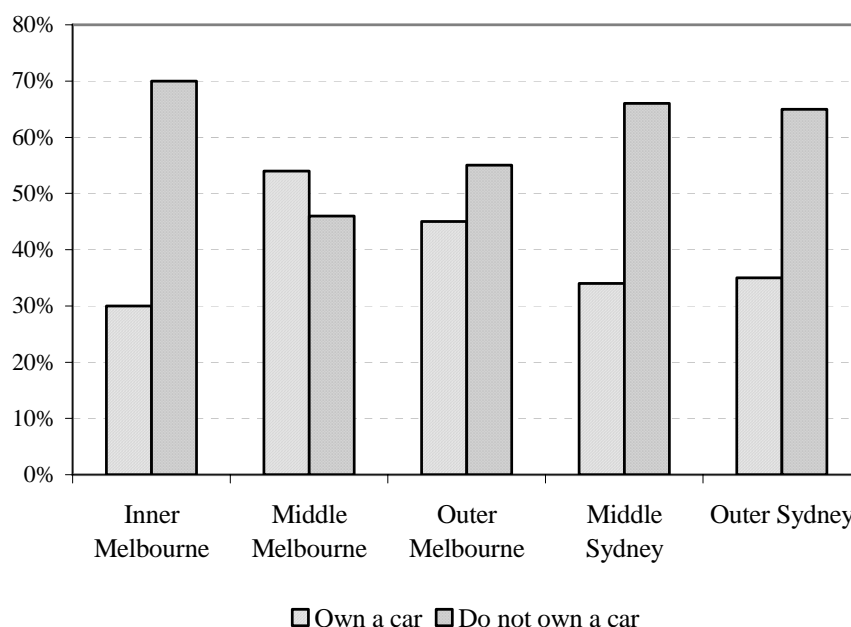
⁸ In this case, housing stress was defined for households whose incomes fell below the median for Sydney and who had a rent to income ratio of 30 per cent or more.

Financial pressures also affect other household needs. Unemployed renters experiencing financial problems face a choice: they can buy basic necessities and fall behind with their rent, or they can pay the rent and cut expenditure on other items. About half of unemployed people in the survey experiencing problems in rent payment had fallen into arrears. This was marginally more likely in the case of public renters experiencing problems, 59 per cent of whom had fallen behind with their rent, compared to 50 per cent of private renters and 47 per cent of sharers experiencing problems. So, clearly, unemployment had led to significant financial problems for many.

Trying to keep up with rent payments also meant that unemployed renters had to cut down on other necessities. Some 71 per cent of private renters agreed that 'keeping up my rent payments means that I have had to cut down on some necessities like food and heating', compared to 60 per cent of public renters and 48 per cent of sharers. Private renters were also less likely to agree (42 per cent disagreement) that 'I can afford day-to-day necessities after paying my rent', compared to 32 per cent of public renters and 36 per cent of sharers who disagreed with this statement. It appears that the market rent system in private rental created hardship for more than four in ten unemployed private renters in the survey.

A significant finding was that only 39 per cent of respondents owned a car. Sharers and public renters were less likely to do so (26 per cent and 33 per cent respectively) compared to private renters (43 per cent). Rates of ownership also varied quite significantly by area, being significantly lower in middle and outer Sydney compared to the equivalent areas of Melbourne, as shown in Figure 5.2. This may well be a consequence of higher private rents in Sydney discussed above, leading to cuts in other types of expenditure. Since car ownership is likely to facilitate job search and maintaining paid employment, this could be seen as compounding difficulties in participating in paid work for private renters, particularly in middle Sydney.

Figure 5.2: Unemployed renters' car ownership, by location



n = 400 (Inner Melbourne = 63, Middle Melbourne = 74, Outer Melbourne = 71, Middle Sydney = 107, Outer Sydney = 85)

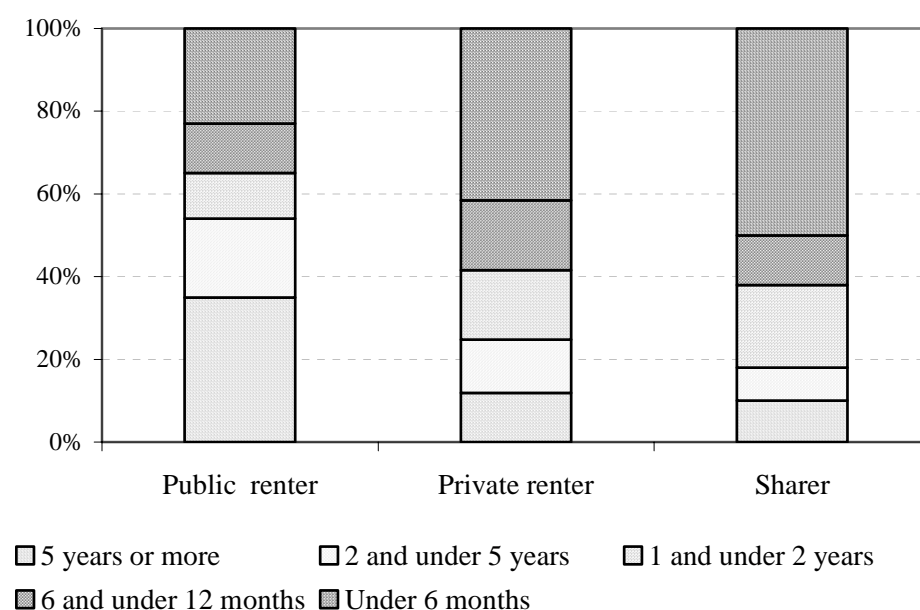
In summary, whilst most unemployed renters were ‘doing it tough’, setting rents at market level with little scope for renegotiation when unemployed poses particular problems for private renters. Public renters were less likely to report difficulties in affording everyday necessities as a result of the need to maintain rent payments and more likely to report rent arrears. The latter may well reflect greater inertia in the public housing system towards rent arrears problems, a situation unlikely to be the case in the private market. The implication is that the public rental system provides something of a financial buffer, allowing renters to maintain day-to-day expenditures, while the private system simply does not offer that option. Location also seems to be important here with high market rents, particularly in Sydney, leading to greater financial disadvantage that appears to be related to a reduced capacity to own a car.

5.4. Capacity to maintain rental arrangements

The three rental types can be distinguished by conditions of tenancy in much the same way as forms of access and rent setting. Public renters have greater security of tenure, although this has been diminished in some cases by recent policy changes. Private renters have limited security of tenure based on state and territory legislation relating to residential tenancies. Sharers generally have no security of tenure other than that negotiated through informal means.

Partly as a result of these different tenancy conditions, public renters experienced lower levels of residential mobility. More than half (54 per cent) had lived in their current home for two years or more, compared to just 25 per cent of private renters and 18 per cent of sharers. More than a third of public renters had lived in their current home for five or more years, compared to 12 per cent of private renters and 10 per cent of sharers, as indicated in Figure 5.3. Conversely, just under a quarter of public renters (23 per cent) had lived in their current home for less than six months, compared to more than four in ten private renters (42 per cent) and half of all sharers (50 per cent).

Figure 5.3: Length of time that unemployed renters have lived in their current home, by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

Given these experiences, it is not surprising that private renters were more concerned about lack of security of their housing, with 42 per cent agreeing that 'I am worried about losing my home' while unemployed and seeking work, compared to 25 per cent of public renters and 18 per cent of sharers.

These findings raise the important question of how far the differential security arrangements associated with types of rental tenure influences the willingness of unemployed people to take work. Short-term residency of private renters may indicate greater flexibility and ability to move to areas with better work prospects, or it may simply reflect greater insecurity of housing, particularly while unemployed. Longer residency may indicate attachment to the dwelling and/or the area or reflect the difficulty in moving due to the terms and conditions of tenancy, particularly among public renters. These issues are discussed in greater depth later in the report. Chapter 6 explores the contribution of government rental assistance in assisting job search through stability of housing or enabling flexibility to move to areas with good job prospects. Chapter 7 examines the attitudes of unemployed people in the three rental sectors in terms of staying in an area or moving to find work.

5.5. Housing costs and conditions and labour market position

Finally in this chapter, we look at how these differences in costs and conditions (access, rent setting, conditions of tenancy) associated with the three rental types are related to current and previous labour market position and income support status.

Firstly, the survey findings indicated that many of the respondents are at the margins of the employment market. Most (87 per cent) said that they were not currently doing any paid work at all. Of the 13 per cent who were currently doing any paid work, 70 per cent were doing casual work, a pattern that applied across the three rental arrangements. Doing casual work made only a relatively modest difference to net weekly income from all sources after tax and other deductions – around \$60 overall – as shown in Table 5.5. Indeed, the reported median net weekly income for sharers who did some work was less than for those who did no work at all (although the sample base was small). Nevertheless, for those with some work, the extra payments added around 30 per cent to take-home income.

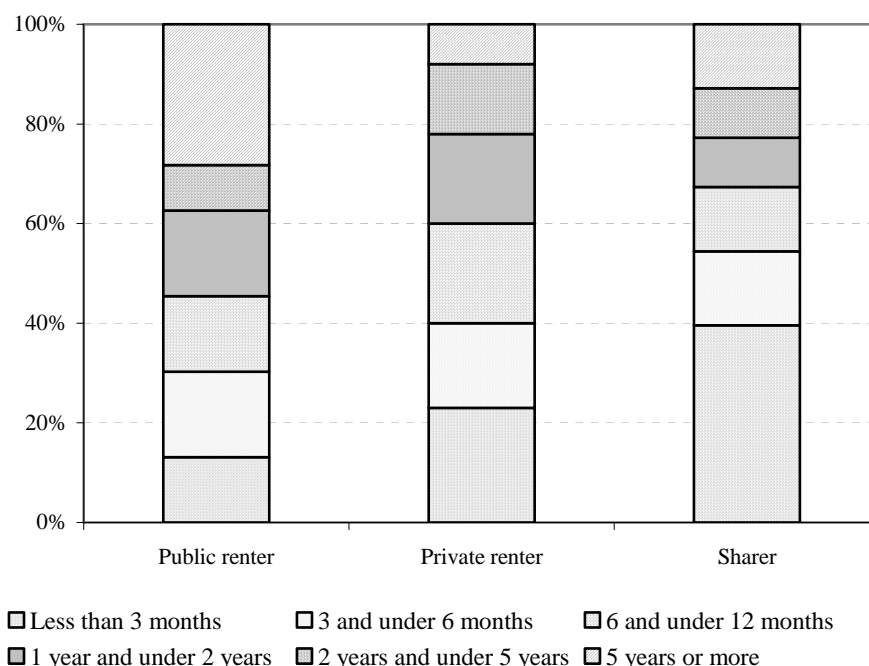
Table 5.5: Current employment status by median weekly income after tax and other deductions, by renter type

Current employment status	Public renter (\$s per week)	Private renter (\$s per week)	Sharer (\$s per week)
Doing some paid work	\$225 (n = 9)	\$270 (n = 42)	\$193 (n = 3)
Not doing any paid work	\$174 (n = 48)	\$204 (n = 251)	\$200 (n = 47)
Difference in median weekly income after tax and other deductions	\$52	\$66	-\$7

Most respondents (85 per cent) were in receipt of Centrelink payments, notably Newstart or Youth Allowance (76 per cent of all respondents). There were some small variations between the different types of renters, reflecting different household profiles, such as more recipients of Parenting Payment in public housing. Reflecting their generally longer periods of being out of work, public renters had been in receipt of their current Centrelink payment for a longer period, with 55 per cent having received payment for a year or more, compared to 39 per cent of private renters and 33 per cent of sharers, as indicated in Figure 5.4. More than a quarter of public

renters had been in receipt of their current payment for five or more years. Only 13 per cent had been receiving their Centrelink payment for less than three months, compared to 23 per cent of private renters and 40 per cent of sharers.

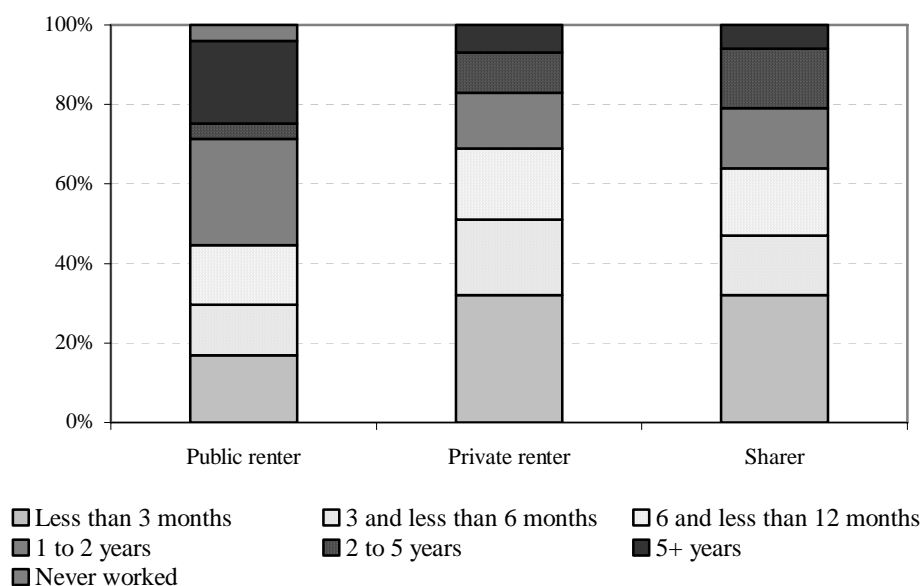
Figure 5.4: Time in receipt of Centrelink payment, by renter type



n = 340 (public renter = 53, private renter = 247, sharer = 40)

Not all respondents received benefits. Some 15 per cent, mainly private renters and sharers, reported that they were not in receipt of any Centrelink payment. Of these, only a minority were currently doing any paid work, with 12 per cent of all respondents stating that they were neither in receipt of Centrelink payments nor doing any paid work. Further analysis indicated that these were primarily people who had been unemployed for less than three months, suggesting a number of possible explanations such as living off previous wages, sharing expenses with others or waiting for Centrelink payments.

Figure 5.5: Length of time since unemployed people last did any paid work, by renter type



n = 346 (public renter = 48, private renter = 251, sharer = 47)

Of those who were not currently doing any paid work (87 per cent of all respondents), private renters and sharers had been out of paid work for the shortest time, with 32 per cent in each case being out of paid work for less than three months. Public renters tended to have a different pattern, with 56 per cent not having done paid work for more than a year, compared to 31 per cent of private renters and 36 per cent of sharers, as indicated in Figure 5.5. A quarter of public renters seeking work through Job Network offices had either not worked for five or more years or had never worked.

Secondly, respondents' occupations when last in work clearly revealed their position in a very marginal job market. For those who were not currently doing any paid work, 61 per cent said that their last job was casual or part-time, while the remaining 39 per cent had worked full-time. Weekly take-home pay (after tax and other deductions) from their last job was lower for sharers and public renters (medians of \$315 and \$320 respectively) than for private renters (median of \$400). Few had had weekly incomes over \$700. Previous employment was concentrated in a few job types, largely on a gendered basis; men were typically employed as labourers, factory/process workers, and in service areas such as cleaners, drivers and security personnel, whilst women had been last employed in hospitality, administration, retail sales and as factory/process workers. The major reasons for the last job finishing was predominantly that the person was no longer required or the employer went out of business, with no significant difference between those in rental types.

In summary, many of the unemployed renters in the sample have experienced low paid, casual and episodic work. Unemployment was largely a fact of their working life and seemed an endemic feature of their labour market position. Public renters appear to be particularly disadvantaged in seeking work since they have been out of paid work and in receipt of Centrelink payments for longer than those in other rental arrangements. Alternatively, they may be able to survive for longer periods out of paid work on very low incomes because of conditions associated with this type of rental, such as security of tenure and payment of rents based on incomes. There was evidence that private renters suffered greater financial constraints and hardship as a result of inflexibility around rental payments when unemployed.

5.6. Summary

The chapter has explored some of the ways in which the costs and conditions associated with public rental, private rental and sharing, such as access to housing, rent setting and security of tenure, may impact on work disincentives. It has highlighted the different profile of unemployed renters living in the three rental types, suggesting that the 'compositional effect' of different rental tenures is important in explaining different rates of economic participation and may be important in understanding responses to work disincentives. In particular, the survey findings suggest that public renters could be expected to face the greatest workforce disincentives due to issues around gender, age, family responsibilities and length of time out of the workforce and in receipt of Centrelink payments. Private renters, particularly in Sydney, also face considerable disadvantage while unemployed due to high rental costs, consequent financial stress, insecurity about their housing and inability to afford car ownership. In addition, the findings confirmed the highly marginal and generally low skilled labour market positions of unemployed renters in the survey. Two-thirds had been employed on a casual or part-time basis in their last job and wages were low, with median take-home pay around \$400 per week.

Chapter 6 continues the analysis by examining whether, and to what extent, forms of government housing assistance ameliorate or exacerbate the work disincentives faced by unemployed people in different rental types.

6. DESIGN AND ADMINISTRATION OF GOVERNMENT RENTAL HOUSING ASSISTANCE AND WORK DISINCENTIVES

6.1. Introduction

This chapter considers whether, and to what extent, the design and administration of government housing assistance for renters contributes to work disincentives. The focus is on how the two main types of housing assistance for renters – RA to private renters and sharers, and the direct provision of public housing to renters – affect the likely financial returns to unemployed renters from entering paid work, whether unemployed renters are aware of the impact of RA and public housing on the calculation of the financial benefits of working, and other ways in which rental housing assistance may contribute to work disincentives.

This chapter is based on the key findings from modelling conducted by the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra as part of the project and from the survey of unemployed renters in Sydney and Melbourne. Full details of the NATSEM modelling, including the methodology and detailed results, are available in the Positioning Paper for the project (Hulse et al. 2003).

6.2. Calculating the financial returns from working: The role of housing assistance

6.2.1. Measuring the poverty trap #1: Effective marginal tax rates

The results of the NATSEM modelling for four hypothetical family types⁹ previously reported in the Positioning Paper for this project showed that unemployed private renters in receipt of Newstart or Youth Allowance moving into paid work face very high effective marginal tax rates (EMTRs), which are commonly used as a measure of poverty traps. They might expect to lose between 65 and 85 cents in each additional dollar earned due to a combination of withdrawal of Centrelink payments, income tax on earnings and introduction of the Medicare levy; that is, they get a net financial benefit of between 15 and 35 cents for each additional dollar they earn. The EMTRs of between 65 and 85 per cent faced by these groups compare with a top marginal tax rate of 47.5 per cent for the highest income earners.

RA is designed in such a way that it does not add to these already high EMTRs. There is no stacking of benefit 'tapers', defined as the rate at which Centrelink payments are withdrawn as earned income rises, unlike the situation with, for example, Housing Benefit in the UK. RA does, however, increase the income band over which these high EMTRs apply simply because it provides an addition to the Centrelink payment. RA provides an extra payment on top of the primary payment such as Newstart or Youth Allowance which then has to be withdrawn as income from paid work increases. This is illustrated in the box below with two examples: a single unemployed adult aged over 21 on Newstart and a couple, both unemployed and over 21, also on Newstart.

⁹ The four hypothetical family types were: a single unemployed person aged over 21 years; a single unemployed person aged 19 years; a couple, both unemployed and aged over 21 years, with no children; and a couple, both unemployed and aged over 21 years, with two children aged 4 and 6.

Example 1: Single unemployed person aged over 21 in receipt of Newstart

This person faces EMTRs of between 65 and 85 per cent above the 'free income area' of \$30 per week until earned income reaches \$367 a week if they are a private renter in receipt of RA. The effect of RA is to increase the income band over which EMTRs apply by \$65 a week compared to a single unemployed adult not in receipt of RA. After this point, EMTRs decrease substantially.

Example 2: Couple, both unemployed and aged over 21 years, with no children in receipt of Newstart

This couple also face EMTRs of between 65 and 85 per cent above the 'free income area' of \$30 per week until earned income is \$572 per week if they are private renters in receipt of RA. The effect of RA is to increase the income band over which these rates apply by \$61 a week compared to a couple not in receipt of RA.

Note: These calculations are based on tax rates and Centrelink payments current at September 2002. They do not include the 'Working Credit' introduced in September 2003.

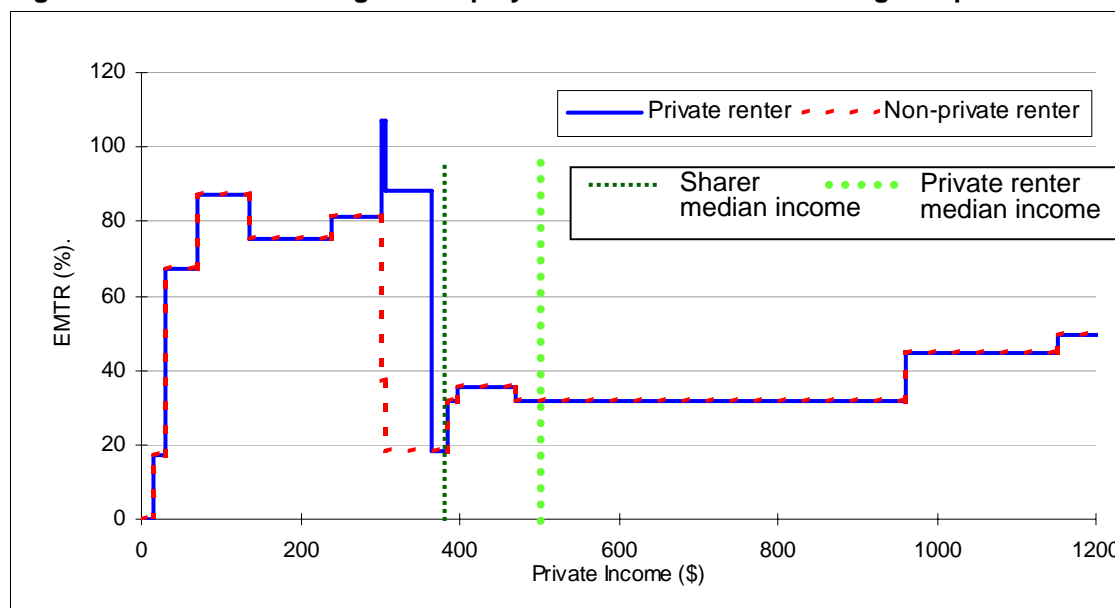
Whilst these examples are based on modelling of hypothetical family types, we can estimate how high EMTRs might affect unemployed people in practice by considering the level of wages likely to be achieved by unemployed renters once they find work. The crucial finding of the survey is that the typical wage levels which unemployed renters can expect when they get a job (assuming they are no different to the levels earned in their previous jobs) are so low that the wages do not lift them sufficiently clear of the range of high EMTRs to offer an unequivocal incentive to take a job.

To illustrate this, we took the wage levels that applied in the last job held (within the last two years). These were quite low, as reported in the previous chapter, reflecting the marginal labour market status of many of the sample and their history of casual and part-time employment. The estimated median gross weekly wage was \$363 for sharers, \$370 for public renters and \$478 for private renters.¹⁰

Figure 6.1 shows the EMTRs that would apply to sharers and private renters if they get jobs at the median wages earned by these two groups in their last job. The vertical lines indicate estimated gross pay. Using this method, it appears that the average sharer would be likely to face effective tax rates of around 80 cents in the dollar over the whole of their expected income from wages. The average private renter, whose estimated wages are higher, would also experience these very high EMTRs until they reached \$367 gross a week earned income and then much lower rates would apply over the last part of their income.

¹⁰Survey respondents were asked for their net weekly wage from their last job after tax and other deductions, since this is usually more accurate than gross wages. The median for sharers was \$315, public renters \$320, and private renters \$400. These were converted to the equivalent gross wages on the basis of information supplied by the Australian Tax Office.

Figure 6.1: EMTRs for a single unemployed adult on Newstart moving into paid work



Source: EMTRs for private renters and non-private renters were calculated by NATSEM based on their STINMOD model. The median gross incomes of sharers and private renters were calculated based on information on income from last job provided by unemployed renters in the survey.

Notes: In the NATSEM modelling, 'private renter' refers to private renter in receipt of RA. 'Non-private renter' refers to all others, including public renters, home purchasers and owners.

These calculations indicate that unemployed sharers and private renters face very significant workforce disincentives due to the interaction of the income support and tax systems. Government housing assistance via RA contributes to this to the extent of extending the income band over which high EMTRs apply.

Unfortunately, the STINMOD¹¹ model used by NATSEM does not currently include income related rents paid by most public renters, although this is now being attempted as part of a current AHURI project. We can infer from Figure 6.1, however, that the EMTRs faced by public renters would be even higher than for sharers and private renters. They would face the same EMTRs of 65 to 85 per cent as other 'non-private renters' due to the interaction of the tax and income support systems but could be faced with an additional rate of up to 25 cents in the dollar as a result of income related rents. The extreme case of an additional 25 per cent would apply if the housing agency charged 25 per cent from the first dollar of earned income. This would result in extremely high EMTRs of between 85 and 105 per cent.

In practice, this addition to EMTRs due to income related rents varies according to the practices of state and territory housing agencies and community housing agencies (considered further in Chapter 8). For example, some states have an area of 'free income' from paid work before charging increased rent. There would be no addition to EMTRs for the income band covered by the free income area although an addition to EMTRs would still apply to income earned beyond this area. The income level at which the addition to EMTRs due to income related rents cuts out also depends on the point at which rents are no longer set as a percentage of income. This point is determined by a combination of factors including, assessable household income and the market rent of individual properties.

¹¹ The Positioning Paper by Hulse et al. (2003) contains an Appendix written by NATSEM which details the STINMOD model. For a brief description, see <<http://www.natsem.canberra.edu.au/research/stinmod/stinmod.html>>.

It is apparent, therefore, that EMTRs faced by public renters would be even higher than for sharers and private renters, given the increase in rents payable when in work. With the low average wage levels of public renters in the survey in their last jobs (median gross income of \$370 per week), these EMTRs would appear to apply over the whole of the estimated average wage for public renters, presenting – at least in theory – an overwhelming workforce disincentive for this group.

6.2.2. Measuring the poverty trap #2: Replacement ratios and the net financial benefits of working

So how much better off might our unemployed renters be if they got a job? While EMTRs excite economists, most unemployed people simply look at the difference between the income they receive while unemployed and the income they would receive (net of deductions and costs) when they are in work. Given the labour market position of the unemployed renters in our sample, the role of employers' superannuation and other packaged rewards from a job are unlikely to be major influences.

A further measure of the unemployment or poverty trap is the replacement ratio (RR). This is a simple ratio of the income from benefits and other income received while unemployed to the income received when in work. The closer the ratio gets to 1.0, the greater the disincentive of taking a job. As well as details of their current benefits income, respondents were also asked to state the net income they received in their last job (if they had one). Again, given their previous labour market position, the likelihood is that the kind of jobs they had last time will be the kind of jobs they will get in the future. So it is reasonable to assume that the income from their last job will be a good proxy for any future employment income. For this analysis we have compared the mean out of work (i.e. benefit) income to the net income received in their last job for those respondents who are currently in receipt of benefits and who have worked within the last two years.¹² The position is set out in Table 6.1.

Table 6.1: Mean weekly current unemployed income and mean net weekly income in previous job for those who have worked in the last two years and are currently receiving benefits

	Income unemployed	Income in work	Net difference	% difference	Replacement ratio
Public renter	\$189	\$415	\$226	120%	0.46
Private renter	\$220	\$424	\$204	93%	0.52
Sharer	\$208	\$363	\$155	75%	0.57
All	\$215	\$413	\$189	92%	0.52

n = 279 (public renter = 34, private renter = 208, sharer = 37)

This shows that, overall, unemployed renters in the sample currently receive 52 per cent of the income they are likely to get if they were in jobs typical of the ones they last had. Put another way, getting a comparable job would increase their weekly income by an average of \$189 net, from \$215 to \$413. This amount could be seen as the net financial incentive to take a job. The figures ranged from \$155 extra for sharers to \$226 for public renters, with private renters benefiting by an average of \$204 per week. This is before rent increases or loss of RA is taken into account. It also does not include the financial costs of loss of concessionary benefits, such as

¹² A similar analysis of the mean incomes from the last employment for those unemployed for less than a year showed very similar income levels. We have used the incomes of respondents who last worked up to two years ago as this provides a larger base sample number.

cheap fares, health care and so on. If these were added, then the net benefits are likely to be reduced.

Sharers appear to have the least incentive of the three groups to take a job. Their current income, on average, is two-thirds of that which they are likely to get if they took a job. On the other hand, the analysis suggests that public renters have the most to gain from working, more than doubling their take-home income. However, these figures imply that their average rent would increase from \$47 per week to \$104 per week (assuming they pay 25 per cent of their income in rent in both instances). If so, then the net after housing costs income increases from \$142 to \$311, which delivers an identical RR, but a net financial benefit of only \$169 per week.

While these are hypothetical figures, they tally closely with the levels of financial rewards that renters expect to get from working, underlining the fact that they expect to return to work in the same kinds of jobs they previously had. In fact, Table 6.1 closely reflects the answers which renters gave when asked to indicate the maximum and minimum incomes they would expect from working, and the additional income they would need to make as much as they do now on benefits once the additional expenses of working are taken into account. These figures are given in Table 6.2.

Table 6.2: Mean maximum and minimum weekly income expected from next job and mean additional income required to match current benefits income after working expenses (all cases)

	Income unemployed	Expected minimum income in work	Expected maximum income in work	Additional income needed to match benefit income after working expenses
Public renter	\$189	\$407	\$497	\$191
Private renter	\$220	\$446	\$575	\$188
Sharer	\$208	\$423	\$556	\$182
All	\$215	\$437	\$563	\$188

n = 400 (public renter = 57, private renter = 293, sharer = 50)

Renters expect to get an average minimum income of \$437 per week net of deductions when they get a job, and a maximum of \$563. These are not unrealistic, given their previous wage levels, and reflect a keen awareness of the labour markets in which they operate. Public renters have somewhat lower expectations than others, possibly reflecting their higher average age. However, when asked how much more they would need to earn to break even in terms of current income received while unemployed, the average came to \$188 per week, almost identical to the figure in Table 6.1 for the net benefit from working based on current and previous incomes.

6.3. Understanding the impact of getting a job on rental housing assistance

We were also interested in finding out the views of unemployed renters on rent related workforce disincentives, particularly on the role of housing assistance in contributing to the theoretical and financial disincentives discussed above. This was, in part, a response to research from the UK, discussed earlier in this paper, suggesting that a significant minority of unemployed people may not be aware of such disincentives.

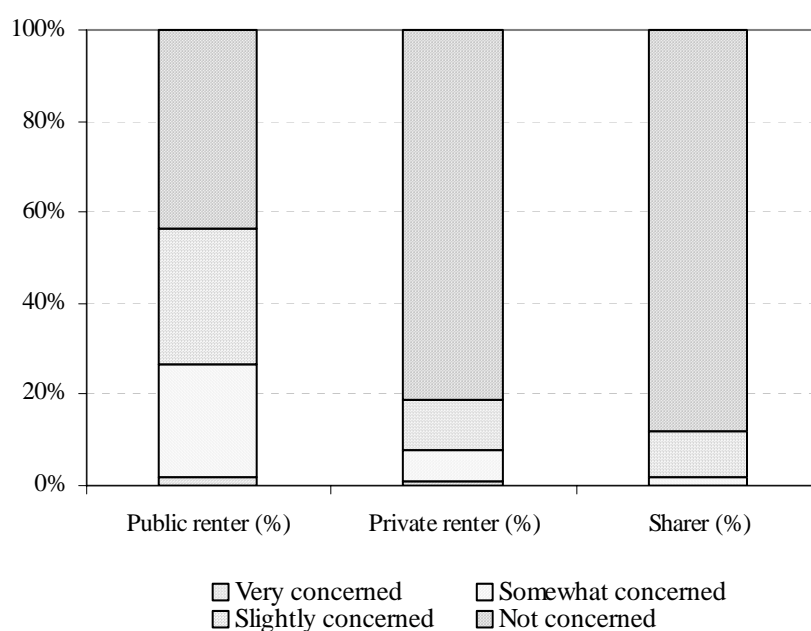
The survey findings indicate that unemployed renters currently in receipt of housing assistance are well aware of how this will be affected if their income goes up because they get a job. Most (84 per cent) of the private renters in receipt of RA expected that their RA payment would decrease or finish when they get a job, with only 9 per cent

not expecting this to happen. Only 9 per cent of private renters, but as many as 28 per cent of sharers, expected their rent to increase when they get a job. The latter finding may reflect the more informal rental arrangements of many sharers, with some people contributing reduced amounts to their household's housing costs while unemployed, but which would be expected to rise once they took a job.

Similarly, four in five public renters (81 per cent) said that they understood how their rent is calculated and expect it to increase when they get a job (79 per cent). This group expected their rent to go up by a median \$65 a week and are aware that this would be based on a percentage of their income; with many expecting an increase to market rent.

How concerned were renters about the impact of getting a job on rents? Tenure had a significant effect on the answer. Not surprisingly (given that there would be no impact on rent levels), the vast majority of private renters and sharers were not concerned about any impact, as shown in Figure 6.2. While four in ten (44 per cent) public renters were also not concerned, over half (56 per cent) were concerned, with just over a quarter being 'somewhat' or 'very concerned'. Nevertheless, half (49 per cent) of the public renters agreed that if they earned (more) from paid work and their rent went up they would be better off, although a third disagreed with this view. This result was the same whether this question was phrased in a positive or negative way to reduce bias, as Table 6.3 indicates.

Figure 6.2: 'If you get a job or work more hours, how concerned are you about the effect this might have on your rent?', by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

Table 6.3: Public renters' perceptions of rent setting and work disincentives

	Agree (%)	Neither agree nor disagree (%)	Disagree (%)	Total (%)
There's no point in getting a job or working more hours if my rent goes up	35%	19%	46%	100%
If I get a job or work more hours and my rent goes up, I'd still be better off	49%	16%	35%	100%

n = 57

Attitudes among public renters to job related rent increases were mixed. Just under two-thirds (63 per cent) agreed that 'It is fair that people pay more rent when they earn more', with one in five (21 per cent) disagreeing, as indicated in Table 6.4. Less support was found for including children's incomes in the calculation, with a third supporting the statement that 'I don't agree with the Department increasing my rent if my children get work'. It was very strongly supported by those with dependent children. This finding supports those of previous research (Burke and Wulff 1993).

Table 6.4: Public renters' perceptions of rent administration

	Agree (%)	Neither agree nor disagree (%)	Disagree (%)	Total (%)
It is fair that people pay more rent when they earn more	63%	15%	21%	100%
I don't agree with the Department increasing my rent if my children get work	33%	49%	18%	100%
It is easy and straightforward to get my rent adjusted when my income changes	60%	23%	18%	100%
It is too much trouble dealing with the Department as well as Centrelink every time my income changes	53%	18%	30%	100%

n = 57

In terms of the administration of changes to income related rents that would be triggered by an unemployed renter getting a job, 60 per cent of public renters agreed that 'It is easy and straightforward to get my rent adjusted when my income changes'. However, 53 per cent also agreed that 'It is too much trouble dealing with the Department as well as Centrelink every time my income changes'. It is unclear why there is agreement with both these statements. Possible explanations are the 'double dealing' in having to inform both the housing agency and Centrelink, including providing documentation, or that respondents faced greater difficulties in their relationship with Centrelink than with the housing agency.

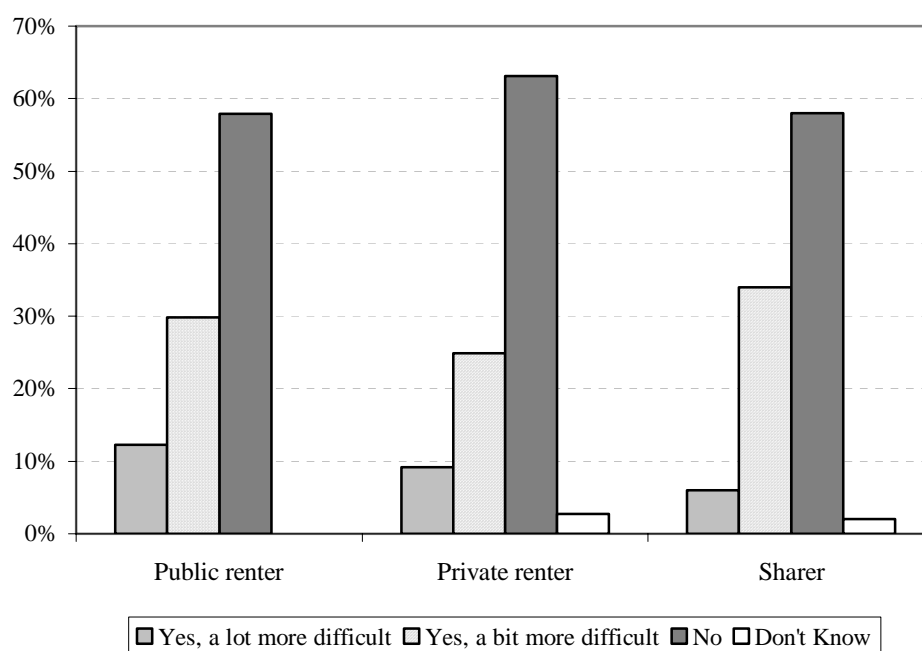
In summary, most unemployed renters understand their form of housing assistance and what will happen to it when they get a job. Most sharers and private renters did not see reduction in rental housing assistance when they get a job as a problem. Public renters were more varied in their views. Although most saw the system of setting rents based on income as fair, about a third considered that this system provided a disincentive to getting a job as a means of getting ahead financially.

6.4. Location and work disincentives

Rent setting is, of course, not the only element of rental housing assistance that can contribute to work disincentives. One of the key current policy issues is the extent to which this assistance enables renters to live in areas in which there is a reasonable prospect of getting a job. In terms of public housing, the debate has been about the extent to which this housing is located in job poor areas, as highlighted by the Reference Group on Welfare Reform. There is also an active debate about the extent to which RA enables people to live in a range of areas with reasonable prospects of getting a job or whether it concentrates them in areas with lower rents and high unemployment.

Unemployed renters were asked whether they thought that living in their current area makes it difficult to get a job. Overall, 36 per cent thought that it did, with most of these considering that the area made getting a job 'a bit more difficult'. On the other hand, 62 per cent did not think that their area of current residence made getting a job more difficult. Public renters and sharers were more likely than private renters to see their current area as a problem in terms of jobs, as indicated in Figure 6.3, but the difference was not particularly large.

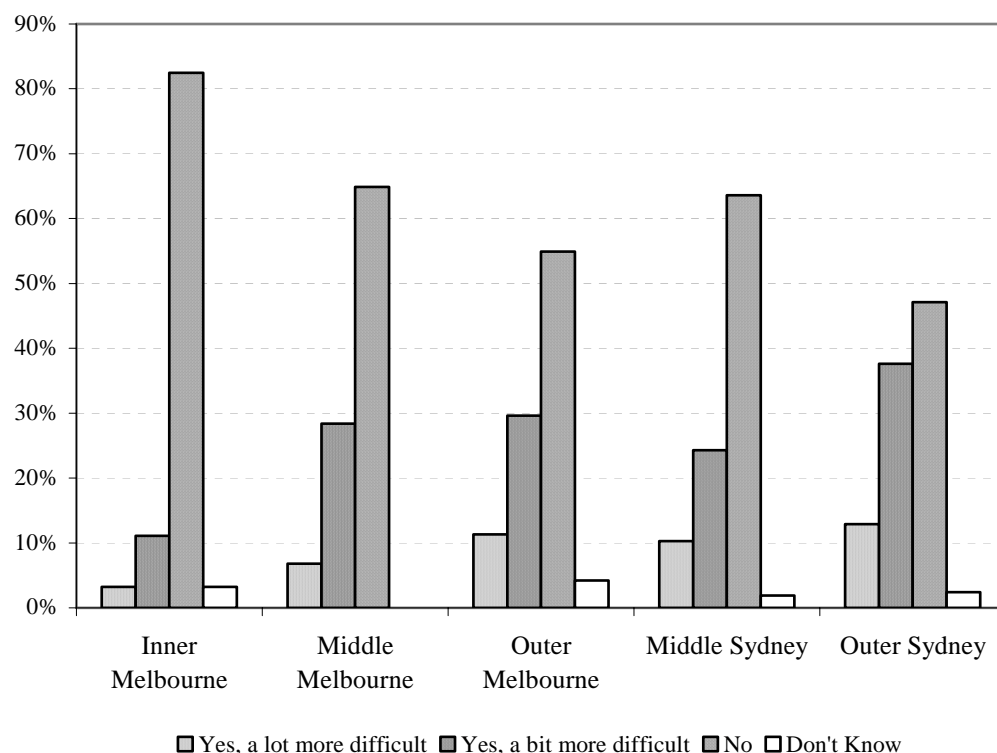
Figure 6.3: Unemployed renters' views on 'Do you think that living in this area makes it difficult for you to get a suitable job?', by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

However, as Figure 6.4 shows, responses to this question varied by the type of area that respondents lived in: inner, middle or outer suburban. More than a third (35 per cent) of those in middle suburban areas and almost a half (48 per cent) of those in outer suburban areas considered that living in their current area did make it difficult to get a job to some degree. In particular, a majority of those living in outer Sydney considered that living there made it more difficult to get a suitable job (13 per cent 'a lot more difficult' and 38 per cent 'a bit more difficult'). Whilst results for each of these five sub-areas should be regarded as indicative due to sample size, the difference in response between those living in the main types of area was statistically significant.

Figure 6.4: Unemployed renters' views on 'Do you think that living in this area makes it difficult for you to get a suitable job?', by location



n = 400 (Inner Melbourne = 63, Middle Melbourne = 74, Outer Melbourne = 71, Middle Sydney = 107, Outer Sydney = 85)

Note: Inner Sydney was not included in the survey

As noted above, different tenures offer different 'bundles' of attributes. Depending on the person and their circumstances, security and stability of housing or, alternatively, flexibility and the ability to move could contribute to either work incentives or disincentives. Sharers (66 per cent) and public renters (51 per cent) were much more likely than private renters (36 per cent) to agree that the sense of security associated with their type of rental helped them to look for work, as shown in Table 6.5.

Table 6.5: Renters' perceptions of the link between security and flexibility associated with rental type

	Agree (%)	Neither agree nor disagree (%)	Disagree (%)
<i>This type of rental has helped me look for work by giving me a sense of security</i>			
Public renters	51%	23%	26%
Private renters	38%	27%	34%
Sharers	66%	18%	16%
All	44%	26%	31%
<i>This type of rental makes it difficult to move to areas with more work</i>			
Public renters	60%	18%	23%
Private renters	28%	27%	45%
Sharers	22%	20%	58%
All	32%	25%	44%

n = 400 (public renter = 57, private renter = 293, sharer = 50)

Unemployed renters may perceive that they are unlikely to get a job locally and consider moving to an area with better prospects. Do current forms of housing assistance provide disincentives to moving? A much higher percentage of public renters agreed that their type of renting makes it difficult to move to areas with more work (60 per cent), compared to either private renters (28 per cent) or sharers (22 per cent), also shown in Table 6.5. This finding was reinforced by comments made in response to other questions about the difficulty of getting a transfer within public housing to an area with more jobs. Several public renters volunteered that they had asked for a transfer for this reason but their requests had been refused. The extent to which unemployed people are prepared to make trade-offs between staying in their home/area or moving in order to get a job is considered further in Chapter 7.

6.5. Summary

Government rental housing assistance does contribute to work disincentives. The design of RA works reasonably well in minimising work disincentives for sharers and private renters in receipt of RA due to a single rate of withdrawal of Centrelink payments. As people earn more from work, withdrawal of RA does not stack on top of already very high EMTRs caused by the combined effects of Centrelink payment withdrawal and income tax/Medicare levy. However, since RA provides additional income, it does extend the income band over which Centrelink payments are withdrawn and over which very high EMTRs apply. It is also possible, although yet to be tested, that similar levels of RA payments to households in similar circumstances mean that renters in high cost areas see this as less of a factor in taking a job, as RA makes a proportionally lower contribution to housing costs in these areas.

In the public housing sector, the financial disincentive effect is more marked. The effect of setting rents based on income is to increase EMTRs potentially by up to 25 per cent, although this type of rent setting does not necessarily extend the income band over which very high EMTRs apply.

Turning to the real financial benefits of working, it seems clear that for the renters in our sample, the real return from getting a job is to just about double their take-home income. This increase amounts to just under \$200 per week on average. This is, in effect, the net financial incentive of taking a job. However, this is before both the loss of concessionary payments and the additional costs of working are allowed for. Further research is needed to quantify these more detailed impacts. For private renters, the loss of RA will have further impacts, while for public renters the increase in rent cuts the net financial gain by around a quarter. The findings presented in this chapter indicate that renters in the sample were well aware of these financial returns and the likely incomes they will get when they take a job. Their expectations about income are therefore perfectly realistic.

These findings suggest that unemployed renters do face a considerable unemployment trap, which means that it is difficult to move into work, and a poverty trap in terms of getting ahead financially when in work in the context of the low wages typically earned by this group. The design of housing assistance is a contributor to these traps, although most of the disincentives result from the interaction of the tax and income support systems more generally. It should also be noted that EMTRs are only one factor for unemployed renters wishing to get ahead financially. Added to these calculations in practice are the additional costs associated with working such as childcare (if applicable), clothes and travel, and loss of concessions such as the Health Care Card. These non-housing costs were not included in this research and could be the focus of further research.

Unemployed renters in the survey are generally well aware of what would happen to their housing assistance if they move into paid work and earn more. Most sharers and private renters were not concerned about the effect on their rent of getting a job, but a quarter of public renters were 'somewhat' or 'very concerned' about this. Most public renters thought that the system of paying rents based on income was fair although a third considered that obtaining a job might not enable them to get ahead financially because of this system. Finally, whilst sharers and public renters generally appreciated the security attached to their type of rental, public renters, in particular, were aware that the public housing system could also make it more difficult to move to areas where there were more jobs.

These findings raise important issues around the importance of both security and flexibility in terms of housing related work disincentives. These are considered further in Chapter 7, which examines to what degree housing related work disincentives influence unemployed renters' attitudes and decision-making about employment in practice.

7. BEHAVIOURAL RESPONSES TO WORK DISINCENTIVES

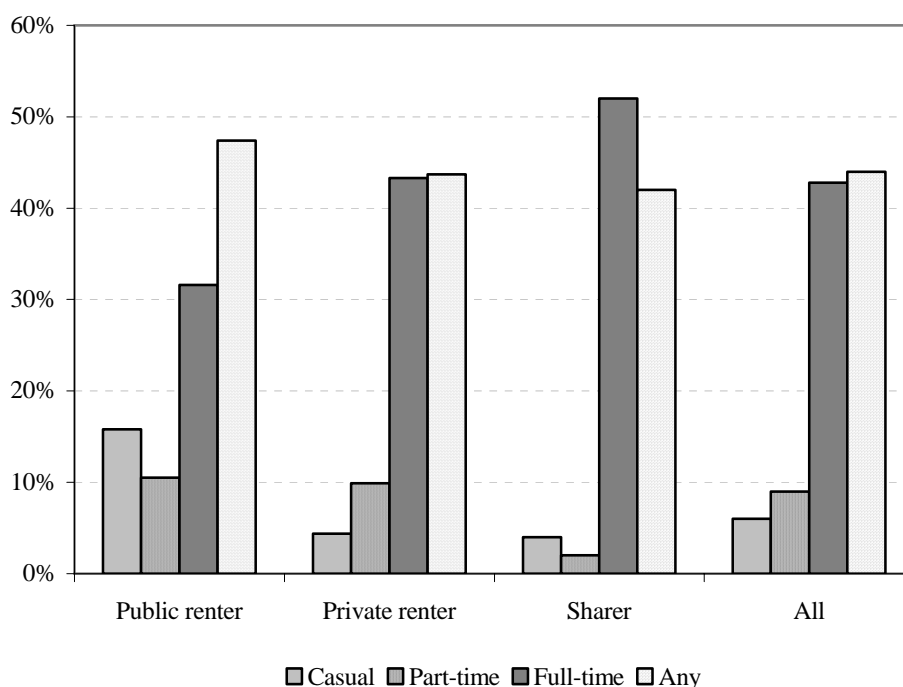
7.1. Introduction

This chapter examines what behavioural responses unemployed renters make in the face of calculation of financial returns from working and what other factors are important in making decisions about paid work. It attempts to fill a significant gap in our understanding of the behavioural responses of unemployed renters when faced with work disincentives and of the relative importance of housing compared to other factors. This chapter draws exclusively on the findings of the survey of unemployed renters.

7.2. Financial and non-financial reasons for taking on paid work

Unemployed job seekers in the survey wanted to obtain jobs that would enable them to get ahead financially compared to their current situation. A key finding here was that only 6 per cent said that they were looking for casual work and 9 per cent for part-time work, despite the fact that the majority who were not currently doing any paid work (61 per cent) had worked on a casual or part-time basis in their last job, as reported in Chapter 5. The rest of the sample was evenly split between those specifically looking for full-time work and those looking for any job. The differences between rental types shown in Figure 7.1 indicate fewer public renters were looking for full-time work. There are a number of possible explanations for this, including a higher proportion of women in the public renter sub-sample, a higher proportion with family responsibilities, and longer time on average on Centrelink payments and out of the workforce.

Figure 7.1: 'What type of job are you looking for?', by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

Note: Results for public renters are indicative only due to some minor duplication of responses (less than 5 per cent).

How much additional income would be sufficient to prompt the decision to take a job? We presented the net financial benefits of working in the previous chapter, together with other information on the kind of incomes and financial gains which renters expect to obtain when they get a job. As we saw, the expected financial benefits from working closely reflected the likely incomes that respondents would receive from the kinds of jobs they had previously done. We explored the behavioural issues behind this financial data in a series of further questions.

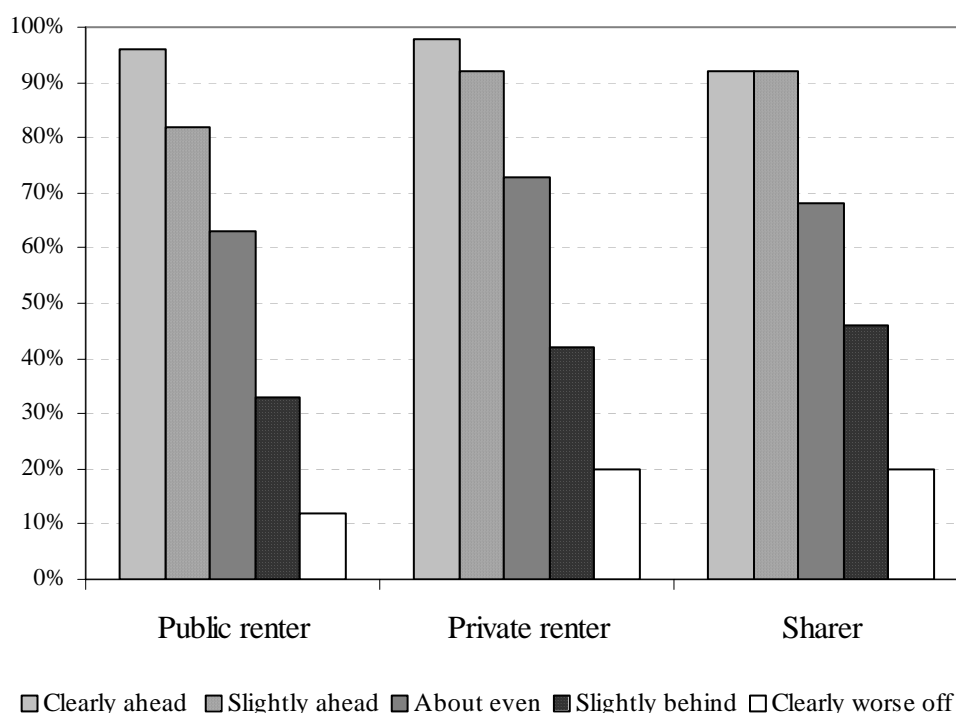
Most unemployed renters in the survey (79 per cent) were looking for a clear financial benefit from paid work of at least \$100 net a week more than they are getting now, with a half (51 per cent) wanting more than a \$200 a week increase in net income. There were no significant differences by renter type, age, gender, living arrangement or area of residence. Many respondents were also much more realistic about their chances of getting this level of income and were clearly willing to work for less.

We explored this issue further to find out under what financial circumstances unemployed people would take on work or work more hours. This interest was stimulated in part by a UK study discussed previously which found that a quarter of people interviewed were working for less than they could have received in income support payments (Ford, Kempson and England 1996). This suggested that non-financial reasons were also important in making decisions about work.

Unemployed renters in the survey were asked if they would take on work or work more hours under a range of financial scenarios: that they would be clearly ahead in terms of net income compared to now, slightly ahead, about even, slightly behind, or clearly worse off. Most said that they would take a job if it meant that they were clearly ahead financially (97 per cent), slightly ahead (91 per cent), or 'about even' in terms of net income (71 per cent). Revealingly, four in ten (41 per cent) said that they would take a job even if they were slightly behind financially compared to their current net income which for most of the respondents comprised Centrelink payments. At the extreme, almost one in five (19 per cent) said that they would take a job even if clearly worse off than when unemployed.

Further analysis showed some difference between renter types in these responses, with higher percentages of private renters and sharers than public renters being willing to take a job even if this meant that they were worse off in terms of money than now, as indicated in Figure 7.2. Those who had been unemployed for a short term, particularly less than three months, and those who had been unemployed for two years or longer were more likely to say that they would take a job even if they were financially about the same or worse off than those who had been unemployed for periods between three months and two years. Renters who were currently doing some work were the least likely to say that they would accept a job paying less than they get currently.

Figure 7.2: Respondents' attitudes to taking a job or working more hours under a range of scenarios about net income compared to current net income

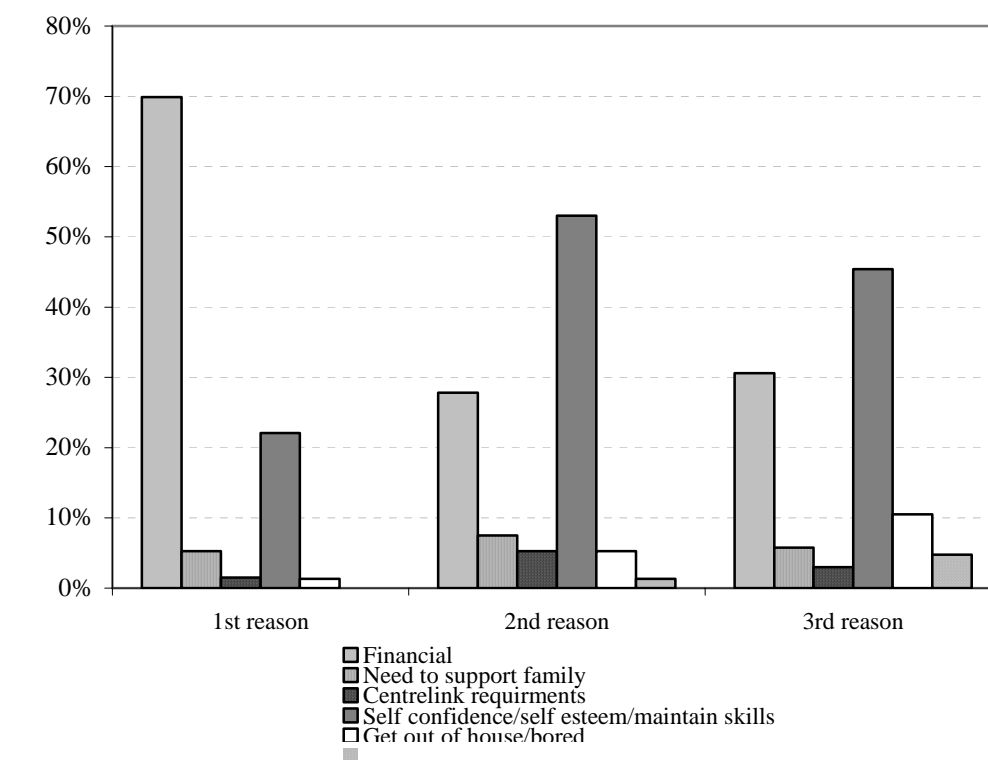


n = 400 (public renter = 57, private renter = 293, sharer = 50)

When asked about their reasons for taking a job which paid less than their Centrelink payment, unemployed renters nominated as the main reasons: negative views about Centrelink, better self-esteem when working, need to obtain work experience, desire for weekly wages not fortnightly benefits, and ineligibility for Centrelink payments. Those who said that they would not accept a job paying less than Centrelink payments said very strongly that they were only just surviving now and could not survive on less money, given the amounts they had to pay in rent, food and bills such as power bills.

Whilst getting a job was considered very important for financial reasons, there were also other reasons why unemployed renters in the survey wanted to work. Most (70 per cent) gave 'getting ahead financially' as their first priority reason for wanting work but one in five (20 per cent) nominated improving self-confidence or maintaining skill levels as the most important reason. The most important second and third reasons in order of priority were also to do with self-confidence and maintaining skill levels, as seen in Figure 7.3. Very few people nominated that they wanted paid work to help pay the rent or to meet Centrelink requirements.

Figure 7.3: Three main reasons for wanting to work (in priority order), all renters



In other words, whilst respondents did want a job to get ahead financially, there are also other important reasons why they want to do paid work. Responses were remarkably similar for public renters, private renters and sharers, although length of time out of work did make some differences to responses: Four in ten of those who had been out of paid work for two years or more gave self-confidence or maintaining skills as their first priority reason for wanting to work, while only half cited wanting to get ahead financially. The findings suggest that any strategies to encourage unemployed renters to move into paid work, particularly if they have been out of work for some time, must include means of addressing issues of self-confidence and skill levels as well as devising means of ensuring that rental housing assistance does not diminish the financial returns from working to the level where people cannot afford to work.

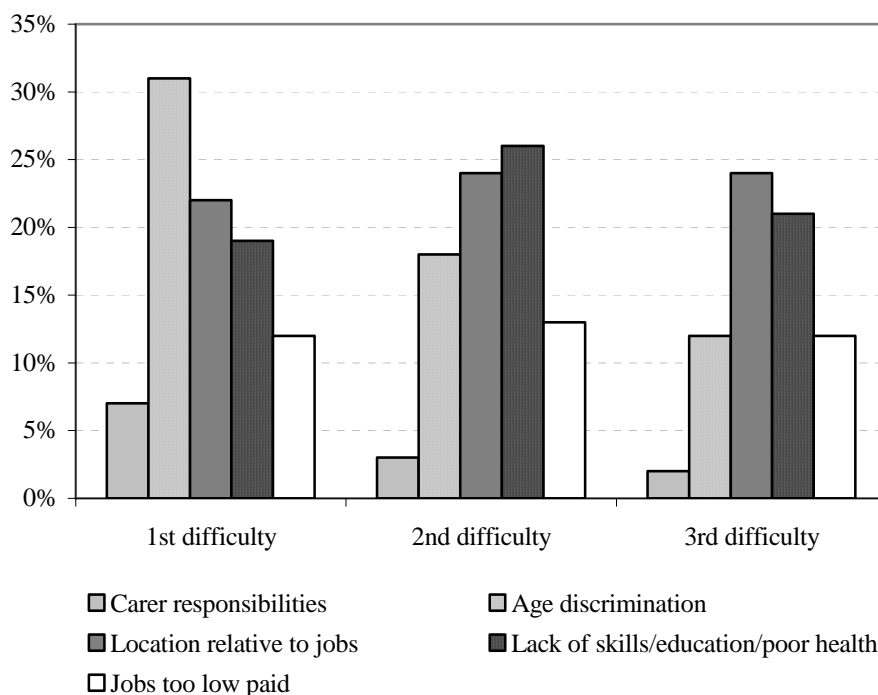
7.3. Difficulties in getting a job: The role of housing related work disincentives

In the context of a strong commitment to finding paid work amongst this group, even if the financial benefits were marginal or non-existent, at least in the short term, what were the main difficulties that unemployed renters saw in getting a job? In particular, what difficulties could be attributed to housing and housing assistance and how important were these compared to other types of difficulties?

Respondents were asked to state the three main difficulties they faced in getting a job. Figure 7.4 shows the main difficulties identified by respondents in priority order. Just under a third of respondents nominated their first difficulty as age discrimination by employers, either because they were too young or too old. This was followed by locational disadvantage and then by a mix of personal difficulties (low level of skills, low educational levels and poor health). Other factors such as problems moving on and off Centrelink were not considered to be important. However, a much more

consistent picture emerged for the second and third stated reasons. The proportion citing age discrimination declined significantly, but the proportion citing both locational disadvantage and skill levels, educational disadvantage or poor health remained roughly constant. More detailed analysis showed that the longer that people had been unemployed, the more likely they were to nominate lack of skills, lack of self-confidence or poor health status as a difficulty in getting a job.

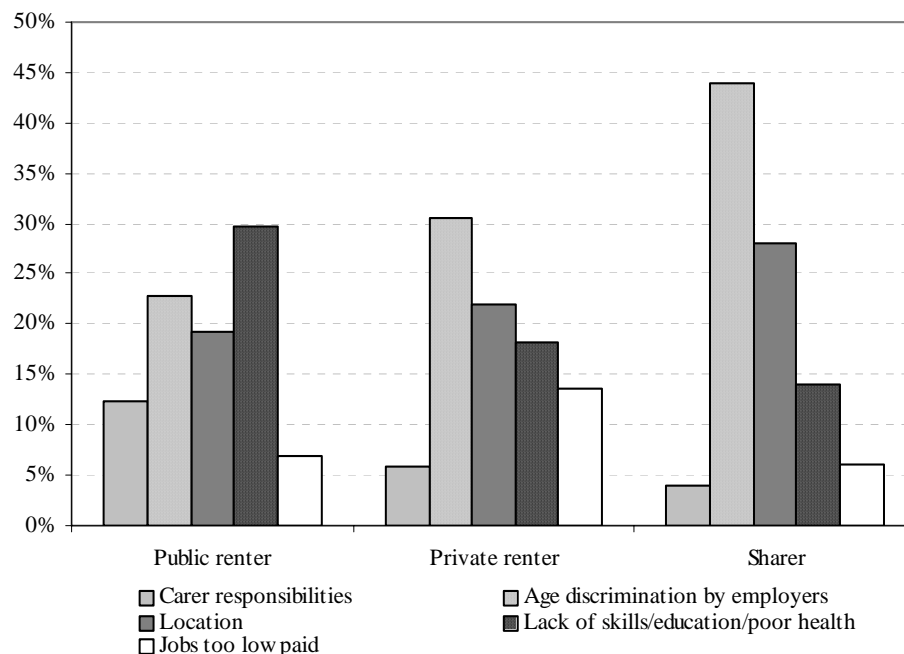
Figure 7.4: Three main difficulties nominated by unemployed renters in getting a job (in priority order)



n = 400

The importance of length of time since last working was reinforced when we examined the first difficulty nominated by renter type. A higher percentage of public renters who have typically been out of work longer than those in the other two rental types and who also had relatively low education levels (see Chapter 5) nominated lack of skills, education and poor health as their main (first) difficulty in getting a job, as shown in Figure 7.5. Age discrimination by employers was important to all renters, but particularly important to sharers who were predominantly young men (see Chapter 5), with 44 per cent nominating this as their first difficulty. Being faced with jobs that were too low paid was more of an issue for private renters than the other two groups, with 14 per cent indicating that this was the main problem in finding work, perhaps reflecting the higher rents faced by this group compared to public renters and sharers.

Figure 7.5: Main (first priority) difficulty in finding work, by renter type

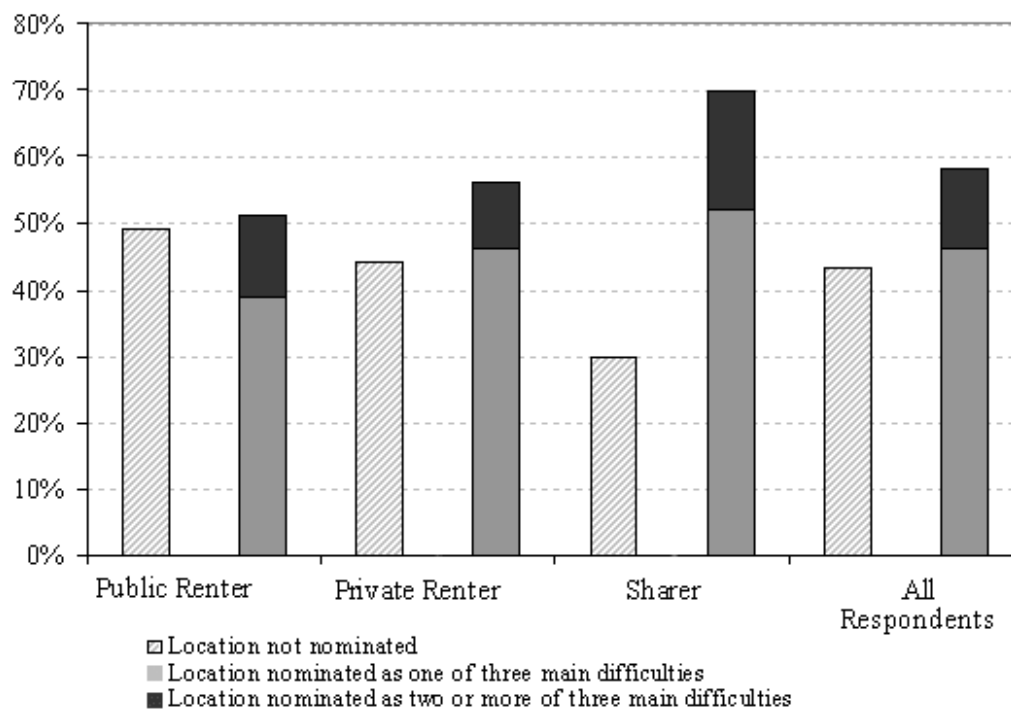


n = 400 (public renter = 57, private renter = 293, sharer = 50)

From a housing policy perspective, a majority of respondents (57 per cent) nominated locational disadvantage as one or more of the three main difficulties for them in getting a job as illustrated in Figure 7.6.¹³ Locational disadvantage in this context referred to not enough jobs in the areas where unemployed renters live, living too far away from places where there are jobs, and employers being reluctant to take on people who live in particular areas.

¹³ Respondents were asked: 'What do you think are the three biggest difficulties in getting a job (in priority order)?'

Figure 7.6: Percentage of respondents nominating locational disadvantage as one or more of the three main difficulties in getting a job



n = 400 (public renter = 57, private renter = 293, sharer = 50)

Locational disadvantage was seen as a particular issue by sharers (70 per cent of whom nominated this as one or more of the three biggest difficulties in getting a job), but was also an issue for a majority of private renters and half of public renters, with 56 per cent and 51 per cent respectively nominating it as one of more of their three biggest difficulties in getting a job. Table 7.1 summarises the percentages of respondents in the three different rental arrangements nominating location relative to other difficulties in getting a job.

Table 7.1: Most nominated difficulties in getting a job, by renter type

Most nominated difficulties in getting a job	Public renters (% of respondents)	Private renters (% of respondents)	Sharers (% of respondents)	All respondents (% of respondents)
1st	Age discrimination (65%)	Age discrimination (58%)	Location (70%)	Age discrimination (59%)
2nd	Lack of skills/self-confidence (61%)	Location (56%)	Age discrimination (60%)	Location (57%)
3rd	Location (51%)	Lack of skills/self-confidence (47%)	Lack of skills/self-confidence (60%)	Lack of skill self-confidence (51%)
4th	Job too low paid (32%)	Job too low paid (35%)	Job too low paid (26%)	Job too low paid (33%)

n = 400 (public renter = 57, private renter = 293, sharer = 50)

Note: Respondents were asked to nominate (and rank) up to three difficulties they faced in getting a job, that is, to give more than one response. Percentages refer to the percentages of respondents who nominated a difficulty one or more times.

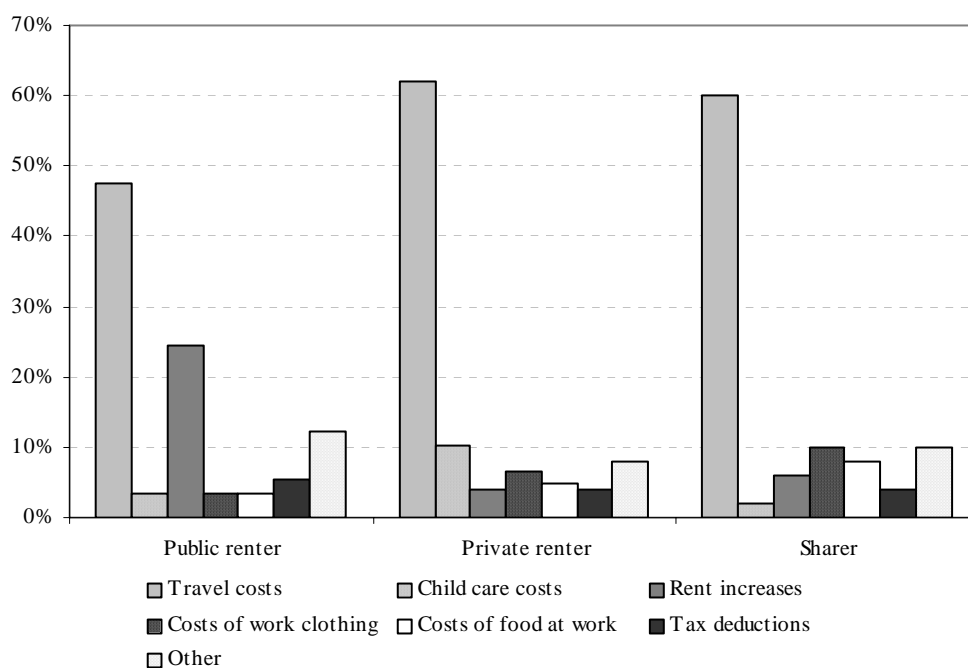
The importance of location was strongly reinforced when we asked unemployed renters to nominate the additional costs they thought that they would face when in

work (three priorities). The majority of all renters (60 per cent) said that travel costs were the most important additional cost, as shown in Figure 7.7. Travel in this context could include either the costs of using public transport or the costs of running a car or both.

Travel costs were slightly more important for those who did not own a car, although they were also the most important cost associated with working by more than half of those who did own a car, suggesting that the issue was location relative to jobs. Those who were currently doing some work were also more likely to nominate the costs of travel to a job as the most important work related cost.

In terms of other housing policy implications, it is noticeable that a quarter of public housing renters (25 per cent) also nominated rent increases as the most important additional cost associated with working. Rent increases and loss of RA were not nominated as important additional costs by either private renters or sharers. This reinforces survey findings reported in Chapter 6 which suggest that income related rents are a work disincentive for about a quarter of public renters.

Figure 7.7: Most important additional cost associated with working (first priority), by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

7.4. Trade-offs: Getting a job and location of residence

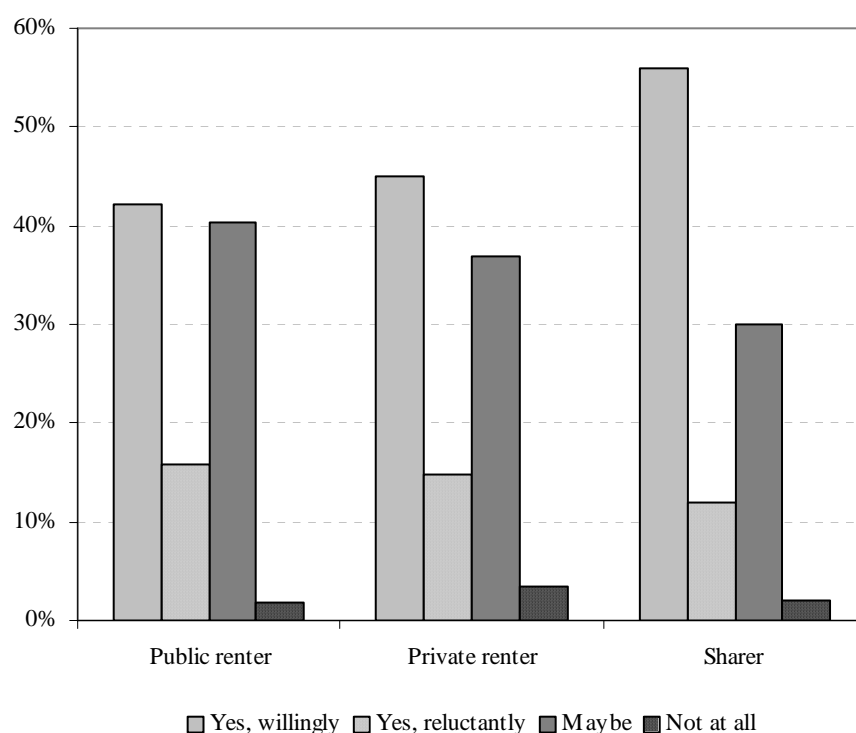
Given that the lack of jobs in the areas where our respondents lived was seen as a major barrier to gaining appropriate employment, what options do they have? Those in 'job poor' areas face a dilemma: they can stay in their area with affordable rents and continue to face difficulties in getting a job, they can stay and travel to work in another area with commensurate transport costs and inconvenience, or they can move to an area where the prospect of getting a job may be much better but where they may also face higher rentals that may negate the benefits of additional income from work.

When asked if they were willing to move to another area to get a suitable job, almost half of the unemployed renters in the survey (46 per cent) said that they would do so

willingly, as indicated in Figure 7.8. A further 15 per cent said that they would do so reluctantly, while 37 per cent of respondents said 'maybe'. Only 3 per cent said they would not consider moving at all.

Further analysis showed that the two most important factors associated with willingness to move to get a job were age and length of residence in current accommodation. Younger people and those who had only lived in their current home for a short time were much more willing to move than older people and those who had lived in their home for some years. Single people were also more likely to say that they would move than those living with a partner and/or children. Sole parents were the least willing to move to find work. Sharers who were predominantly younger indicated that they would move more willingly than private renters or public renters.

Figure 7.8: Willingness to move to another area to get a suitable job



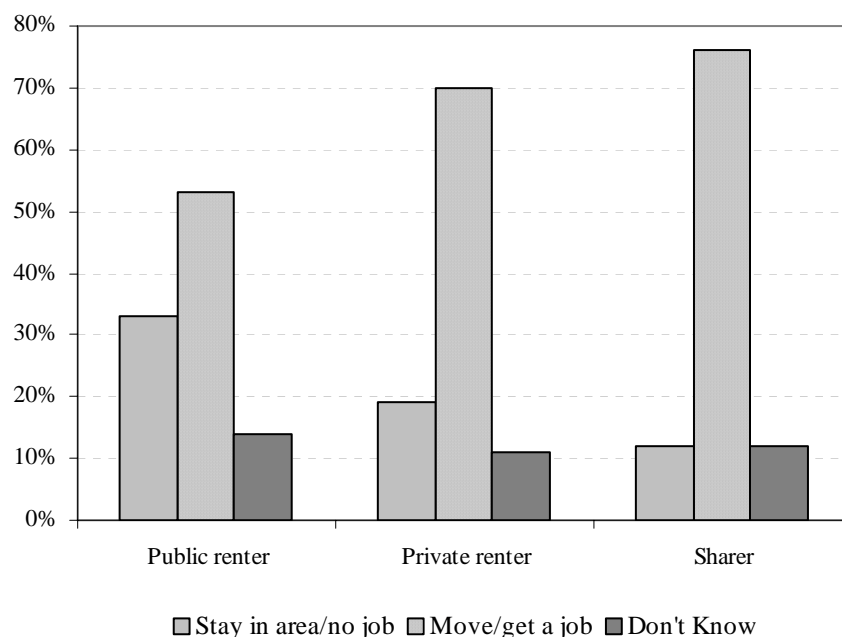
n = 400 (public renter = 57, private renter = 293, sharer = 50)

Respondents were asked to explain their answer to this question. Analysis of the verbatim responses showed that those who were willing to move either did not like the area they lived in or did not mind moving around if necessary to get work. A very strong view put forward by many respondents, however, was that they would only move for a job that was 'suitable', full-time, 'decent' or 'the right job'. Those who indicated that they would move reluctantly or 'maybe' indicated in their detailed comments that they did not really want to move, the main reasons being that they liked living in their current area, they have family and community ties, they are settled in the area, they would have to pay more rent if they moved, the costs of moving were too high and they had already moved too many times. Some public renters mentioned the difficulties of getting a transfer in that sector whilst some private renters highlighted the difficulty in breaking a lease, the prospect of having to pay rent on two places at the same time and the high costs of relocation.

We then asked respondents to indicate what they would do if they had to choose between remaining in their own area with the prospect of no job or moving to another area to get a job. The majority said that, faced with this choice, they would prefer to

move elsewhere and get a job (68 per cent of all the renters). A higher percentage of public renters said that they would prefer to remain in their own area than for those who were private renters and sharers, as shown in Figure 7.9. Even so, just on a half of public renters said that they would move to get a job. This difference can be explained by the different profile of public renters outlined in Chapter 5; they tended to be older, were more likely to live with family members and had lived in their current accommodation for longer. Perhaps surprisingly, gender was not a strong factor, with women almost as likely to choose to move (66 per cent) as men (70 per cent).

Figure 7.9: Choice of living in own area with no job or moving and getting a job, by renter type



n = 400 (public renter = 57, private renter = 293, sharer = 50)

7.5. Summary

Unemployed job seekers wanted to obtain a job that would enable them to get ahead financially in terms of net income. To do this they were looking for either full-time work or 'any job', with few specifically looking for casual or part-time work, despite many having previously had these types of jobs. This appears to suggest that those who take casual jobs often do not do so out of choice (a position frequently put forward by commentators to explain the rise of casualised employment), but because these are all that they are likely to get.

Nevertheless, despite the desire to obtain a full-time job and to get ahead financially, 71 per cent) said that they would take a job even if they came out 'about even' in terms of net income compared to their income whilst looking for work. Indeed, a sizeable minority would work for less than they were getting as an unemployed person. These findings can be explained in part by unemployed renters' reasons for wanting paid work. Whilst financial improvement was a very strong motivator, many indicated that it also important for their self-confidence and self-esteem and for them to maintain their skills. The longer a person had been out of work, the more important these non-financial reasons became. In other words, financial considerations were only part of story: most respondents simply wanted a job and were willing to work even if the financial rewards are low or non-existent, due to the very high EMTRs they face.

Those interviewed identified the main difficulties in getting a job as age discrimination, location of current residence relative to jobs, and lack of skills, education and poor health status. In terms of implications for housing policy, location was an important factor across the three rental types, a fact highlighted by the associated significant concern with the importance of the costs of travel to work. As three in five of the sample did not own a car, the availability and cost of public transport is clearly an important issue.

A further implication for housing policy was the significant minority of public renters (25 per cent) who saw increased rents when in paid work as the most important additional cost of working. Income related rents appear to be an important consideration for some, but by no means all, public renters seeking paid work. In contrast, we found no indication that the loss of RA played a significant role in the job decisions of private renters. Why this is so is difficult to explain. It may be that as RA is bundled with other income support payments, recipients simply do not perceive it to be a specific housing subsidy. Alternatively, it may be that RA makes only a limited contribution to meeting rents in the higher-cost metropolitan areas in which this research was conducted. This aspect of the issue required further research.

The significance of location and transport costs as barriers to employment was reflected in answers to questions about moving to get work. Just under half of the sample indicated that they would willingly move to another area to find work. The rest all expressed various degrees of qualification about moving unless the job was 'suitable', 'full-time' or 'decent'. Few said they would not be prepared to move at all, given this qualification. Public renters were more willing than other groups to stay in their current area without a job. This may stem from having lived in their current accommodation for longer and being more likely to live in a family household. It may also reflect the greater security and affordability in the sector, as well as difficulties in transferring to another area. Public renters appear reluctant to trade away these benefits for a job elsewhere, especially if it is likely to be casual or episodic work. Private renters do not have these benefits to trade and may well have less to lose if they move to get a job. They have also experienced higher levels of residential mobility in the past, as seen in Chapter 5.

It appears from these findings that, given appropriate housing and job opportunities, most respondents would consider moving to get a job. This suggests that their current location has as much to do with the availability of low cost rental housing rather than any intrinsic attraction to the areas in which they live or the availability of appropriate employment opportunities. However, this finding is specific to the sample we interviewed who were predominately males and included many single people who may not be as attached to local area as other groups. Further research is needed to ascertain whether this finding would apply equally to other groups who may wish to seek work or who may encouraged back into the workforce, such as single mothers.

8. A REVIEW OF POLICY APPROACHES

8.1. Introduction

This chapter presents a review of housing policy and practice approaches adopted by jurisdictions in both Australia and overseas that attempt to minimise some of the housing related work disincentives that have been identified by this research and, where applicable, gives examples of these initiatives. The review was conducted to address the fourth main research objective of the project, namely, what examples are there of initiatives to link housing assistance with incentives for people to work or to work more hours? In order to link this review into the quantitative findings discussed in the preceding chapters, we have related the various policies to relevant findings from the survey where this is appropriate.

In considering the implications of the findings, it is important to restate that the research involved renters who are in the labour force but currently unemployed and actively seeking work via Job Network Offices. Whilst the following review may well have implications for housing related disincentives faced by renters who are not currently in the labour force (that is, neither working nor unemployed and looking for work), additional research is required to understand the behavioural responses of this group.¹⁴

8.2. Making work pay: Getting ahead financially

The research findings indicate that a desire to get ahead financially was the single most important reason for unemployed renters wanting a paid job, with many indicating that they were experiencing significant financial hardships while unemployed, including running up rent arrears. Four in five wanted to get at least \$100 a week in additional disposable income (after tax and other deductions) from working and half wanted to get over \$200 a week. However, as seen in Chapter 6, very high EMTRs of between 65 and 85 cents in the dollar over quite broad income bands mean that it is difficult for unemployed renters to achieve these quite modest increases in disposable income, if they were to get paid work at wage levels similar to those obtained in their last job. This is compounded for public renters who pay rents based on a percentage of income. This section reviews several examples of policies that have been developed to specifically address the financial aspect of housing related work disincentives.

8.2.1. Interaction of the income support and tax systems: The role of RA

The work disincentives identified in this project are part of a problem faced by all unemployed people on Centrelink payments if they move into low paid work which does not lift them above the income band which is affected by very high EMTRs. This problem exists irrespective of housing situation and type of housing assistance. As discussed in Chapter 6, RA for private renters makes a small but significant contribution to this problem by increasing the income band over which very high EMTRs apply relative to other unemployed people moving into work who do not receive RA. This occurs because RA is an income supplement rather than a housing payment. It provides additional income that must be withdrawn along with the primary payment as earned income from work increases.

¹⁴ A new AHURI Collaborative Research Venture on Housing Assistance and Non-Shelter Outcomes (CRV 1) plans to undertake further qualitative research into the behavioural factors affecting the relationship between housing assistance and decisions about labour force participation.

The following are some options for changes to RA that could be considered in an attempt to improve work incentives:

Option A.1: Current system with differentiation of payment according to labour market conditions

Change the design of RA to take into account the higher rental costs typically associated with areas with strong job markets. The need for a differentiated RA payment based on area has been discussed for a decade but not resolved. The effect of higher payments for people living in, or moving to, 'high rent, job rich' areas would be to increase disposable income for rent and other expenses; the problem of high EMTRs over a broad income range would, however, continue whilst RA remains within the income support system;

Option A.2: Move towards individualised assistance as a component of mutual obligation packages

Move away from a 'one size fits all' model of RA to a more differentiated system of financial assistance for private renters, particularly targeting those who have been out of work for the longest and who face the greatest difficulty in finding work. This could build on the individualised service delivery proposed by the Reference Group on Welfare Reform (2000b: 15) and would provide assistance, based on assessment of individual circumstances, for a defined period as part of case management.

Option A.3: Specific housing payment

An alternative approach would be to convert RA into a specific rental housing payment or housing allowance for low income private renters, whether they were on Centrelink payments, in paid work or a combination of the two. This would remove the payment from the main income support system so that it would not be phased out automatically with the primary payment as the level of earned income increased. Rather, the level of the housing payment/housing allowance would be based on rental housing costs relative to income.

Example: Accommodation Supplement (New Zealand)

The Accommodation Supplement is a separate housing payment, although administered by the income support agency (Work and Income New Zealand). Payments are set at 70 cents in the dollar for rent paid above 25 per cent of income up to a maximum. Maximum payments differ by zone, reflecting differences in rents associated with different economic conditions.

Option A.4: Housing payment plus housing tax credit for working households

Continue RA as a cash transfer for people who are unemployed, either within the income support system or as a separate payment, but move to a housing tax credit for private renters who are working in low paid jobs, as originally recommended by the Commission of Inquiry into Poverty in Australia (1975: 162-3).¹⁵

A variation of this idea has been raised in the UK for private renters. This would involve introducing a 'flat rate' amount for housing costs as part of the Working Tax Credit introduced in 2003 and a similar amount added to income support payments. Those living in high rent/high economic activity areas could in addition apply for a specific housing payment (Housing Benefit) to offset their higher rental costs (Kemp, Wilcox and Rhodes 2002).

¹⁵ The Commission of Inquiry into Poverty proposed, for equity reasons, a tax credit equal in value to supplementary allowance payments (the predecessor of RA) for income support recipients for working poor households who rented and were below the poverty line.

Option A.5: Address the more general problem of high EMTRs for those moving from Centrelink benefits and into work

Another option would be to make changes to the income support or taxation systems to boost in-work income in order to reduce the need for specific assistance with rental housing costs. This can be done in a number of ways, including transitional and longer-term assistance. For example, the Working Credit introduced in Australia in September 2003 is a targeted means of enabling people to keep more of their Centrelink payment for a short period when they move into work (Centrelink 2003). Some countries have experimented with income supplements paid to those on low wages. For example, the Canadian Self-Sufficiency Project, 1992-99, provided cash supplements to sole parents who moved from income support and worked at least 30 hours a week (Lin et al. 1998; Michalopoulos et al. 2002). The US approach, on the other hand, is to provide in-work benefits via tax credits on a longer-term basis through the Earned Income Tax Credit (EITC), a refundable credit on federal income tax for low income earners based on income and household size¹⁶ (US Internal Revenue Service 2003). The Working Tax Credit in the UK is also designed to boost disposable income from wages for those in low paid work and is expected to 'float' some people off Housing Benefit (Kemp, Wilcox and Rhodes 2002).

8.2.2. Rent setting in public housing

Making work pay is a particular challenge for public renters, as the effect of setting rents based on income is to increase further already high EMTRs resulting from combined operation of the tax and income support systems. Whilst this in theory appears to pose a huge work disincentive, this research found that income related rents in public housing had contradictory effects in practice. On one hand, unemployed public renters considered that setting rents based on income helped minimise hardship and insecurity during periods of unemployment, thus assisting in job search. On the other hand, between a quarter and a third, saw the system as making it particularly difficult to get ahead financially. The challenge appears to be in changing rent systems to reduce the very high EMTRs faced by public renters entering work, whilst at the same time minimising hardship and enabling housing agencies to be financially viable.

Some of the options for doing this are outlined below. These are illustrated with examples of initiatives from public housing authorities in Australia and elsewhere, particularly the US, where there has been a decade of initiatives to reduce the work disincentive effects of income related rents. The discussion is not intended as a full review of such initiatives, which will be the subject of a forthcoming AHURI project, but to indicate some of the possibilities.

Option B.1: Change the definition of assessable income

A key factor in setting rents based on a percentage of income is what is counted and is not counted as income.¹⁷ One simple measure to reduce rent increases when unemployed renters move into work is to change the definition of assessable income, for example, to assess rent on net (after tax) rather than gross (before tax) income, as occurs for example in New Zealand and in Queensland. In both cases, net income is used to calculate rents for those on lower income levels. The threshold at which assessment of rents based on gross incomes cuts in can be raised as necessary to reduce work disincentives.

¹⁶ A group that became known as the 'Five Economists' proposed a US-style earned income tax credit for Australia in 1998. Other economists who preferred to focus on income tax cuts hotly contested the proposal.

¹⁷ Most housing agencies have long lists of types of income that are included in and excluded from assessable income.

Example: Assessable income, Queensland

Rents are assessed at 25 per cent of post-tax income up to \$20,000 and of pre-tax income above this level.

Option B.2: Disregard some or all earned income in assessing rents

Another option is to disregard some or all of earned income in assessing rent. This can be done as a short-term measure to assist the transition to work or over a longer time period and there are many possible variations. Western Australia provides an example of a targeted scheme to exclude some earned income.

Example: Deduction of a 'working allowance' from assessable income (WA)

The Department of Housing and Works in Western Australia provides a working allowance of \$30 per week for renters entering the workforce. This is automatically deducted from assessable income prior to rent calculation. The effect is to reduce rent chargeable by between \$6.90 and \$7.50 a week depending on whether the renter pays 23 per cent or 25 per cent of income in rent.¹⁸

An example of disregard of additional income from work but for a restricted period can be found in New South Wales.

Example: Renter Employment Initiative Scheme (NSW)

This Renter Employment Initiative Scheme provides a 'grace period' of up to twelve weeks in which rent is not increased as a result of earned income, with some conditions. For renters who move in and out of work, a number of such 'grace periods' not exceeding twelve weeks in total within a financial year is possible.

In the US, the federal government has used its strong position in policy setting and funding of rental housing assistance to introduce compulsory disregard of earned income by local public housing authorities.

Example: Earned Income Disregards (US)

The federal Quality Housing and Work Responsibility Act 1998 made it compulsory for local public housing authorities to disregard 100 per cent of additional income from work for some groups of residents for twelve months after gaining a job. In the following twelve months, rents can only be increased by half what they would otherwise be under income related rents. The arrangement applies to existing renters who have been unemployed and/or in receipt of welfare payments and who move into paid work or training (HUD 2003).

Option B.3: Mutual obligation packages

In the US there has also been much experimentation with mutual obligation 'packages' aimed at improving work incentives. Public housing authorities can offer arrangements in which the rent increases that would have been charged due to increased earnings from work are deposited in a savings account. The renter can access the funds if they meet agreed objectives in terms of finding work.

¹⁸ Slightly different provisions apply for those paying 23 and 25 per cent of income in rent. The level and operation of the working allowance is currently being reviewed.

Example: Individual Savings Accounts (US)

Individual Savings Accounts can be offered to renters instead of the 100 per cent Earned Income Disregard; this is a choice and cannot be compulsory. The rent increase is calculated based on earned income, and is deposited in an interest-bearing individual savings account maintained by the public housing authority. In some schemes, the funds are then matched by a variety of public and private organisations.¹⁹ The renter can withdraw the funds to buy a home, pay for education, move out of assisted housing or pay other expenses necessary to be independent of income support payments (HUD 2003).

Option B.4: Place-based approaches

Another approach is to make changes to rent setting selectively in targeted areas where unemployment among public renters is high. This can be done as part of urban renewal or community renewal initiatives.

Example: Neighbourhood Renewal Areas (Victoria)

The Victorian Office of Housing is piloting a scheme whereby renters living in designated neighbourhood renewal areas who have been unemployed for at least six of the last twelve months and who get paid work, including those employed under a Community Jobs Program such as paid interviewing as part of the neighbourhood renewal project, have a 'grace period' of sixteen weeks before their rent is reassessed on their income from work.

In the US, there has been a great deal of experimentation with place-based approaches to increasing employment incentives, many involving changes to rent setting. These are focused on areas in which low percentages of public renters are in paid employment.

Example: 'Jobs Plus' Demonstration in the US

Demonstration 'Jobs Plus' programs have been implemented in areas of five cities. The package of measures to improve employment outcomes varies, but includes in addition to the compulsory 100 per cent disregard of additional income from work: setting rents at less than the standard 30 per cent of income, decreasing ceiling rents which apply in income related rent schemes, and special 'savings' schemes in which the amount of additional rent based on income is paid into special accounts for the benefit of the renters if they move into training and work.

In the US example given above, it should be noted that the Department of Housing and Urban Development compensates local public housing authorities for any lost revenue caused by the rent incentives over the course of the demonstration projects. In the long run, the expectation is that rent revenue will increase in a system of income related rents when people have paid jobs.

Option B.5: Moving away from setting rents based on incomes

A different approach is to move away from setting rents based on incomes, in part because of the workforce disincentive effects. Whilst this might appear radical in a local context, relatively few countries set rents based on incomes in public housing, namely Australia, New Zealand, Canada (partly), the US and Hong Kong.²⁰ Most

¹⁹ These include non-government organisations such as banks, charitable foundations and employers.

²⁰ In the US, the federal government has required local public housing authorities since 1999 to offer a flat rent option as well as the traditional income related rent. Flat rents are based on market rents but can be adjusted, for example, to enable 'hard to let' properties to be rented. The idea is that people have a 'rent choice' and may choose a flat rent if their circumstances permit.

other western countries such as the UK, Sweden and the Netherlands charge a property rent, whilst the agency responsible for income support provides any subsidy to meet the gap between this rent and the renter's capacity to pay. In the UK, for example, the public housing agency or housing association sets a property rent, whilst the income support agency funds a Housing Benefit to pay the rent or part of the rent.

Many public housing renters²¹ are accepting of current practice, and this research found that almost two-thirds of those interviewed for this project thought that the current system of income related rents was fair. However, another recent AHURI research project specifically tested whether people on the waiting list for public housing were prepared to consider some move from this system, finding that many are willing to pay a rent premium for location, amenity and security and to a lesser extent for a property bigger than their entitlement under allocation criteria²² (Burke, Neske and Ralston 2004). The Swinburne-Monash AHURI Research Centre is currently undertaking further research that will examine issues of rent setting in public housing in more detail.

8.3. Skills, education and jobs

Whilst getting ahead financially was important for the unemployed renters interviewed in this project, the research indicated that there are other important reasons why they want to obtain a paid job. One in five gave their primary reason for getting a job as improving self-confidence or maintaining skills, and more than half indicated that this was the second most important reason for wanting to work after getting ahead financially. The desire to improve self-confidence and maintain skills was almost as important as the desire for financial betterment for those who had been out of paid work for two years or more. This was particularly the case for public renters who had had longer periods out of the workforce.

Many respondents expressed a strong desire for a 'real', 'suitable' or full-time job, perhaps in order to improve self-confidence and skills as well as to improve their financial situation. Most, however, indicated that their previous employment was unskilled, casual or part-time with low rates of take-home pay, indicating significant labour market disadvantage. They saw significant difficulties in getting the sort of job they would like: labour market factors (particularly discrimination by employers on the basis of age), location (discussed in the following section) and personal factors such as low level of skills, low education levels and poor health. The longer that unemployed renters had been out of work, the more likely they were to see these personal factors as important barriers. The 'compositional effect' identified in Chapter 5 meant that public renters in our sample were particularly disadvantaged in job search due to factors such as older age, more women, more likely to live with children and other family members, and being out of the workforce and in receipt of Centrelink payments for longer. Indeed, the main difficulty nominated by public renters in finding work was lack of skills, education and poor health.

The importance that unemployed renters ascribed to improving self-confidence and maintaining skills meant that many of those interviewed were willing to take work for little or no financial improvement. Four in ten would take a job even if this meant they

²¹ This is not the case in some community housing where rents are set in other ways, including cost rents.

²² The study found that 84 per cent of those surveyed were willing to pay more rent for a property of high quality and condition, a dwelling in a suitable location and a high level of security. Just under three-quarters (74 per cent) were willing to pay more rent to secure a property bigger than their entitlement under allocation criteria. For those people who were willing to pay more, 60 per cent were willing to pay less than \$10 a week, but 40 per cent were willing to pay more than \$11 per week and 25 per cent more than \$20 a week (Burke, Neske and Ralston 2004).

were financially slightly worse off, giving the need to improve self-confidence and gain work experience to develop skills as major reasons, as well as negative views about being dependent on Centrelink payments and other factors.

This research indicates that, whilst measures to improve the financial return to people in the transition to work and to make work 'pay' in the longer term are necessary, they are not sufficient to address other difficulties. Such measures need to be accompanied by strategies to improve skills, education levels and health status and to address labour market issues.

Option C.1: Develop skills and self-confidence as a component of community renewal projects

In the Australian context, the main means of addressing the personal difficulties faced by unemployed renters generally has been through the Job Network system. In the case of public renters, this has been one component of urban or community renewal programs; development of skills, education and resolution of health issues is rarely, however, the primary focus of these projects.

Option C.2: Develop skills and self-confidence through specific initiatives

There are also a few examples of initiatives to improve public and economic participation through specific skills development that are not part of urban or community renewal projects.

Example: 'Reach for the Clouds' project (Victoria)

This involves the installation of free, donated and network-ready personal computers in the apartments of a high rise public housing estate in inner Melbourne, wiring the buildings and providing an estate-wide intranet, email system and cheap internet access. The aim is to encourage residents to own and run the network themselves, to train one another and develop partnerships with private sector and community bodies around the estate, and to develop employment opportunities and economic benefits from the enterprise. The project was developed by a not-for-profit internet service provider, drawing on support from state and local government departments, private firms and welfare organisations (Meredyith, Ewing and Thomas 2004).

Option C.3: Contractual approaches

Australian approaches generally take a voluntary and developmental approach to skills development. This contrasts with the US where there has been a stronger emphasis on enforceable contracts between unemployed people and public housing agencies, comprising a mixture of incentives and compliance elements. These contracts have measurable outcomes in terms of getting and keeping a job.

Example: Family Self-Sufficiency Program (US)

This program has been operating for a decade and involves quite intensive case management. A key aspect is negotiation of a contract between the household head and the public housing agency. The household head agrees to find and retain work and keep off income support payments and in return, members can access services such as childcare, transportation, education, job training and employment counselling.²³ The program also included escrow accounts, which operate in much the same way as the Individual Savings Accounts (discussed above) and into which rent increases that would accrue from increased income from wages are paid, with funds drawn down only for approved purposes such as education and training (HUD 2002).

Option C.4: Longer-term investment in education and vocational training

A more radical option would be to invest in education and training to improve the longer prospects for unemployed renters of getting jobs other than casual or unskilled work. This could be achieved either through specific vocational training such as apprenticeships or Technical and Further Education or through the university sector. One possibility is to develop some demonstration projects through the creation of apprenticeships, sponsorships and scholarships. Such an approach would involve mutual obligation packages broader in scope than those currently in place that are mainly geared to short-term employment options. Initiatives of this type would address the low educational levels of some unemployed renters, particularly sharers and public renters, and would require a coordination of housing and education/training policies.

8.4. Location: Housing and jobs

A major implication of the research in terms of housing policy and practice was the finding that the location of housing relative to jobs can contribute to work disincentives, with a majority of respondents stating that this provided one or more of the three main difficulties they faced in getting a job (see Chapter 7, Section 7.3). Most respondents did not own a car and, unless jobs were located nearby, searching for and getting to work posed a major problem. Unemployed renters overwhelmingly saw travel as the main additional cost they faced when they got a job. This may relate to either the costs of public transport or the perceived need to drive to work.

These findings raise issues about how well current rental housing assistance works in enabling households to live in reasonable proximity to jobs. For public renters, this means a consideration of how well placed the current stock is, as well as the extent to which housing management practices help or hinder people who wish to move to look for work or because they have found a job in another area. For private renters, it means assessing the effectiveness of RA and state/territory schemes in enabling them to live in or move to housing in areas with jobs and low unemployment but higher rents.

The research indicated that around half of the respondents would willingly move to another area if they could get a 'suitable', 'full-time' or 'decent' job, with the remainder expressing various degrees of uncertainty or qualification. Those who had lived longest in their current housing, older people and those with family ties were least likely to move willingly. The compositional effect meant that public renters were,

²³ The US federal Department of Housing and Urban Development does not fund services but provides some funding on a competitive basis to public housing authorities for the employment of Family Self-Sufficiency coordinators to develop and operate these programs.

therefore, less likely than those in other rental arrangements to say that they would move willingly.

These findings indicate that an integrated approach to policy and practice is required which includes: creating jobs in areas where unemployed renters currently live; addressing issues of transport and travel costs to assist people to commute to jobs; and enabling people to live in or move to areas with good job prospects. Some of the options that could form part of an integrated strategy are:

Option D.1: Create jobs in, or attract jobs to, areas where unemployed renters live

This could be undertaken as one component of urban/community renewal projects, as occurs in Australia, although the constraint here is that these tend to be centred on older public housing estates rather than areas with concentrations of low rent private housing, and tend to be short-lived, associated with environmental projects or building work. An alternative place-based approach would be a more specific focus on generating employment in areas with concentrations of unemployed renters more generally. The emphasis could be on initiatives such as training in small business operations, low interest loans for self-starter businesses, encouragement of social entrepreneurship and community job creation programs. Public housing agencies could review their current rules on home businesses to ensure that public renters have the flexibility available to those in other tenure arrangements to develop businesses from home where this does not cause a nuisance to neighbours. Initiatives such as 'grace periods' before rent is increased due to increased income might also be merited.

A different but complementary approach is to encourage existing businesses to relocate to areas of high unemployment, as in some demonstration projects in the US.

Example: Renewal Community/Empowerment Zone/Enterprise Community (RC/EZ/EC) Initiative (US)

Originally established as Urban Empowerment Zones in 1994 and subsequently expanded, aims to encourage businesses to invest in economically disadvantaged areas to create jobs. More than 100 disadvantaged urban and rural areas are now part of the initiative which involves a combination of tax incentives and tax credits (particularly against federal tax liabilities), federal grants, exemption from regulations and partnerships with government, for-profit and non-profit agencies.

Option D.2: Assistance with transport to work in areas with jobs

This option acknowledges the logistical and financial problems of commuting to work. These could be means-tested and time-limited, and could include community bus schemes, in the case of concentrations of public housing or low rent private housing, or transitional assistance with transport costs whilst searching for work and in the initial stages of working. Low cost car loans or assistance with car tax and insurance and maintenance costs could also be included in the package.

Option D.3: Reconfigure public housing to ensure that it is located in areas with available jobs

This would involve public housing agencies auditing their stock to assess how well it performs in terms of providing locations with low rates of unemployment. They could then review their asset management strategies to target stock acquisitions to job rich areas and stock disposals from areas of high unemployment. More directly, new affordable housing could be developed in inner city locations to ensure that unemployed renters have a stock of affordable housing within job rich locations.

Example: Key Worker Housing Initiative (UK)

This was launched in 2003 as a national program targeted at cities where it was feared that workers who are essential for the effective working of the city were being squeezed out of inner city and high cost housing markets. It is delivered by non-profit Registered Social Landlords (mainly housing associations) who are funded by a mix of earmarked capital grants through the social housing grant system and private funding. Rents are charged at cost with affordability broadly assured through the Housing Benefit system and allocations are targeted at specific groups, such as nurses. Low cost home ownership options are also available, funded through the same system.

Option D.4: Introduce housing management policies that enable public renters actively seeking work to live in or move to areas with better prospects of getting a job

In both inner Melbourne and Sydney, the only pockets of affordable housing left are owned by public landlords. Lettings policies to encourage unemployed renters to transfer to these essentially job rich areas from job poor locations should be considered. Public housing agencies could review waiting list management, allocation and transfer policies to enable people actively seeking work, or who have found work in another area, to change their area of preference or to transfer to other public housing. This could be part of a mutual obligation arrangement. Other elements could include providing incentives for public renters who live in job rich areas but who may wish to live elsewhere to relocate, on an entirely voluntary basis, freeing up vacancies for job seekers or those who have to travel long distances to work.

Example: Choice-based lettings systems (UK)

Funded in twenty-seven pilot schemes across England between 2001 and 2003, this allows public landlords to open their lettings to choice from a wider range of prospective renters, not just those on the waiting list.

Option D.5: Reconfigure RA and state/territory assistance for private renters

Revamp RA to differentiate payments according to labour market conditions (see Options A1-A4 above). In addition, state/territory schemes to assist private renters with relocation and other rental expenses could be reviewed to make such assistance available to people moving to look for or take up a job.

8.5. Summary

This chapter has explored three types of housing related work disincentives that the research found are important to unemployed renters. Firstly, current forms of rental housing assistance, whilst mitigating hardship and providing a degree of security during periods of unemployment, particularly for public renters, contribute to a situation where there may be limited financial benefits from paid work for the typical jobs which unemployed renters are likely to be offered. Secondly, unemployed renters face difficulties in terms of the labour market both as a result of employer practices, particularly discrimination on the basis of age, and of personal issues such as lack of self-confidence and low levels of education. These are a particular issue for sharers and public renters due to the compositional effect discussed in Chapter 5. Thirdly, the location of housing relative to jobs contributes to work disincentives for some unemployed people across different rental arrangements, compounded by transport and accessibility problems for many.

We have presented a variety of options to minimise these three types of work disincentives and given some examples of initiatives both in Australia and overseas, particularly the US. Options canvassed range from specific adjustments to rental housing assistance to more radical suggestions for change involving coordination of housing policies with areas of social policy and of the restructuring of the distribution of housing assistance. Quite obviously, no single option will address the range of issues that unemployed renters face in getting a job. It is therefore likely that a range of initiatives will be needed in unison to offer unemployed people living in the three rental arrangements a better chance of accessing and maintaining a job.

9. CONCLUSIONS

This research report represents the first attempt in Australia to quantify and explore the work disincentive effects of housing tenure and housing assistance programs on renters actively seeking work. Its genesis came from an observation that the debate stimulated by the Reference Group on Welfare Reform's 2000 report noted, but did not discuss, the importance of housing costs and assistance in the relationship between work, benefits and tax. In contrast, there has been considerable research and policy interest in these issues abroad, especially in the US and UK, where a body of research has shown the distinctive role of the interplay of rents, housing assistance and earned income in generating clear work disincentives for unemployed renters.

The initial question this research project aimed to test, therefore, was whether the relationships between rents, working incomes, benefits levels and housing assistance programs in Australia conspire to present unemployed renters with financial barriers to taking paid employment, and what those barriers might be.

But importantly, we also wanted to move the discussion about work disincentives away from a strictly financial understanding of the issue to include consideration of how important non-financial behavioural factors are in the decisions about taking a job. Again, this interest was in part stimulated by other research that indicated that these behavioural effects are important in mediating the strictly economic interpretation of the work disincentives effects of the tax and benefits system that has tended to dominate debates. The latter situation is not unexpected, given that much of the policy work in this area is conducted by Treasury officials and those concerned with the administration and delivery of benefits systems. This project has therefore attempted to show that a range of housing related effects, other than simple financial outcomes of the rent, assistance and income nexus, are critical in developing a realistic model of how renters view the trade-offs between staying on benefits and taking a job.

The report highlights a crucial factor. The issue of work disincentives and the interaction of tax, benefit levels, housing assistance and in-work incomes is critical, because of the low levels of take-home pay which the respondents in our sample were likely to receive if they got a job (just over \$400 per week on average) and the marginal jobs they were likely to be offered. This is not a matter of choice for most. While 61 per cent had been in casual or part-time employment in their last job, only 15 per cent were specifically looking for casual or part-time work. If the pay levels and employment status in their last jobs can be taken as indicative of the kinds of jobs they are likely to be offered, then the low pay rates simply do not offer much incentive for many, especially those with children. The labour market rewards are such that working does not offer much of a financial benefit for many of those we interviewed, irrespective of tenure or housing assistance.

That said, financial considerations were the overwhelming primary reason for wanting a job (cited by around seven in ten respondents), followed some way behind by the need to maintain skills and self-respect. In addition, we found ample evidence of the willingness to work. Four in ten respondents said they would take a job even if it put them slightly behind in financial terms, and a fifth said they would work even if they were clearly worse off than being unemployed. For many, having a job was a reward in itself, almost regardless of the financial benefits. Renters had realistic expectations of the incomes they might expect when they did get a job and how their housing situation helped or hindered getting a job. Their expectations of the financial rewards of working matched closely our modelling of the likely rewards. Labour market realities set the context within which our sample had to make its choices. They are critical in

interpreting these results. For many, the financial benefits of working may be relatively small, but working is a better position to be in than not working.

This issue was pursued by the analysis of what has been termed the poverty trap faced by unemployed renters. The results were revealing. EMTRs of between 65 and 80 per cent were found over much of the income range which private renters would be in when moving from unemployment into working. They are likely to be even higher for public renters, although we were unable to test for this in the current project. New research will be needed to explore this issue further. Overall, the net financial benefits of working were approximately \$200 per week, and then the costs of working (particularly transport) and loss of concessions would need to be deducted, as would the impact of the loss of RA for private renters and the increase in rent for public renters. Again, it would be useful to explore this further through additional research.

But it is quite evident from this research that a consideration of the effects of a person's housing position on their willingness or ability to take a job is not simply a matter of the trade-off between housing assistance, rents and income, important though these are. One of the most important findings is the simple fact that the location of a person's home has a major impact on their ability to get a suitable job and on their assessments of the costs and benefits of working. An appreciation of the locational disincentives faced by unemployed renters suggests that policies to address this problem must be part of the mix of solutions to the work disincentives that stem from the housing position of renters. Put simply, location matters.

We also found a willingness to move home if it led to the chance of getting a suitable job. Most renters, even in the public sector, said they would consider doing so. Given the importance of locational barriers to getting a job (especially the costs of transport and the lack of access to cars), this must also be a focus of new policy initiatives.

It is also clear that renters in public and private housing have different perceptions and reactions to the work disincentive effects of their tenure and housing situation. This is partly a consequence of the rather different composition of renters in the two sectors, but it also flows from the fact that each tenure offers a broad bundle of attributes that colour the attitudes of renters to seeking a job, and these are very different between tenures. Renters recognise these differences and behave accordingly. Policy makers' responses must also recognise these differences and not treat both groups as strictly comparable. There are pluses and minuses on both sides of the tenure divide.

9.1. Private rental

A number of the conditions under which private renters live inform their job search behaviour. The lack of long-term security and the need to meet regular market rent payments offer a fundamentally different context compared to public renters. These conditions were clearly evident in the responses recorded by the private renters in our sample. At the same time, the compositional effect is also a major component of the responses. Unemployed private renters in our sample were more likely to be younger on average and to have fewer family responsibilities than unemployed public renters.

The limited support from RA in high rent areas, the likelihood that landlords will be less forgiving about rent arrears, and higher mobility rates also contribute to the attitude towards job seeking we found among private renters. Fear of loss of home and incurring rent arrears was a more potent issue for them and may well contribute to a less deliberate approach to job seeking. The young age of many of them also contributes to a readier acceptance of poorer job outcomes, and possibly a quicker acceptance of job offers. This in turn is likely to militate against taking time for retraining or looking for a really suitable job. These are issues that further research could usefully explore.

On the other hand, the relative flexibility which the private rental market offers could be seen as a positive attribute that could be better exploited. Given a rent support system that actually compensated renters for high rents, a reformed RA system could be useful in assisting unemployed renters to move to higher-cost but job-rich locations. However, the continued erosion of the lower rental stock in higher-cost areas means this option may be diminishing without substantially larger RA expenditures or increasing the supply of affordable homes in these areas.

9.2. Public rental

The benefits of public tenancy include security of tenure, affordable rents, a less financially driven landlord and, often a more settled, if probably more disadvantaged, community. The findings reported here indicate that public renters value these benefits and clearly make decisions in the light of how they can be retained when getting a job. Around a quarter of the public tenants we interviewed expressed concern about the increase in rent that would result from getting a job although, interestingly, most renters thought that was fair. The findings point to a broader role that public housing provides in offering a more supportive place to live while unemployed than the private rental market. This is not just about rent levels, but also about feeling less pressured into taking a job because decisions are not influenced by an immediate need to maintain rent payments at market levels and the lack of flexibility about arrears. Some might interpret this as a way in which public housing supports abuse of the system and militates against renters taking work. Looked at more positively, in the light of the finding that skills deficits were identified as a major barrier to getting work, public housing offers an opportunity for the low skilled unemployed to take time to consider developing the appropriate skills that would get them back into the workforce and in jobs that really might make a financial difference. Programs that exploit the capacity of public housing renters to take time for reskilling could therefore be of value.

Gender effects may also be playing a role with the responses of public housing renters, where women formed a larger proportion of the sample. Women, especially those with family responsibilities, are likely to be more discerning than men in the decisions they make about work and much more focused on the financial benefits. Men are more likely to be driven by non-financial aspects, such as the value placed on earning a wage and other status related benefits. Again, this is an area that we did not pursue in this report but would merit further research.

We would argue that the security offered by a public housing tenancy is a major benefit of the sector and one that should be used to much greater effect in devising training and re-skilling programs. This undoubted benefit should be used more explicitly in programs to assist unemployed public renters to move into good jobs, rather than force them to accepting the pressure which unemployed private renters face in having to get the next job that comes along, regardless of suitability or longer-term career prospects.

9.3. Final comments

This research has shown that unemployed renters in the two areas that were the focus of this research – Melbourne and Sydney – face significant disincentives to gaining a job through the interaction of the housing assistance, tax and benefits systems. However, it also showed that unemployed renters have a broader understanding of the benefits of getting a job, such that their job search decisions go much further than the financial tradeoffs or rent/tax/benefits interactions. Behavioural issues are also important, as are 'compositional effects' in terms of the profile of the

different groups to whom assistance is directed. Location of the home and access to work opportunities also appear to major barriers to gaining suitable work for many.

These findings strongly imply that rent levels and housing assistance *per se* are only part of the picture. Instead, if we are really concerned about the barriers that their housing situation places on renters trying to find a job that will offer long-term financial rewards and security, then a range of interrelated initiatives to address both the supply and demand side of the equation need to be developed. Supply side measures will include programs to enable access to affordable housing in job rich areas, freeing up the lettings system to allow movement across areas, better RA to better meet the higher rents in some metropolitan areas and wider access to more secure affordable housing for private renters so that they too can make job decisions free from the anxiety of losing their home. The point is, in order to break down the stubborn concentrations of unemployment in certain housing sub-markets, we need to be prepared to think well beyond current limited policy prescriptions and approaches.

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