



**TENANTS' UNION OF NSW**

**SUBMISSION TO THE**

**PUBLIC BODIES REVIEW COMMITTEE**

**INQUIRY INTO THE ALLOCATION OF SOCIAL HOUSING**

**FEBRUARY 2006**

## **Introduction**

The Tenants' Union of NSW (TU) welcomes the opportunity to make this submission on the allocation of social housing in New South Wales. We make this submission also on behalf of the State-wide network of 21 independent Tenants Advice and Advocacy Services funded under the Tenants Advice and Advocacy Program (TAAP).

The TU's constituency includes tenants of social housing and private rental housing. The latter include many of the almost 70 000 households currently on the public housing waiting list, and – as we will discuss below – the many more who would benefit from social housing but who cannot access it because of the tightness of its rationing.

This submission is addressed to the first two of the terms of reference of the Inquiry. In particular, the submission considers:

- the allocation of social housing as one of several forms of housing assistance currently delivered by different means in our housing system;
- the stringent rationing of social housing; and
- the implications of the 'reshaping public housing' (RPH) platform of reforms announced by the NSW Government in April last year.

Other aspects of the allocation of social housing are considered in the submission of Shelter NSW. The TU commends that submission to the Committee.

## **Social housing and other forms of housing assistance – ‘what you get’**

The allocation of social housing is one of several different means by which housing assistance is delivered through our housing system. The principal forms of housing assistance are:

- social housing, allocated to eligible persons and households by the Department of Housing (DoH), community housing associations (CHAs) and Aboriginal Housing Office (AHO)
- Rent Assistance, paid by Centrelink to recipients of other Centrelink benefits
- tax expenditures, paid through the tax system to home owners – both those who are purchasing and those who own outright – and the First Home Owners Grant (FHOG), paid to first home buyers.

### **Social housing**

An allocation of social housing is a combination of two forms of housing assistance: first the recipient gets one of the State's 144 377 social housing dwellings in which to live; and secondly, in most cases, they also receive a rent rebate. The first provides the security of stable accommodation; the second provides affordability, by reducing the cost of rent to about 25 per cent of household income.

The fact that the second form of assistance is conditional upon receiving the first is the cause of some inflexibility in the delivery of social housing assistance. The limited amount of social housing stock means that eligible persons must wait for assistance, and that the design or location of the housing may not be appropriate for all persons. These constraints are recognised and to a degree addressed in social housing programs like Rentstart, which provides a contribution to start-up costs of private tenancies for eligible persons, and the Special Assistance Scheme (SAS), through which eligible persons who have a disability or who are receiving treatment for HIV/AIDS receive a rent rebate while renting privately. A total of 55 700 allocations of Rentstart and SAS were provided by the DoH in 2004/05 (DoH, 2006: 1). About half the persons on the DoH waiting list in 2004/05 received Rentstart that year – an indication of the repeated costs and instability faced by these households in the private rental market.

In general, the fact that the recipient of social housing assistance actually gets a house is a great benefit. The TU is frequently reminded of this at public forums and meetings with tenants who tell of their relief at receiving an allocation of social housing. For them, social housing often represents a break from temporary accommodation with friends and family or in insecure marginal tenures like residential parks, and is an opportunity to stabilise and plan for the future. At a recent public forum, a tenant described how ten years ago an allocation of social housing affected her and her family: upon moving in she thought, ‘now I’ve got a house, I can get an education, I’ll get a job, and be a role model to my daughter.’ She said that had done each of these things: she now worked in a community organisation on her public housing estate and her daughter was completing her Higher School Certificate.

Recent research by Phibbs & Young (2005) indicates the significance of the 'non-shelter' benefits of social housing. They found that upon moving into social housing, tenants reported improvements in health as they were less stressed, eating more healthily and overall medical costs were reduced. Tenants also reported an improvement in their children's education and happiness at school.

Like the other forms of housing assistance considered below, social housing assistance is delivered at a cost to government. Of the two components of social housing assistance – that is, the provision of social housing and the rent rebate – it is the rent rebate that costs money. It is estimated that in the current year the average rent rebate for each dwelling under DoH management will be about \$3 757 per annum. As Hall & Berry noted in their study of the operating deficits of Australasian social housing authorities, if the DoH received a commercial return based on market rents for its dwellings, the DoH would be 'financially robust.' They recommend that the difference between the commercial return and the rebated rental income, being the cost of the benefits to affordability, security and non-shelter outcomes that are delivered by social housing, should be funded as a Community Service Obligation from Consolidated Revenue, which would restore the DoH to being a profitable organisation (Hall & Berry, 2004).

### **Rent Assistance**

Apart from Rentstart and SAS, Rent Assistance is the only form of housing assistance paid to private tenants. It is not paid to all private tenants: eligibility for Rent Assistance is tied to eligibility for certain Centrelink payments, including Family Tax Benefit Part A, and is paid with those payments.

Unlike social housing, Rent Assistance does not give the recipient any greater security than that afforded other tenancies in the private rental market. Also, Rent Assistance is not nearly as effective in making the recipient's rent affordable. Across Australia, about one third of recipients pay more than 30 per cent of their income in rent; almost 10 per cent pay more than 50 per cent (National Shelter, 2003: 4). Rent Assistance is even less effective where rents are higher, especially Sydney: for example, National Shelter calculated that in western Sydney 45 per cent of single persons in receipt of Rent Assistance, and 56 per cent of persons in couples in receipt of Rent Assistance paid more than 30 per cent of their income in rent.

In 2004/05 the total cost of Rent Assistance was \$2.086 billion – more than twice what the Commonwealth contributed to social housing under the Commonwealth-State Housing Agreement. The average amount paid to each recipient was approximately \$2 098 per annum (FaCS, 2005).

### **Subsidies to home owners**

Home owners receive a number of forms of housing assistance, both directly – in particular, FHOG – and indirectly, through tax expenditures. In gross terms, the value of housing assistance for home owners delivered through tax expenditures is far greater than other housing assistance expenditures. Yates calculates that in 2001, home owners across Australia received a total tax benefit of \$21 billion (2003a: 2). In New South Wales, each homeowner received an average benefit of \$4 300 per annum, but this conceals a very uneven distribution of the benefit amongst different

classes of home owners. Outright owners received a greater benefit (\$5 900 per annum) than purchasers (\$2 000 per annum), and the highest quintile of outright owners received a greater benefit (\$11 200 per annum) than the lowest quintile (zero) (Yates, 2003b: 15). The FHOG was estimated to deliver another \$237 million to New South Wales home buyers in 2004-05 (National Shelter, 2004).

From considering social housing in relation to other forms of housing assistance, the TU draws three main implications. First, in light of the total amount of public expenditure on housing assistance, the popular conception of public housing as a 'privilege' – a conception repeated and encouraged by politicians, including recent Housing Ministers – is wrong. Indeed, when one considers how these expenditures are skewed to the wealthiest home owners, to talk of public housing as a privilege is, frankly, grotesque.

Secondly, considering the range of non-shelter outcomes that are delivered by social housing, the cost of their provision – represented by the cost of social housing rent rebates – should be accounted for by the Government as a Community Service Obligation and funded from the State's Consolidated Revenue.

The third implication is, simply, that the State needs more social housing. Some perspectives on the shortage of social housing are considered in the next section.

## **The rationing of social housing allocations – ‘who gets housing’**

At 1 July 2005 there were 144 733 dwellings in the social housing system.<sup>1</sup> In the last five years, the social housing stock has grown by merely 2 197 dwellings – by contrast, over roughly the same period the State population grew by about 270 000 persons. Since 2002/03, the stock has grown by just 85 dwellings. Relative to a growing State population, the social housing stock is shrinking.

At the same time, the amount of low cost private rental housing is shrinking too. Throughout the construction boom of the late 1990s and early 2000s, all of the growth in private rental stock was in the high-rent end of the market. In fact, in Sydney between 1996 and 2001 the number of dwellings let for less than \$223 per week (in 2001 dollars) fell by 28 000 units (Yates, Wulff & Reynolds, 2004: 35). Proceeding on the conservative basis that housing costs in excess of 30 per cent of a household’s income are unaffordable, Yates, Wulff & Reynolds have calculated the extent of the shortage of affordable rental housing in New South Wales: outside of Sydney, there is a shortage of affordable rental housing for households with incomes of up to \$334 per week in the order of 3 000 dwellings. In Sydney, the shortage runs to households on incomes of up to \$557 per week, and is in the order of 27 000 dwellings (Yates, Wulff & Reynolds, 2004: 51). Compounding the shortage is the large number of higher income households occupying low-rent housing: 61 per cent of low-rent dwellings were occupied by higher income households in 2001 (Yates, Wulff & Reynolds, 2004: iii). All told, the DoH estimates that about 175 000 private renter households across NSW are in unaffordable housing (Larkin, 2005).

The public housing waiting list, however, is shrinking. In 2000/01, there were 96 075 persons (and their households) on the public housing list; in 2004/05, there were 69 067 persons waiting (DoH, 2006: 9). That the DoH has seen such a substantial reduction in its waiting list, while the social housing stock is virtually stagnant, the general population is growing and the amount of affordable private rental stock is decreasing, indicates an extraordinary rationing of social housing through stringent requirements for eligibility.

Since the establishment of the Housing Commission of NSW in 1942, eligibility for social housing has been determined on the basis of need. The use of income criteria for the assessment of need was first introduced in the 1970s. At that time, the income threshold for eligibility was 85 per cent of average weekly earnings (AWE) for households of couples with up to two children. Since then the criteria have become more sophisticated, to differentiate between single persons and households of different sizes.

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<sup>1</sup> That is, dwellings under management in the public housing, community housing, and AHO sectors, and not including crisis accommodation.

At present the DoH uses the following thresholds:

<b>Household</b>	<b>Income per week<sup>2</sup></b>
1 person	\$395
2 persons	\$500
3 persons	\$580
4 persons	\$665
5 persons	\$720
6 persons	\$775
For each additional person	+ \$55
For each person with a disability	+ \$55

The TU submits that there are two major problems with the current thresholds: first, the level of the thresholds, and secondly, the structure of the thresholds.

### **Threshold levels**

The TU understands that the current thresholds have remained unchanged since January 1992. In that time, of course, incomes and housing costs have risen. The result is a form of 'bracket creep', as many persons and households on low incomes have drifted out of eligibility on the rising tide of wage and price inflation. These persons and their households no longer even make it onto the waiting list.

The following table adjusts the thresholds to current values, first according to increases in the Consumer Price Index (CPI), and secondly according to increases in AWE.

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<sup>2</sup> These income thresholds, and all other income thresholds referred to in this submission, refer to gross income.

Household	1992 thresholds	CPI adjusted	AWE adjusted
1 person	\$395	\$550	\$687
2 persons	\$500	\$696	\$870
3 persons	\$580	\$807	\$1009
4 persons	\$665	\$926	\$1157
5 persons	\$720	\$1002	\$1253
6 persons	\$775	\$1079	\$1348
For each additional person	+ \$55	+ \$77	+ \$96
For each person with a disability	+ \$55	+ \$77	+ \$96

The difference between the current thresholds and the adjusted thresholds is vast: even on the more conservative basis of CPI adjustment, the thresholds would be almost 40 per cent higher. The failure to make adjustments to the thresholds has resulted in thousands of individuals and households – especially low waged, casual and part-time workers – drifting out of eligibility for social housing.

### **Threshold structure**

As the thresholds are currently structured, there is little allowance made for incomes received by household members after the second person. This problem appears to arise from an assumption that after the second person, any additional persons in a household will be children who make a small difference to household income.

In combination with the low levels at which the thresholds are set, the result is that some households of three or more adults – including households whose incomes comprise only Centrelink payments – are ineligible for social housing. The following hypothetical households are examples.

1. Arthur and Beryl are an elderly retired couple with a disabled adult child, Cathy.

A	Aged Pension (couple rate)	\$204.10 per week
B	Aged Pension (couple rate)	\$204.10 per week
C	Disability Support Pension (single rate)	\$244.45 per week
		-----
	Total household income	\$652.65 per week
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	Applicable threshold (including disability allowance)	\$635 per week
		∴ ineligible

2. Dalila and Erasto, and their children Fana and Ghedi, are refugees. Dalila has a disability, and Erasto, Fana and Ghedi are looking for work.

D	Disability Support Pension (adult, couple rate)	\$204.10 per week
E	Newstart (adult, couple rate)	\$182.50 per week
F	Newstart (single, no children rate)	\$202.25 per week
G	Newstart (single, no children rate)	\$202.25 per week
		-----
	Total household income	\$791.10 per week
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	Applicable threshold (including disability allowance)	\$720 per week
		∴ ineligible

Not only are these households ineligible for social housing, but they are also ineligible for Rentstart.

The TU understands from briefings with the DoH that the DoH intends to address problems of structure by making greater allowances for additional adult members of households. This change, we understand, will be part of the wider changes to eligibility proposed to be made under the RPH reforms, which are discussed below.

The DoH has not, however, indicated that the threshold levels will be increased significantly. To not adjust the thresholds in line with CPI will be to deliberately define away the housing need of the many low income households paying unaffordable rents for insecure housing in the private rental market.

### **Eligibility and RPH**

Part of the RPH platform is to introduce new criteria of housing need to the eligibility criteria for social housing. From July 2006, eligibility for social housing will depend on whether a person satisfies a two-part test. In broad terms the criteria for eligibility will be:

- low income, *and either*
- complex needs, *or*
- unable to access affordable housing.

The DoH has yet to publicise the precise terms of these criteria. The TU is concerned that the new criteria should not be set so as to increase the targeting of social housing. The TU believes that persons with complex needs should be housed by the DoH and other social housing providers. We also believe that they should not be the only persons housed in social housing. The housing needs of other social security recipients and low income workers should also be recognised in the eligibility criteria for social housing.

The extraordinary targeting of social housing allocations has negative implications for those persons who are ineligible for social housing, for those who are eligible, and for the DoH itself. For those who miss out, the private rental market offers too little affordable, secure housing. For those who do get in, and for those already in social housing, targeting means that their neighbourhoods become concentrations of disadvantage. This is particularly a problem for the public housing estates, which comprise about one-third of the DoH's stock. For the DoH, the stringent targeting of social housing further diminishes its rental income, and pushes up other expenses as it tries to respond to the problems of the disadvantaged neighbourhoods it has created.

## **‘Unallocating’ social housing – the RPH reforms to tenure**

As well as proposing to make changes to the eligibility criteria for an allocation of social housing, the RPH reforms also propose to introduce eligibility criteria for being allowed to remain in social housing. Until now, social housing tenants have been entitled to expect that they may remain a tenant of social housing as long as they abide by their tenancy agreements. For the first time since the inception of social housing in New South Wales, it is now proposed that tenants should lose their housing if they are no longer eligible, including on ground of income.

RPH proposes two means of removing tenants who have improved their income. First, rent rebates will be reduced for tenants in receipt of a moderate income such that they will pay up to 30 per cent of the income in rent. The express objective of the change is to ‘encourage’ these tenants to leave social housing. This reform commenced in December 2005, and applies to current and new tenants. Households whose income is between the two thresholds, below, pay rent rebated at a rate between 25 and 30 per cent, according to a sliding scale.

<b>Household</b>	<b>Moderate income threshold 1 (per week)</b>	<b>Moderate income threshold 2 (per week)</b>
Single	\$550	\$688
Single + 1 child	\$660	\$825
Couple	\$695	\$869
Couple + 1 child	\$805	\$1006
For each additional adult	+ \$145	+ \$181
For each additional child	+ \$75	+ \$94

Secondly, and more pointedly, new tenants will sign tenancy agreements with fixed terms of between two and 10 years, subject to a review as to their continuing eligibility at the end of the fixed term. The review criteria have yet to be determined, but the TU anticipates that the second moderate income threshold may be used as the income criterion. Where the DoH determines that a tenant is ineligible, the tenant will have their tenancy terminated under provisions of the *Residential Tenancies Amendment (Social Housing) Act 2005 (NSW)* that remove the Consumer, Tenancy and Trader Tribunal’s usual discretion in termination and eviction proceedings.

The result will be that tenants like the woman referred to in the first part of this submission, who take the opportunity presented by social housing to improve their circumstances and income, will be removed from social housing. The DoH will lose the income stream that their wages represent, as will the businesses and other services located near public housing estates.

The DoH may lose moderate income tenants in another way: these tenants might prefer to keep their housing and reduce their income instead. The TU has heard from a number of tenants who have quit jobs or turned down opportunities for future work in response to the RPH reforms. The potential for these sorts of responses has prompted the TU to conduct research into the work disincentive effects of the RPH changes, and how these disincentives interact with those generated by the social security and tax systems.

The TU is shortly to publish the results of this research, which considers the work disincentives faced by two model social housing households – a single person with a disability, and a single parent with two children (TU, forthcoming). We have found that the RPH changes will interact with the tax system and the social security system – the latter also being changed by the Commonwealth Government’s Welfare to Work reforms – to very significantly affect public housing tenants’ incomes and costs as they move into employment or increase their wages. This interaction has the following effects:

- Contrary to the Commonwealth-State Housing Agreement, RPH contributes to increasing work disincentives. There are significant work disincentives at almost all wages up to the point where the top ‘moderate income’ rebate rate applies and where public housing eligibility is lost.
- At any wage between \$125 per week and the top moderate income threshold (\$688 per week), a single person is subject to an effective average tax rate (EATR) of not less than 69 per cent – that is, they lose not less than 69 per cent of their wage to the tax, social security and housing systems.
- At any wage between \$125 per week and that at the top moderate income threshold (\$766.19 per week), a single parent with two children is subject to an EATR of not less than 70 per cent.
- Single persons on a ‘moderate income’ are subject to an effective marginal tax rate (EMTR) of 76 to 87 per cent.
- Single parents with two children on a ‘moderate income’ are subject to an EMTR of 72 to 92 per cent.
- Losing public housing at the second moderate income threshold is a significant work disincentive, as people face locational constraints when looking for affordable private rental housing, or the loss of disposable income resulting from living in particular areas.
- For single persons, the wage amounts at which median rents in the inner ring and middle ring suburbs of Sydney become affordable are significantly more than the eligibility threshold.
- For single parents with two children, the wage amounts at which rents for ‘middle of the road’ and ‘low end’ three-bedroom houses in the inner ring suburbs of Sydney are significantly more than the eligibility threshold.
- Single persons who move out of public housing to a ‘middle of the road’ one-bedroom flat in the inner ring suburbs face an EATR of up to 85 per cent.

- Single parents who move out of public housing to a 'middle of the road' three-bedroom house in the inner ring suburbs face an EATR of up to 95 per cent.

The effect of RPH will be to limit public housing tenants to a range of jobs that offer little financial reward. Getting a job paying more will mean moving out of public housing and – unless the person earns a lot more – facing significant constraints as to where they can afford to live, or costs that consume almost all of their additional income.

The TU submits that making social housing a temporary tenure, as RPH proposes, is not a solution to the problems caused by the rationing of social housing – on the contrary, it is an extension of rationing, and it further diminishes the benefits and opportunities that social housing can provide.

## Recommendations

- Social housing should be recognised as a decent and effective way of housing a broad range of people, not a marginal tenure or a 'privilege.'
- The cost of social housing rent rebates should be accounted for as a Community Service Obligation and funded from Consolidated Revenue.
- The stock of social housing should be increased such that its relative share of the total housing stock is increased to and maintained at a minimum of five per cent.
- The levels of the income thresholds for eligibility should be increased in line with the increase in the CPI since January 1992, and the structure of the thresholds should be changed to make greater allowance for the incomes of adult household members beyond the second adult.
- The proposal, as part of RPH, to review tenancies against income criteria for continuing eligibility, and to terminate tenancies where the tenant's household income has increased beyond the income threshold, should not be implemented.
- The level of the second moderate income threshold, introduced as part of RPH, should be increased in order to reduce the work disincentives otherwise generated.

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