



Review of rent models for social and affordable housing

Submission on the Independent Pricing and Regulatory Tribunal Draft Report

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nsw Federation of Housing Associations inc

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The NSW Federation of Housing Associations is the industry peak for community housing providers in NSW. In 2015, community housing providers managed around 38,000 tenancies across NSW and owned \$1.7b worth of social and affordable housing assets. Community housing providers manage the tenancies of a diverse group of households, most of whom are on very low incomes and the sector is set to grow further with the transfer of around 14,000 properties from public housing management set to take place over the next three years.

The NSW Federation of Housing Associations welcomes the opportunity to provide comment on the IPART draft report of the 'Review of rent models for social and affordable housing'.

The Federation submitted a response to the issues paper in December 2016 and it is really pleasing to see many of the issues raised in that submission reflected in the draft report.

The Federation has again consulted its members in developing its response to the draft report, and has identified with them the key issues that the community housing industry wants to raise.

The Draft Findings

The Federation fully supports all of the draft findings in the report and endorses IPART's decision to focus on tenant affordability and provider viability as the two most important criteria for the Review.

The Federation also agrees that the separation of tenants into 'opportunity and safety net' cohorts is not a useful classification, particularly in relation to considering how rents are set for social housing tenants.

A rent policy based on a proportion of tenant income is the best way to ensure affordability for tenants, and the Federation supports the current rates for tenant contribution identified in the report as between 25% to 30% of incomes.

The Federation also supports IPART's finding that 'multiple factors influence tenant's incentives for workforce participation'. There has been significant prior work done to consider the interplay of social housing rent setting policy with marginal tax rates and benefit tapers that show that the issue is a complex one. The recommendations made by IPART to help reduce the barriers to people taking up and sustaining employment are welcome.

The Draft Recommendations

The Federation recognises that IPART has considered the changes it is proposing as a package of measures that will work together to preserve affordability and ensure provider viability and strongly endorses this approach. Comments on the key recommendations relating to this are addressed below.

Recommendation 1

The Federation understands that in proposing longer term continuous tenancies that IPART considers a supplementary payment for those at market rent to be appropriate and that the rationale for this is security of tenure. However, it is not clear how many people this would affect, and whether or not the numbers in this category would fluctuate as incomes fluctuate.

There are also questions about how the payment would be classified, what the legislative basis for charging the additional payment would be, and how it would be implemented for people already on a continuous lease. This measure could in fact act as a workforce disincentive and run counter to the positive recommendations of the IPART Review that support better engagement in employment.

The Federation is also concerned about whether there would be a real choice for many clients in relation to choosing to stay and pay the additional 5% surcharge. There are other factors that impact on a tenant's capacity to move into the private rental market. The lack of appropriate supply (say for single households), discrimination which clearly affects some groups of tenants including Aboriginal households, and the general lack of local private rental supply, all affect the options that households have. People who might want to move to reduce their housing costs in effect can't do so.

Recommendation 2

The Federation supports a nationally consistent approach to income based rent setting for Australians living in social housing. The current differences in policy between jurisdictions are confusing and reflect a lack of clear policy with regard to which benefits and supplements are appropriately included in rent setting by social housing providers.

The Federation recognises that statutory incomes in Australia are not sufficient, particularly for those living on the NewStart allowance. This means that any inclusion of a benefit or supplement in rent calculation must be carefully weighed against the impact on a household's financial capacity. It could be argued that there is a difference between an 'income' and a 'payment' based approach to what is assessed for rent setting purposes, and the Federation would like to see further work carried out to define income that is 'regular, ongoing and for general living purposes'. This definition should be agreed nationally by Housing Ministers and COAG.

The Federation also recognises that without an explicit subsidy payment of the type proposed in the IPART report, every exclusion, or lower percentage, of a benefit or supplement for rent setting purposes, will have an impact on rent revenue and will affect provider viability going forward. If this deficit is met through the means proposed by IPART with an explicit subsidy, this would make the need to source additional revenue through the method proposed much less important.

Recommendation 3

The Federation supports managing the impact of any change in assessable income through capping the additional payment to \$10 per week, although it should be noted that this approach will have an additional administrative cost to community housing providers.

Recommendations 4, 5 and 6

The Federation strongly endorses IPART's view that there is a need for an explicit subsidy for social housing providers. It is significant that IPART has recognised the viability issues for social housing and has recognised that income based rents, even those including CRA, cannot sustain the social housing sector or enable its growth over time.

The Federation recognises that IPART has tested the subsidy gap through a building block approach compared with market rent, and appreciates that this provides capacity for the proper maintenance and renewal of the portfolio.

In fact the cost of delivering social housing is inherently higher than managing and maintaining private market rental housing due to the typically significant support needs of social housing tenants and the additional features associated with social housing service delivery, for example place making, community engagement and working with support agencies.

A 2015 AHURI report, *Assessing management costs and tenant outcomes in social housing*, considered the costs associated with delivering social housing disaggregated into four components - tenancy management, property and neighbourhood management, individual tenant support and additional tenant and community services. This indicated that across six case study CHPs, 'individual tenant support' and 'additional tenant and community services' absorbed 17 per cent of overall management expenditure'.

The report needs to clearly identify that there is an operating funding gap that needs to be met and a growth funding requirement to deliver additional social and affordable housing. In many social housing systems these cost components are separately accounted for and the forms of subsidy are also separate, meaning that government is able to take into account different cost and revenue profiles in the social housing sector, for example between specialist and generalist housing providers.

The amount of the subsidy proposed (almost \$1b per annum and rising with rising market rents), is a large annual impost on the NSW Government budget, and it is unclear as to whether funding would be reduced in other areas of social service expenditure to compensate for this. Social housing subsidy arrangements should be considered in relation to both Commonwealth and State subsidy levers.

Given the impost the Federation believes that alternatives to using the market rate as the building block. In other jurisdictions (the UK for example) rents are set on an operating cost model which as inferred provides sufficient revenue to cover services, maintenance and replacement. In most locations this rent is somewhat lower than market rates and thus requires less rental support. Additional new supply is supported by the UK governments via explicit subsidy mechanisms, targeted at providers who have the capacity to deliver these outcomes. We are at this stage not endorsing or supporting either an operating or market rent based system as we recommend that the costs / benefits of either approach are properly assessed.

The Federation supports a system of subsidy and capital grant allocation that is transparent across the provider system. The possible use of the Social and Affordable Housing Fund to support

meeting the subsidy gap is cautiously supported if it delivers additional housing where the investment remains in subsidised social and affordable housing in perpetuity. However, more information is needed to understand how this option would work.

The Federation supports varying the subsidy based on location as a way of ensuring that providers can continue to deliver housing in higher costs areas to meet objectives of diverse communities and access to employment opportunities.

The proposal that LAHC move to the explicit subsidy model first and in advance of community housing providers is not supported. The transition should be for all providers at the same time as this will generate a level playing field, rather than one dominated by the biggest social housing landlord in the first four years.

Recommendation 7

The Federation fully supports IPART's recommendation to separate out the NSW Government's functions of policy making and funding from service delivery. The community housing industry has long argued that there is an inherent conflict of interest in Government having both of these roles and that this means that optimal housing outcomes are not being delivered in NSW.

There is some confusion in the report about roles in relation to the allocation of properties that needs to be clarified. FACS does not allocate properties in the community housing sector, it sets the policy framework for operation of the Housing Pathways Register.

Providers are responsible for matching suitable clients to vacancies and making offers of social housing to people on the Housing Pathways Register. This autonomy allows them to take into consideration all of the issues raised in the IPART report to ensure that an allocation is sustainable and optimises a household's social and economic outcomes.

Recommendations 8, 9 and 10

The Federation supports the proposal that targets are set for social housing designed to meet need by location, size and type and that these targets are monitored and reported annually. However, the Federation would prefer to see these targets incorporated into a much broader NSW Housing Strategy that sets targets for residential housing supply, including affordable and social housing.

In a metropolitan context, any housing strategy should build on the local housing strategies being proposed by the Greater Sydney Commission, and it should drive a comprehensive and coherent approach to delivering supply that more effectively leverages Federal, State and Local Government investment.

Recommendations 11, 12 and 13

It is unclear what type of contracting recommendation 11 is referring to in the Report. Is it contracting for services/outcomes, or long term leasing under the current community housing agreement framework? Would the contract be for new or existing properties under management, and who will providers be contracting with when the funding and service provision roles are separated as recommended in the Report?

Community housing providers in NSW support the transfer of ownership of all the social housing assets that they currently manage on behalf of the NSW Government, rather than longer term leasing or service agreements. They support this because it would give them the balance sheet they need to support more and cheaper borrowing, and because they are then in a position to

redevelop the assets more nimbly to deliver additional housing supply and a better housing product for their communities.

Fortnightly payments to community housing providers of the proposed explicit subsidy could introduce a significant administrative cost burden on providers and the mechanics of payment should be given much more consideration.

It would be costly for providers to undertake annual independent market rent assessments and could also logistically be challenging for rural/regional providers. The Federation suggests that a similar approach to NRAS should apply, whereby an independent assessment is done every 3-4 years and in between a desk top review is carried out by the community housing provider.

Recommendation 14 and 15

The Federation supports IPART's recommendation about retaining the income eligibility threshold and would not want to see eligibility requirements tightened. However, keeping the eligible threshold as low as it is means there is a greater argument for affordable and intermediate housing options in the system to address the housing needs of people on low to moderate incomes.

The Federation supports the recommendation that if private rental subsidy programs are evaluated to be effective for clients and cost effective for Government that they be extended to other appropriate clients. The Federation would also like to see these products being delivered comprehensively by community housing providers alongside public housing.

Recommendation 16, 17, 18, 19 and 20

The Federation fully supports the recommendation that all social housing leases be issued as continuous leases to be reviewed periodically. Community housing providers visit their tenants at least annually and carry out income reviews every six months so in fact will be well placed to identify issues concerning the suitability of a dwelling to meet a tenant's need in advance of a cycle of three yearly reviews.

The Federation fully supports the emphasis that IPART have placed on assessing suitability for all households. Community housing providers must retain their ability to allocate the properties they manage to ensure that this matching process is effective. The further away that allocations are made from deep knowledge about the properties and the tenant and neighbouring communities, the more unsuitable the offers become.

The difference between the proposals in the IPART Review regarding eligibility for social housing rather than for a specific property, and S148-151 of the Residential Tenancies Act 2010 are not clear. This section of the Act already allows a social housing landlord to instigate a tenant transfer with an explicit requirement that the new property offered must be suitable.

The IPART proposal that tenants that move positively from social to private market rental housing can retain their original application date for up to two years is very strongly supported by the Federation, as is the recommendation of exempting tenants for employment related income increases for the first six months.

It could be argued that six months is not long enough to support a household to settle into long term and sustainable employment and the Federation understands this period may be longer in some other jurisdictions (twelve months in Housing ACT). There is also anecdotal evidence that it can be

the children of tenants who are increasing the household income above the threshold and this should be considered when designing changes to the exemption scheme.

This is an area where the Federation and its members would be happy to assist Government in co-designing an effective approach.

Recommendations 21 & 22

The Federation supports IPART's focus on ensuring that social housing tenants live in properties that are suitable for them and that tenants also have as much choice as possible over their priorities for their home. When allocating properties community housing providers look to match the needs of a household with the amenity of a property and its location as they have local knowledge of communities and service systems. However, this process can always be improved and the Federation's members would want to support better practice in this area.

Any system that assesses suitability must reflect suitability for all types of households not just those who could gain employment or access education and training. Suitability for vulnerable households, older people or people with disability, must take into account access to the support networks and services that enable them to sustain an independent housing tenancy.

For the social housing portfolio to work well in meeting tenants' locational, educational and employment needs, the NSW Government has to retain, and increase, the housing it has in better located and higher cost locations. Without better located stock then this recommendation will involve providers and applicants searching for options that simply don't exist.

The Federation is concerned about the prioritisation of existing tenants over those with an urgent need, including people who are homeless, as this will place significant pressure on the homelessness service system which is already struggling to manage demand. Although moving an existing tenant will deliver another vacancy this process will take longer and will mean that more resources have to be diverted to address immediate, or crisis, housing needs.

The comment in the Report that priority applicants who are homeless should be provided with temporary accommodation or assistance until they can be placed in 'suitable' social housing also does not reflect the issue of the lack of social housing supply, let alone the lack of 'suitable' social housing supply in many parts of NSW.

The current Pathways system allows providers who are aware of the unsuitability of a tenant's existing home to move them to more suitable premises with consent through a Management Transfer. This is an important way that providers can respond flexibly to changes in tenants needs.

The issue of waiting list or Register management is very complex and changes can have unintended consequences that have a big impact on other parts of the service system such as the homelessness service system and the Federation would welcome greater consultation and input into any redesign of the current system for prioritisation.

The Federation would also welcome the opportunity to further discuss with Government the introduction of a choice based lettings system in NSW. The NSW Government carried out previous work to test the feasibility of a model in a metropolitan market based on the number and types of vacancies in the social housing portfolio, and this should be considered when designing any new approach.

As an early reform in relation to choice for applicants, the NSW Government could also consider increasing the number of allocation zones that can be nominated by someone waiting to be offered a property, thereby enhancing their choice of where to live.

Recommendations 23, 24 & 25

The Federation supports an effective and affordable rent setting approach for Aboriginal Community Housing Providers and supports the IPART recommendation that the AHO consults with Aboriginal Community Housing Providers and Aboriginal representatives around the introduction of any of the proposals regarding allocations.

Recommendations 26 & 27

The Federation does not support IPART's recommendations with regard to the funding of affordable housing in NSW, and is concerned about the lack of clarity about the difference between housing affordability and support for affordable housing products, particularly those that preserve affordability over time.

There are many reasons why the community housing industry has consistently supported the development of an intermediate or affordable housing product, the main ones being that it:

- gives people somewhere to move to when they want to move out of social housing that is still affordable for them, thereby supporting the NSW Government's Future Directions Strategy.¹
- gives community housing providers the capacity to make developments feasible and to cross subsidise the development of social housing – it makes Government subsidy go further
- It supports the development of mixed communities and provides housing for key workers in the community where they need to be located

It should be noted that the main subsidy for affordable housing to date was the Federal Government's NRAS scheme. Most NSW Government funding has been used to purchase additional social housing outcomes as part of affordable housing programs, or to enable new housing to be delivered as social or affordable housing in perpetuity, rather than having to be sold at the end of a subsidy period.

¹ The 2017 Anglicare Rental Snapshot indicates that nationally only 6% of vacant properties were suitable for people on low incomes and only 30% were suitable for minimum wage based households. In Greater Sydney and the Illawarra, only 625 properties that were advertised were affordable for people living on the minimum wage, with 602 of these being only affordable for couples with two children. Only 23 properties were affordable for single people on a minimum wage.