



Community Housing Industry Association NSW

Submission to the FACS Consultation on the Draft Community Housing Leasing Program Guidelines

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About the Community Housing Industry Association NSW

The Community Housing Industry Association NSW, CHIA NSW, is the industry peak body for registered community housing providers in NSW. CHIA NSW is also supporting Aboriginal Community Housing Providers (ACHPs) in NSW in a process to establish a representative body.

CHIA NSW's purpose is to support the development of a not-for-profit rental housing industry which makes a difference to the lives of lower income and disadvantaged households in NSW. CHIA NSW seeks to ensure that registered community housing providers are active in all housing markets, providing a full range of housing products.

The community housing industry in NSW is growing and diversifying. It now manages more than 38,000 homes and is due to manage a further 14,000 homes being transferred from public housing management over the next three years. CHIA NSW members manage all of the Social Housing component of the Community Housing Leasing Program, and much of the homelessness CHLP portfolio.

Registered community housing providers in NSW manage both social housing and affordable rental housing - they are grounded in their local communities and understand local housing need. Between 2012 and 2020, CHIA NSW estimates that its members will deliver around \$1billion in investment to create around 2,700 new homes.

Background

CHIA NSW welcomes the opportunity to comment on the draft Community Housing Leasing Program Guidelines. This is an important program for our members, allowing them to respond flexibly in meeting the needs of housing applicants in areas not traditionally served by social housing that is owned or managed by community housing providers, or where social housing is in short supply.

CHIA NSW recognises that FACS has responded to previous comments about the impact of the short term nature of the funding commitment, and welcomes the decision to consider guaranteeing up to 50% of a provider's funding allocation for 10 years. We also welcome the explicit statement that providers can use surplus funds to purchase properties and would like consideration of whether this could be extended further, which we explore later in the submission.

CHIA NSW notes the outcome of a recent report on funding social housing which found that the capital grant model, supplemented by efficient financing, provides the most cost effective model for delivering social housing in Australia. This research, [Social housing as infrastructure: an investment pathway](#), was led by Julie Lawson and published by AHURI in November 2018. In this context, the role of any leasing program must be clearly articulated to justify the expenditure of housing assistance funds for a non-capital housing outcome.

4. Application of the Guidelines

The Introduction (section 2) and Application of the Guidelines (section 4), need to be better aligned so that the language is consistent in relation to the 'CHLP homelessness housing portfolio', and to clarify that these Guidelines apply to providers that either manage CHLP social housing, or manage CHLP social housing and transitional and crisis housing.

5. Objectives

It would be good to have some objectives that relate to CHLP as a headleasing program to guide the development of the CHLP portfolio by providers over time. For example, the purpose of a headleasing program in and what it is meant to achieve alongside other forms of housing assistance etc. This would be a more specific set of objectives than meeting the aims of Future Directions for Social Housing in NSW.

6. Principles

CHIA NSW completely supports the focus on property maintenance and care as set out in the principles. It is our understanding that tenants do raise significant maintenance concerns relating to their tenancy in a head-leased property, and this could be reflected in repairs satisfaction levels between program types.

Community housing providers should be able to demonstrate that they have clear policies and processes in place to support the management of maintenance issues in leasehold properties. Maybe this could be considered in a review of the asset requirements for National Regulation.

7. Funding

The Guidelines cover both social housing and transitional and crisis housing leased under the program, although it is unclear if the funding methodology being proposed applies to both. If it does, this represents a substantive change to the funding methodology. Transitional and crisis property funding has historically been provided on the basis of actual costs in recognition of the tenancy and maintenance issues associated with managing properties that turnover more quickly, and that tenants have higher and more complex needs.

The selection of leasehold transitional properties is also often done in partnership with support agencies that are looking for properties that will particularly meet a client's needs. This can lead to a greater turnover of properties, and to more expensive rents being paid to secure an appropriate match. It would be beneficial if there could be a period of further consultation with the community housing sector as to how this component of the funding will operate.

FACS should also provide clarity about how the funding amount for the transitional and crisis housing properties will be calculated. For example, how will the approach generate an equitable outcome for all providers, rather than being based on historical spending patterns, and how will it be indexed over time.

Indexation

FACS needs to outline what the indexation rate for the program will be based on so that community housing providers can plan their future cashflow projections for the program. Whilst FACS has sought to try to address the rising cost of renting in NSW, the gap between the funds provided and the cost of appropriate housing in the private rental market continues to narrow, increasing the pressure on providers to deliver their contracted quota.

Our understanding is that the current level of funding for each individual community housing provider is based on a historical subsidy confirmed as part of the last review of the CHLP Guidelines. This subsidy reflected the then market rents that providers paid, and the rental income they received from tenants. This meant that providers holding a more expensive leasehold portfolio at the time of the subsidy benchmarking received a higher level of funding. The effect of this is that providers participating in the program have had varying incentives for improve efficiency.

Whilst the leasing subsidy has been indexed, the indexation applied is only based on the rise in rental costs and not on the concomitant rise in tenant incomes. The indexation of tenant pensions and benefit payments is at a lower rate than the indexation of rental costs, 1.9% in September 2018, so the gap between the two is actually growing, further stretching CHLP funds.

Indexation of the rental component of the subsidy has also been pegged at 2.5% for the past two years. This is low for metropolitan areas and will impact on provider capacity to continue to ensure the quality of leased accommodation and could result in them having to relinquish otherwise suitable properties. Consideration should be given to a more nuanced indexation approach, and future FACS indexation rates should better reflect the relationship between market rent increases and tenant pension or benefit increases.

Additionally, the basic management cost for the program was benchmarked at \$1,500 per property per year under the previous review. Providers have indicated that direct administration costs are now around \$2,000 per property, and that there is no capacity to contribute to fixed or indirect, management costs. This suggests that the benchmarked costs may no longer be reflective of true costs, and that FACS should revisit and retest these assumptions.

The administration associated with transitional and crisis leasehold properties can be significantly higher than for social housing. Tenant leases are shorter term and require regular review and renewal, and liaison with support providers is a core part of managing these tenancies. FACS should consider allocating additional funding for the management costs associated with transitional properties.

8. CHLP Funding Guarantee

The program components dealing with the funding guarantee need to be clearly articulated. Some of CHIA NSW's comments in relation to this section are:

- Is it 50% of each individual organisations CHLP Social Housing quota that can be guaranteed or 50% of the total CHLP program amount?
- There should be an explicit comment on the exclusion of the homelessness/crisis and transitional portfolio
- There should be confirmation that the indexation applies to all of the funding, including the portion that is guaranteed.

CHIA NSW would welcome a review of the impact of the guarantee on provider performance. For example, has it led to an increase in lease length and kept costs contained and quotas maintained? If the outcomes are positive, FACS could consider increasing the proportion of the subsidy that it was prepared to guarantee for ten years.

10. Leasing from the Private Market

The bullet point *meeting the costs for managing the properties* should include 'and associated tenancies'.

11. & 12. Meeting and Renegotiating the Quota

CHIA NSW absolutely understands the need to try to sustain the CHLP portfolio at its current level or to achieve an above quota outcome. However, section 11.4 could be seen as a very blunt instrument.

There may be a legitimate reason for a provider having a performance outcome that is lower than quota and it would be helpful if that could be taken into account when considering any reduction in funding. For example, CHIA NSW members have identified cases where following a section 85 notice and a delay in moving a tenant on from a leasehold property, they have effectively been 'punished' by real estate agents who have then issued section 85 notices on all their other leasehold properties.

This type of event takes time to recover from and manage and it will be important in any case where FACS is considering reducing CHLP funding that meetings with providers are held to clarify the data, understand local issues, and then look to address the problem on a case by case basis.

It also needs to be clarified which quarterly payments will be adjusted if the quota is not met for four consecutive quarters, and what the effective date of this will be. An alternative might be to amend this

requirement so that it applies to four consecutive 'red' results as per Appendix C. This would mean that improved performance would be incentivised.

CHIA NSW is concerned that over time, and as a whole, the leasehold portfolio could become less effective in meeting people's needs in higher cost markets. There could also be an increase in the maintenance issues and increasingly lower satisfaction rates for leasehold tenants if the quality of properties leased by providers reduces due to the increased costs of renting and the need to sustain the quota.

14. Subsidy for Capital Purchase

It is really positive to see the Guidelines promoting the use of surplus funds for capital purchase. CHIA NSW would support a review of the outcomes of introducing this measure by FACS, and if that is positive, consideration given to a portion of the funding being used to purchase properties over time. This would help grow the social housing portfolio, provide long term security for tenants, and support the development of balance sheets for providers to leverage against. Effectively CHLP funds would then be used to either rent a leasehold property, or to pay the interest and outgoings on a purchased property.

Community housing providers would like clarification from FACS that it will not look to recoup surplus funds at any later date, so that providers can accumulate their surpluses over time into sufficient funding to purchase properties.

The Guidelines should also clearly specify what the FACS approval for the purchase of capital properties will be based on. What are the criteria that will be used? Is there scope to appeal a FACS decision and if so, how will the appeal process be managed? They should also state that surplus funding can be used for 'capital acquisition, servicing interest payments, servicing property outgoings (e.g. rates) and for management costs'.

FACS needs to be really clear in the Guidelines as to the purpose of the purchased properties i.e. for the provision of social housing, and that they will be owned by the community housing provider for the purpose of social housing and with no caveat attached. Some providers may query the use of the properties if they are making a significant contribution to their purchase.

In relation to the FACS approval process, it would be good to clarify that FACS is not seeking details of a specific property/ies under Appendix A. Our members have commented that they think that the only approval required should be for the use of the surplus funds for purchase, and beyond that they are accountable to the Registrar for the performance of the properties that they own.

In addition, if the approval takes a long time then good opportunities in local markets, particularly regional markets, can be lost. It would be helpful if FACS could commit to a turnaround time for approval if all the appropriate documentation has been provided.

15. Reporting

CHIA NSW has some concerns about the proposal for performance reporting contained in section 15. There is an increasing compliance and reporting burden on providers in NSW due to a range of different contracting requirements. The introduction of any new reporting as part of this program could add to that burden.

CHIA NSW agrees that properties purchased using the assistance of surplus CHLP funds should not be classified as 'CHLP' properties for quarterly reporting purposes. Some members have queried the different treatment of properties that have been purchased outright, and those that have a mortgage, in terms of their inclusion in the quota and for reporting purposes. It would be useful for FACS to clarify the reason for this distinction.

Following the previous review of the program, FACS introduced additional reporting through an annual report – this on top of the quarterly reporting cycle. Now that providers are effectively bearing the risk associated with rising rents in the private rental market, it is a good time to review FACS quarterly reporting requirements and to reduce any unnecessary information having to be provided to FACS.

End of Year Report

There needs to be a strong rationale in the Guidelines for reporting requirements for the end of year report, and awareness that community housing providers' operating systems may not be able to readily provide the information requested. Providers have expressed concerns about being able to separately identify costs for some of the 'core' social landlord activities by property, for example individual tenancy support or additional tenant/community services, or neighbourhood management costs. Providers have suggested that they could only report on some of this data at an aggregate level and on a pro rata basis.

The Guidelines need to clarify that Portfolio Management Costs include not only salary related costs, but also a portion of overhead costs such as office costs and travel. In addition, the cost of liaison with real estate agents, lease negotiation and handback, and relocation expenses should also be expressly captured somewhere as a key administrative cost.

Appendices

Appendices A and B require further information about the types of supporting documents that FACS require and more information about how the data on reconfiguration of a portfolio is going to be measured in the Performance Management Table in Appendix C. Given the specificity of this data, i.e. its relationship to a very particular portfolio, how can comparisons be made with other provider performance, and what benchmark will be used? This needs more work and consultation with providers.

In addition, the statement about the acceptance of risk regarding purchase in Appendix A should be clarified to note the program 'funding guarantee'.