

Independent Pricing and Regulatory Tribunal  
New South Wales

# Review of rent models for social and affordable housing

Draft Report  
Special reviews

April 2017



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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### **Submissions are due by 12 May 2017**

We would prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

**Review of rent models for social and affordable housing**

Independent Pricing and Regulatory Tribunal

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We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.



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# 1 Executive summary

Social housing<sup>1</sup> is a vital service underpinning the social good of NSW. But, as widely recognised, the social housing system is beset by challenges that are limiting its social benefits. For example, tenant rents must be low to make social housing affordable for those who need it. But low rents are not financially sustainable for the providers of this housing, including the NSW Government, meaning that providers cannot afford to maintain or increase the stock of housing available. The current eligibility and tenure arrangements may also reduce tenants' incentives to seek employment.

In addition, as private housing costs have climbed much faster than household incomes over the past decade, housing affordability in the broader housing market has become an issue facing our community, and a driver of demand for social housing. There are now almost 60,000 households on the waiting list for social housing in NSW. The emergence of subsidised affordable housing<sup>2</sup> has done little to meet the growing gap in affordability.

This review covers social housing and affordable housing. The issue of broader housing affordability is outside the scope of our review. Many factors influence housing affordability, including economic and demographic factors (such as supply and demand for housing, interest rates, population growth and unemployment), state and local government planning policies and procedures (by affecting the responsiveness and cost of new housing supply), and taxation settings by distorting the housing market. The NSW Government has announced that it has established a cross-Government working group to explore options to make housing more affordable for NSW residents.

To help address the particular challenges facing the social housing sector, the NSW Government asked the Independent Pricing and Regulatory Tribunal (IPART) to review rent models for social and affordable housing services. Our review is one element of the NSW Government's 10-year strategy for social housing, *Future Directions for Social Housing in NSW* ('*Future Directions*'), released in January 2016.<sup>3</sup> Our review focuses on the framework for setting rents for social and affordable housing and the policies and processes for allocating housing assistance in NSW.

Our aim for this review is to recommend changes to this framework and policies that support a housing assistance system that:

- ▼ is affordable and equitable for tenants
- ▼ assists those who are most in need

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<sup>1</sup> **Social housing** is rental housing subsidised by government and provided to assist people who are unable to access suitable accommodation in the private market. It includes **public housing**, which is owned and managed by the NSW Government, **community housing**, which is owned and/or managed by Community Housing Providers, and **Aboriginal housing**, which is owned by the Aboriginal Housing Office and managed by the Government or owned and/or managed by Aboriginal Community Housing Providers.

<sup>2</sup> **Affordable housing** is rental housing delivered with some form of government support or intervention and is provided by the private or not-for-profit sector to assist people on very low to moderate incomes.

<sup>3</sup> NSW Government, *Future Directions for Social Housing in NSW*, January 2016.

- ▼ is financially sustainable for housing providers
- ▼ provides better outcomes for both tenants and the broader community, including
  - better matching of tenants' needs and, where possible, preferences for housing with the type of social housing available
  - more social housing stock of the right kind in the right places
  - improving tenants' access to employment, education and training opportunities where relevant
  - facilitating socio-economically diverse communities, and
  - making better use of public investments.
- ▼ is consistent with achieving the goals of *Future Directions*, including
  - more social housing opportunities
  - support and incentives to leave social housing, and
  - a better customer experience of social housing.

This report sets out our draft findings and recommendations, discusses the supporting analysis, and seeks comment from all interested stakeholders.

## 1.1 Overview of draft findings and recommendations

We have found little scope to change the current income-based approach for setting the rent tenants pay for social housing without making it unaffordable. At the same time, to be financially sustainable, housing providers need to receive sufficient rent revenue to recover the full efficient cost of provision. Therefore, we are recommending a funding model where tenants continue to pay an income-based rent contribution, and government pays housing providers an explicit subsidy equal to the gap between the tenant contribution and the market rent.<sup>4</sup> We note that social housing providers, including the NSW Government, are already implicitly paying for this gap through a combination of operating losses, deferred maintenance, unfunded depreciation and forgone returns on their assets.

An appropriate governance framework would also need to be in place to help to ensure tenants and taxpayers receive good value from their contributions to funding social housing. In addition, eligibility, prioritisation and allocation processes need to be reformed to improve the outcomes of social housing for both tenants and the community, including enhancing opportunities to find and sustain employment for those who can take advantage of them.

In order to assist those most in need, we consider that the government should focus available funding on social housing and alternative assistance for households in the lowest income groups. We therefore have not developed a recommendation for a rent model for affordable housing.

Some time-limited private rental subsidies are already offered as an alternative to social housing for targeted households. We consider that these have the potential to be implemented more widely to assist more households in the short to medium term and avoid some of the need for longer-term social housing.

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<sup>4</sup> Housing providers already calculate market rent for their social housing properties (and a small percentage of tenants currently pay market rent).



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Together with initiatives in Aboriginal Community Housing that are already under way, our recommended rent model, governance framework and other reforms would increase the benefits realised from existing social housing stock and help to ensure new stock that matches future needs and demand can be delivered.

### **1.1.1 Tenants pay a rent contribution equal to 25% of their assessable income**

Our review found that an income-based rent contribution is the best option to keep rents affordable for tenants. Social housing targets households on low to very low incomes,<sup>5</sup> so to be affordable, the rent (once paid) must leave sufficient income to cover their other essential costs. There is general consensus among social researchers and stakeholders that calculating tenant rent contribution as a percentage of household income is the best way to ensure affordability.

We also found that the 25% of assessable household income currently applicable to most social housing tenants in NSW is appropriate, and there is little scope to increase this percentage without making rent unaffordable.

On average, tenants currently in practice pay around 23% of their household income rather than the nominal rate of 25%, due to exempt or concessionally treated sources of income. We recommend that some of these sources be included in the rent contribution calculation. This would improve equity between tenants, and also result in an increase in the total tenant rent contribution of approximately \$70 million per annum. To manage the impact on existing tenants, we recommend the maximum increase in weekly rent contributions payable as a result of the new calculation method be capped at \$10 per week per year until the household has transitioned to the full rent contribution amount.

Our terms of reference for this review (Appendix A) specifically ask us to recommend a rent-setting model that improves tenants' incentives for workforce participation. However, we found that rent models do not have a significant impact on these incentives. We are recommending other measures to influence these incentives, which are discussed below.

### **1.1.2 Housing providers receive an explicit subsidy equal to the gap between the tenant contribution and market rents**

Currently, both public and community housing providers (CHPs) receive some explicit subsidies funded by the Commonwealth Government via national housing agreement funding, Commonwealth Rent Assistance payments to tenants (which are passed through to CHPs) and by the NSW Government. However, this funding covers only part of the gap between their tenants' contribution and the efficient costs of providing social housing. The remainder of this gap is funded by implicit subsidies from the NSW Government and the housing providers themselves, through a combination of operating losses, deferred maintenance, unfunded depreciation and forgone returns on their assets.

This funding model is financially unsustainable, and has resulted in the supply of social housing not keeping pace with demand – which has increased markedly in recent years due to population growth and the decline of general housing affordability, particularly in Sydney. In

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<sup>5</sup> Very low income households are defined as households that earn less than 50% of the median income in their region; low income households earn between 50% and 80% of the median income.

addition, it has not provided for existing social housing assets to be maintained in acceptable condition. Thus, it is eroding the benefits of previous investments in social housing and adding to the already rising costs of meeting future demand.

We consider the best option to place social housing in a financially sustainable position is for government to fund the gap between the tenants' contribution and the efficient cost of providing social housing through explicit subsidies to the housing providers. Such a funding model is currently used in New Zealand to achieve both affordable and financially sustainable social housing.

The total market rent for social housing should give a reasonable estimate of the efficient costs of providing social housing, as that is the amount that an investor would expect to receive to cover the costs of renting out a dwelling on the private market. We calculated our own estimate of the efficient costs of provision using a 'building block' model, and found this estimate was close to the total market rents.

We estimate that the additional explicit subsidy required to fund the gap between tenant rent contributions and market rent is in the order of \$950 million per annum. This amount represents around 40% of market rent (see Chapter 4). Our subsidy estimate assumes that:

- ▼ the existing explicit government subsidies (such as Commonwealth Rent Assistance) remain at current levels
- ▼ the total tenant rent contribution increases slightly in response to the inclusion of some currently exempt and concessionally treated sources of income in the contribution calculation (as discussed above), and
- ▼ the level of the additional explicit subsidy per social housing property varies depending on property location.

We consider the variation in the level of the subsidy by location is an appropriate way to facilitate socio-economically diverse communities. If a fixed subsidy or a lowest (financial) cost subsidy model were pursued, it would result in social housing only being located in lowest cost areas, leading to concentrations of disadvantage that have a high social cost.

### **1.1.3 Appropriate governance framework be put in place**

To help ensure tenants and taxpayers obtain best value from their financial contributions under our recommended funding model, a clearer and stronger governance framework needs to be put in place. Within this framework, we are recommending:

- ▼ A purchaser-provider framework be implemented with clear separation between policy and housing delivery:
  - Family and Community Services (FACS) undertakes policy, planning and allocation functions for social housing
  - housing providers undertake tenancy and asset management functions.
- ▼ FACS develop a Social Housing Strategy, updated annually, to help ensure there is enough of the right housing stock in the right place to meet demand from those in need of assistance. The strategy would detail the number of dwellings to be delivered across NSW over the next three to five years by location, size and type.

Under our recommendations, housing providers could include, as at present, both Government providers and non-Government providers. Currently, the Government providers consist of the Land and Housing Corporation (LAHC), an asset manager, and FACS, a tenancy manager, while the non-Government providers are not-for-profit community housing providers, who may be tenancy managers or asset and tenancy managers. A sustainable funding model reduces risk for housing providers and should make investment in social housing a relatively low risk investment. This creates a range of other options for managing service provision and future growth which the Government could explore. For example, with a guaranteed government rent subsidy, institutional investors such as superannuation funds may wish to invest in social housing provision. We are not recommending a preferred service provision and/or investment model, as these arrangements are more appropriately determined through consultation between government and industry.

#### **1.1.4 Prioritisation and allocation processes be reformed to improve outcomes for tenants and the community**

We found that current prioritisation and allocation processes can be improved to provide better outcomes by better matching households to housing that meets their needs, both on entry to social housing and as their needs change over time. We are recommending this be achieved by adopting a more sophisticated system that continues to use a centralised waiting list and takes account of applicants' priority (based on the urgency of their need for shelter and their date of application), but places greater emphasis:

- ▼ on allocating applicants social housing properties that will help them access the amenities and opportunities they need and will benefit from, and
- ▼ on reallocating existing tenants when identified as being in properties that are no longer suitable to their needs.

We are recommending that this matching system be combined with a choice-based letting scheme that allows eligible households to express interest in properties as they become available, with the allocation offered to the highest priority matched household which expresses interest. We have designed a proposed choice-based letting process to illustrate how this might work.

#### **1.1.5 Other changes specifically to address workforce participation incentives**

As noted above, our terms of reference ask us to make recommendations to improve tenants' incentives for workforce participation. We found that some of the factors that discourage tenants who have the capacity to work are the costs of taking up employment (due to loss of benefit payments as well as increase in rent) and the risk of losing their social housing place.

To address these issues and improve outcomes for tenants and taxpayers, including creating stronger incentives for workforce participation, the eligibility and tenure arrangements for social housing need to be reformed. We are recommending:

- ▼ that all social housing leases be issued as continuous leases
- ▼ that FACS adopt a formal policy that eligibility for social housing means eligibility for a suitable dwelling that meets the tenant household's needs, rather than a specific dwelling

- ▼ some changes to increase the availability of the existing Start Work Bonus, which exempts additional assessable income due to employment from the tenant rent contribution calculation for six months after a member of the tenant's household starts a new job
- ▼ that the use of private rental subsidies to divert people from social housing and transition people out of social housing, where appropriate, be extended, and
- ▼ that a limited 'right of return' arrangement be introduced to encourage people to take up employment opportunities (and private rental opportunities) without fear of a loss of housing security if their circumstances change again.

### **1.1.6 Transitional arrangements for funding and providing Aboriginal Community Housing to continue as planned**

Aboriginal Community Housing is currently funded separately from other social housing, with a different rent model being introduced, designed to transition Aboriginal Housing to the same rent model as other social housing.

Our findings and recommendations on mainstream social housing apply to all tenants, including Aboriginal Australians. However, we recognise that Aboriginal households often have distinctive needs and characteristics that are more effectively met through Aboriginal Housing. The current transition process should continue with the goal of putting Aboriginal Housing on the same rent model as mainstream social housing, while recognising the specific needs and issues for Aboriginal people through the allocation, tenancy and asset management processes.

However, assessing the effectiveness of current rent arrangements is limited by the lack of reliable data, and we consider that the Aboriginal Housing Office (AHO) should establish a process for collecting data on rents charged and collected to support future decision-making on rents and funding models.

### **1.1.7 Focus available funding on social housing, rather than affordable housing**

Affordable housing is rental housing delivered with some form of government support (such as subsidy or planning incentives) or intervention (such as planning requirements) and is provided by the private or not-for-profit sector to assist people on very low to moderate incomes.

We found that a government-subsidised affordable housing product is not consistent with the objectives of this review, as it diverts available resources for housing assistance away from people in the greatest need. To target those who are most in need, subsidised housing assistance in NSW should focus on providing:

- ▼ social housing for people on very low and low incomes in need of long-term secure accommodation, and
- ▼ time-limited private rental subsidies as a diversion from social housing and a transition opportunity out of social housing.

## 1.2 Have your say on our draft recommendations

For this review, we are conducting public consultation as well as detailed analysis. To date, we have:

- ▼ held preliminary discussions at the commencement of our review with some stakeholders
- ▼ released an **Issues Paper** in **November 2016** outlining our proposed approach to the review and invited comment, and
- ▼ considered all submissions to our Issues Paper and undertaken analysis to develop our **Draft Report**.

We are now inviting submissions on the recommendations in this Draft Report. Submissions are due by **12 May 2017**. Information on how to make a submission is provided on page iii at the front of this report.

We will hold public forums in **Dubbo on 2 May** and **Sydney on 9 May**. These will provide the opportunity to comment on our draft recommendations. We invite any interested person to register to attend these forums on the IPART website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

We will consider survey responses, comments at public forums and submissions to our Draft Report in preparing our Final Report and recommendations for the Minister for Social Housing in **June 2017**.

## 1.3 Structure of this report

The remainder of this report discusses our analysis, draft findings and draft recommendations in detail. It is structured as follows:

- ▼ Chapter 2 discusses the context for our review
- ▼ Chapter 3 discusses our draft recommendations and findings on affordable and equitable tenant rent contributions
- ▼ Chapter 4 discusses our draft recommendations on ensuring the social housing system is financially sustainable
- ▼ Chapter 5 discusses our draft recommendations on incentives for work force participation
- ▼ Chapter 6 discusses our draft recommendations on improving the allocation system so that tenants' needs are better matched to housing
- ▼ Chapter 7 discusses our draft recommendations on rent models for Aboriginal Housing
- ▼ Chapter 8 discusses our draft recommendations on affordable housing
- ▼ Appendices A-E set out:
  - Terms of reference
  - A list of submissions received on our Issues Paper
  - Additional information on the social and affordable housing sectors
  - Additional information on our estimate of the efficient cost of providing social housing
  - Additional information on the benchmark rate of return.

## 1.4 List of draft findings and recommendations

### Draft findings

- 1 An income-based tenant rent contribution is the best option to ensure affordability for tenants. 22
- 2 The current rates for tenant rent contributions (25% - 30% of income) and thresholds at which they apply are appropriate. The threshold at which tenants are no longer eligible for a subsidy is appropriate. 24
- 3 Multiple factors influence tenants' incentives for workforce participation, not only the rent model, and other measures are likely to be more effective in strengthening these incentives. 29

### Draft recommendations

- 1 To ensure rent is affordable and assistance is provided to those most in need, that FACS revise its *Tenancy Charges and Account Management Policy Supplement* so that social housing tenants above the subsidy eligibility threshold pay market rent plus 5%, to reflect the security of tenure provided by social housing compared to private rental. 26
- 2 To improve equity between social housing tenants, that FACS revise its *Tenancy Charges and Account Management Policy Supplement* to: 29
  - assess Family Tax Benefits Parts A and B at 25% in the calculation of rent payable for social housing (instead of 15%) 29
  - include the Pension Supplement in the calculation of rent payable for social housing, and 29
  - include any benefits or allowances that are regular, ongoing and provided for general living expenses in the calculation of rent payable for social housing. 29
- 3 That the maximum increase in weekly rent contributions payable by applicable tenants associated with assessing benefits and assessable income be capped each year at \$10 per week. 29
- 4 To support a financially sustainable social housing system, the NSW Government provide an annual explicit subsidy equivalent to the difference between: 35
  - market rent for the social housing system, and 35
  - the total tenant rent contribution (including Commonwealth Rent Assistance if applicable). 35
- 5 That the explicit subsidy per property to be paid by government vary by location (as market rents vary by location) to facilitate socio-economically diverse communities. 35
- 6 That LAHC be placed on a commercial basis as a priority, and the remaining housing providers transitioned to the sustainable funding model over a 4-year period. 35

7	That a purchaser–provider framework be implemented for social housing in NSW, with FACS responsible for policy, planning and allocation functions for social housing, and contracting tenancy management functions with housing providers.	39
8	To get the right housing stock in the right place to meet demand from those in need of assistance, that FACS develop and publish a Social Housing Strategy, updated annually, detailing the number of dwellings to be delivered across NSW over the next three to five years by location, size and type.	39
9	That FACS develop performance indicators for the Social Housing Strategy and report on these annually as part of its Annual Report.	39
10	That an independent evaluation be carried out and reported publicly every five years on the effectiveness of the Social Housing Strategy.	39
11	That FACS enter into long-term contracts with social housing providers, to deliver the dwellings as set out in the Social Housing Strategy.	39
12	That FACS distribute the explicit subsidy to social housing providers for tenanted properties on the basis of fortnightly claims submitted by these providers.	39
13	That social housing providers obtain an annual independent assessment of market rent for the basis of their subsidy claims to FACS.	39
14	That FACS retain the current weekly income thresholds for social housing eligibility at entry and revise the way it assesses income in line with draft recommendation 2.	42
15	If the scheduled evaluation of the current time-limited private rental subsidy programs demonstrates this form of assistance is both beneficial to clients and cost-effective for government, that the NSW Government extend these programs to other appropriate clients.	44
16	That all social housing leases be issued as continuous leases and be reviewed periodically (at least every three years) to assess whether the dwelling continues to meet the tenant’s needs and characteristics.	45
17	That FACS adopt a formal policy that a tenant’s continued eligibility to social housing means they are eligible for a suitable dwelling that meets their household’s needs, rather than a specific dwelling.	45
18	That tenants with positive exits from social housing to private rental be permitted to retain their original ‘application for social housing’ date for up to two years.	46
19	That an increase in household income due to an increase in employment-related income be exempt from assessment for tenant rent contributions for the first six months it is received.	48
20	That, following the 6-month rental contribution freeze, if the tenant’s household income is over the threshold for a subsidy, that the tenant be offered alternatives of either:	48

- One-off private rental assistance (for example, a bond loan, rent in advance and (capped) moving expenses) as per current arrangements to move to private rental, or 48
  - Stay in the social housing property and pay the full property rent without subsidy (market rent) plus 5% to reflect the security of tenure provided by social housing. 48
- 21 That FACS redesign the waiting list prioritisation and allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities. 52
- 22 That households in urgent need of housing are provided with temporary accommodation or other forms of housing assistance until they can be placed in suitable social housing. 52
- 23 That the Build and Grow Aboriginal Community Housing Strategy continue to be implemented to transition this housing to the same funding and rent model as other social housing. 63
- 24 That the AHO monitor and publicly report on rents charged by Aboriginal Community Housing Providers (ACHPs) under Build and Grow and this data on rents and financial sustainability contribute to an independent review of the ongoing implementation of Build and Grow. 63
- 25 That FACS/AHO consult with Aboriginal representatives and Housing Providers on additional criteria relevant to Aboriginal clients to be included when matching Aboriginal applicants to Aboriginal housing under our recommended allocation process (see recommendation 21). 64
- 26 That, rather than investing in government-subsidised affordable housing for people on moderate incomes, the NSW Government focus housing assistance on: 67
- providing social housing for people on very low to low incomes in need of long-term secure accommodation, and 67
  - providing time-limited private rental subsidies for people on very low to low incomes in need of temporary assistance. 67
- 27 That the NSW Government not impose any new requirements on existing affordable housing schemes. 67



## 2 Context for the review

To help stakeholders understand the scope and objectives of our review, the sections below:

- ▼ explain what we mean by social housing and affordable housing
- ▼ summarise the main challenges in these housing sectors, and
- ▼ outline our objectives and the analytical approach we are using to reach our recommendations.

### 2.1 What are social housing and affordable housing?

Social housing and affordable housing are two types of housing assistance for people who cannot access suitable accommodation in the private market (see Box 2.1).

#### Box 2.1 Social and affordable housing

**Social housing** is rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private market.<sup>6</sup> It includes:

- ▼ public housing, which is owned and managed by the NSW Government
- ▼ community housing, which is owned and/or managed by Community Housing Providers (CHPs), and
- ▼ Aboriginal housing, which is owned by the Aboriginal Housing Office and managed by the Government or owned and/or managed by Aboriginal community housing providers.

**Affordable housing** is rental housing delivered with some form of government support (such as funding or planning incentives) or intervention (such as planning requirements) and provided by the private or not-for-profit sector to assist people on very low to moderate incomes. Compared to social housing, affordable housing is available to a broader range of households. Because it is available to households with higher incomes, it could be a stepping stone between social housing and the private market.

Affordable housing is a specific housing assistance product and is not the same as '**housing affordability**', which refers to the relationship between housing costs (prices, mortgage payments or rent) and incomes. Housing affordability is a broader issue facing our community, including households with moderate or higher incomes. More discussion on housing affordability is provided in section 2.2.5.

Currently, around 140,000 NSW households live in social housing, and, as at June 2016, almost 60,000 households had applied, been assessed as eligible, and were waiting for a suitable property to become available.<sup>7</sup> The time households spend on the waiting list varies greatly, depending on location and whether an applicant is assessed as in the priority or general

<sup>6</sup> FACS website, <http://www.housing.nsw.gov.au/social-housing>, accessed 30 March 2017.

<sup>7</sup> FACS website, *Expected Waiting Times for Social Housing June 2016 - Overview*, accessed 30 March 2017.

category. FACS has advised that the median waiting time for newly housed applicants during 2015-16 was about two and a half months for priority applicants and just over two years for general applicants.<sup>8</sup> However, general category applicants can expect to wait up to 10 years or more in some areas.<sup>9</sup>

Because affordable housing is delivered in a variety of ways and there is no centralised application process or waiting list, there is limited information available about its demand or supply.

More information on social housing, including the existing arrangements for determining eligibility and rent payments, is provided in Appendix C, and in our Issues Paper.<sup>10</sup>

## 2.2 What are the main challenges facing the social and affordable housing sectors?

As our Issues Paper discussed, the issues facing the social and affordable housing are well-researched. They include:

- ▼ an income-based rent model keeps rents affordable for tenants but may discourage them from seeking employment
- ▼ the revenues generated by the income-based rents do not cover the cost of providing social housing
- ▼ the demand for social housing is increasing
- ▼ the supply of social housing is not keeping pace with demand, and the type of supply does not match the type of demand, and
- ▼ that affordability in the broader private housing market is declining.

### 2.2.1 Income-based rents are affordable but may discourage employment

Many previous studies have argued that housing assistance, in particular rent models based on income, is a disincentive to employment.<sup>11</sup> Under these models, a tenant's rent increases as their income increase. This may discourage them from entering the workforce or increasing their amount of work. On the other hand, other studies show that stable housing is associated with an increase in workforce participation.<sup>12</sup>

This issue is not relevant for many social housing tenants, because they are not able to, or required to, seek employment due to age or disability.

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<sup>8</sup> FACS, *Annual Report 2015-16*, p 31 (priority applicants); Internal FACS data (general applicants).

<sup>9</sup> FACS website, *Expected Waiting Times for Social Housing June 2016 - Overview*, accessed 30 March 2017.

<sup>10</sup> IPART, *Review of rent models for social and affordable housing – Issues Paper*, November 2016, Chapters 2 and 3.

<sup>11</sup> For example, Industry Commission, *Public Housing, Volume 1*, 1993; Report of the Reference Group on Welfare Reform to the Minister for Social Services, *A New System for Better Employment and Social Outcomes*, 2015 p 59; Hulse K. and Randolph B., *Work disincentives and housing assistance*, AHURI Final Report No. 67, 2004; and Dockery et al, *Housing assistance and economic participation*, AHURI Final Research Paper, July 2008.

<sup>12</sup> Productivity Commission, *Housing Assistance and Employment in Australia*, Research Paper, Volume 1: Chapters, April 2015, p. 51.

## 2.2.2 Revenues from income-based rents do not cover the cost of social housing

In 2012-13, the Auditor-General of NSW examined the ability of the NSW public housing agencies to meet changing public housing need. He found that the financial sustainability of the social housing system has worsened in recent decades, due to:

- ▼ increasing maintenance costs
- ▼ declining average tenant rents, and
- ▼ declining grant funding.<sup>13</sup>

## 2.2.3 Demand for social housing is increasing

As at June 2016, almost 60,000 households were on the waiting list for social housing in NSW, up from just under 45,000 in June 2007.<sup>14</sup> This growth in demand is partly due to population growth, and partly due to cost increases in the private housing market in urban areas, which is making private rental increasingly unaffordable for people on low incomes.

In addition, people are staying longer in social housing. More than half of public housing tenants have been in public housing for longer than 10 years.<sup>15</sup> The average tenure length has increased since 2005, when fixed-term leases were introduced. As few people leave social housing, the number of new tenants allocated properties each year is well below the number of new applicants.

## 2.2.4 Supply is not keeping pace with demand, and type of supply does not match type of demand

In contrast to demand, the supply of social housing in NSW has not grown substantially in recent years. In the same period that the waiting list grew by almost 15,000 households, the total number of social housing properties grew by less than 5,000.<sup>16</sup>

In addition, the profile of social housing stock has become mismatched with the profile of current tenants and those on the waiting list. When most of the current social housing stock was built, most tenants were families. For example, in 1970, 70% of public housing tenants were couples with children. However, in 2016, 55% of tenants were single person households, and couples with children comprised only 4%.<sup>17</sup> This mismatch between the current housing stock and tenant requirements is resulting in underutilisation of properties, fewer people being housed, and declining rent revenues.

## 2.2.5 Affordability in the broader housing market is declining

Housing affordability refers to the relationship between housing costs (prices, mortgage payments or rent) and incomes. The cost of renting or owning housing in NSW has been

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<sup>13</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, pp 18-22.

<sup>14</sup> Internal FACS data.

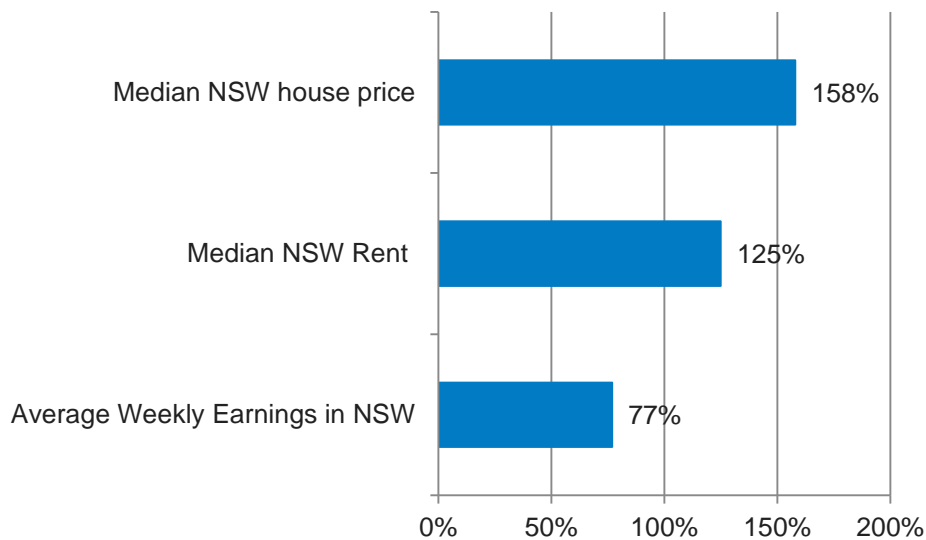
<sup>15</sup> Internal FACS data.

<sup>16</sup> Internal FACS data.

<sup>17</sup> Internal FACS data.

growing faster than wages over the past decade, and this is reducing housing affordability.<sup>18</sup> As Figure 2.1 shows, between mid-2000 and mid-2016, median rents and house prices across NSW grew by much more than average weekly earnings.

**Figure 2.1 Increase in NSW housing costs and average weekly earnings (% change, 2000-2016)**



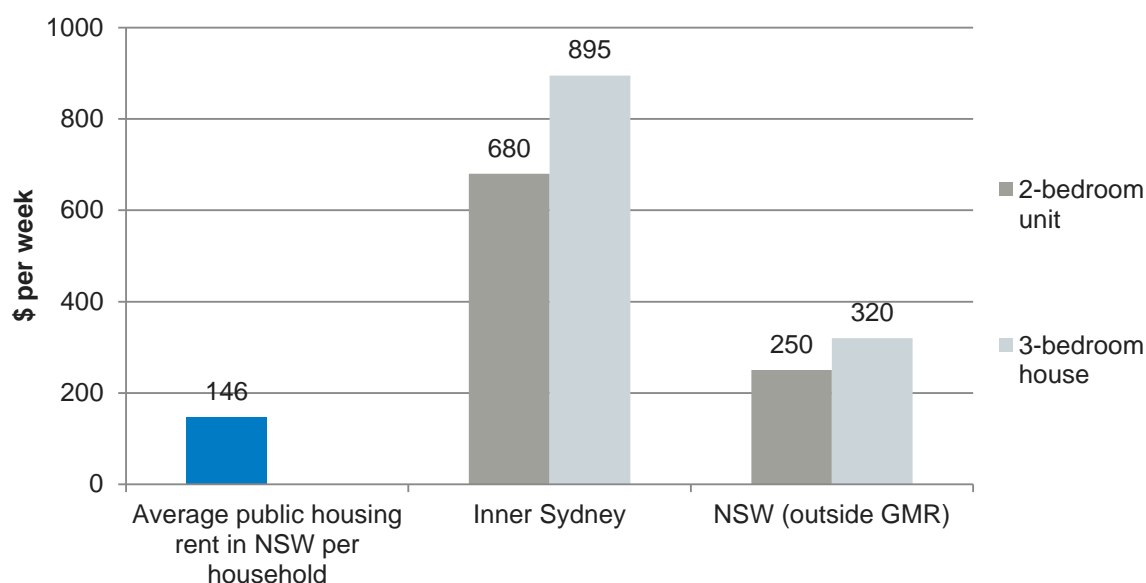
**Note:** Average Weekly Earnings are total earnings for males and females.

**Data source:** FACS, *Rent and Sales Report*, No 117, 2016, ABS Cat. 6302.0 Average Weekly Earnings, Table 13A.

The gap between social housing rent and private rent is substantial. Figure 2.2 compares the average weekly rent paid by a household in public housing in NSW with the median weekly rent for inner Sydney and all areas outside the Greater Metropolitan Region (GMR). It shows that in inner Sydney, this gap is \$534 to \$749 per week. In the rest of NSW, the gap is not as large but still substantial at \$104 to \$174 per week.

<sup>18</sup> The 30:40 rule is a commonly used criterion for affordability. It refers to the benchmark that housing expenditure should be less than 30 per cent of the gross income of a household in the lowest 40 per cent of income distribution. Beyond this threshold, housing is considered unaffordable, and households in this situation are considered to be in 'housing stress'.

**Figure 2.2 Social housing and private market rents (\$/week, \$2015-16)**



**Note:** Inner Sydney includes Ashfield, Botany Bay, Lane Cove, Leichhardt, Marrickville, Mosman, North Sydney, Randwick, Sydney, Waverly and Woollahra Local Government Areas. The GMR includes Local Government Areas across Sydney, the Central Coast, Newcastle, Maitland, Port Stephens and Wollongong. Market rents are the median for 2-bedroom units and 3-bedroom houses in September 2016.

**Data source:** Internal FACS data, FACS, *Rent and Sales Report*, No 117, 2016.

Housing prices have been rising because demand for housing exceeds supply. Many factors influence the supply and demand for housing, including interest rates, population growth, unemployment rates and land use zoning.

In addition, government policy and taxation settings are distorting the housing market and contributing to the housing affordability problem. For example, the Henry Review of Australia's tax system identified the tax treatment of rental properties, stamp duties on housing transactions, and land tax as factors affecting the housing market. The Henry Review recommended that stamp duty on housing transactions be removed, land tax be broadened, and the taxation of investment properties be reformed to treat capital gain more neutrally compared to rental yield.<sup>19</sup> IPART made similar observations and recommendations regarding stamp duty and land tax in a review of State Taxation we completed in 2008.<sup>20</sup>

State and local government planning policies and procedures can also affect the responsiveness and cost of new housing supply. The NSW Government has announced that it has established a cross-government working group to explore options to make housing more affordable for NSW residents.

<sup>19</sup> Australian Government, *Australia's future tax system, Report to the Treasurer*, December 2009; Part 2 – Detailed analysis, Vol. 2, section E4.

<sup>20</sup> IPART, *Review of State Taxation – Report to the Treasurer – Final Report*, October 2008, Chapter 1.

## 2.3 What are our objectives for this review?

As Chapter 1 outlined, our aim in this review is to recommend changes to the framework for setting rents for social and affordable housing and the policies and processes for allocating subsidised housing assistance in NSW that support a system that:

- ▼ is affordable and equitable for tenants
- ▼ assists those who are most in need
- ▼ is financially sustainable for housing providers
- ▼ provides better outcomes for both tenants and the broader community, including
  - better matching of tenants' needs and, where possible, preferences for housing with the type of social housing available
  - more social housing stock of the right kind in the right places
  - improving tenants' access to employment, education and training opportunities where relevant
  - facilitating socio-economically diverse communities, and
  - making better use of public investments.
- ▼ is consistent with achieving the goals of *Future Directions*, including
  - more social housing opportunities
  - support and incentives to leave social housing, and
  - a better customer experience of social housing.

The ability to achieve these objectives – particularly the *Future Directions* goal of helping households leave social housing and move into the private market – also depends on housing affordability in the broader market. Making recommendations to address broader housing affordability is beyond the scope of our review, but we note its impact on the demand for social and affordable housing and the options and opportunities available for people to leave social and affordable housing.

## 2.4 What approach are we using to reach our recommendations?

In our Issues Paper, we proposed a broad approach for reaching our recommendations for this review. However, when we considered stakeholders' comments in response to our Issues Paper, and began our own analysis, we decided that our proposed approach needed to be modified.

In particular, we originally proposed to first identify members of the 'safety net' cohort of tenants and the 'opportunity' cohort of tenants. Submissions did not support tenants being classified in this way. For example, NCOSS cautioned against generalisations about housing need based on belonging to one of two cohorts. They further expressed concern with 'deficit' connotation of 'safety net' and 'opportunity' groups.<sup>21</sup> Evolve Housing submitted that tenants' needs change over time and tenants may move between cohorts over time.<sup>22</sup> Our own subsequent investigations showed that such categorisation may be inflexible. Instead, we consider that outcomes for tenants and the community can be improved by changing the

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<sup>21</sup> NSW Council of Social Services submission to Issues Paper, p 8.

<sup>22</sup> Evolve Housing submission to Issues Paper, p 8.

arrangements for prioritisation and allocation of housing to better meet tenant needs and to improve incentives for employment and transition to private rental for those who can take advantage of them.

In broad terms, the approach we used to make our draft recommendations included the following steps:

1. Establish the criteria for assessing options for change to the rent-setting framework and policies and processes for allocating subsidised housing assistance:
  - a) In our Issues Paper, we proposed 11 criteria that reflected our terms of reference for the review, and sought feedback from stakeholders. Submissions generally supported these criteria. There was strong support for 'affordability for tenants', which many stakeholders thought should be either the overriding criterion<sup>23</sup> or one of the two or three most important criteria.<sup>24</sup> There was also wide support for 'financial sustainability', and many thought it should be one of the key criteria, but not at the expense of affordability.<sup>25</sup>
  - b) In line with this feedback, we decided the proposed criteria are appropriate, and the most important criteria are tenant affordability and financial sustainability for housing providers. However, we considered that 11 was too many criteria to be helpful.
  - c) Therefore, we developed the shorter set of objectives for the review listed in section 2.3 above, and used these objectives as criteria for assessing options for change in the remaining steps of our approach.
2. Based on our objectives from the step above, we decided that:
  - a) To target those who are most in need, available funding be focused on social housing, rather than affordable housing. As a consequence of this, we have not recommended a separate rent model for affordable housing.
  - b) The current process designed to transition Aboriginal Community Housing to the same rent model as other social housing should continue, with the goal of putting Aboriginal Community Housing on the same rent model as social housing, while also recognising the specific needs and issues for Aboriginal people through the allocation, tenancy and asset management processes.
3. Assess different social housing rent models and decide which model is most appropriate for setting rent contributions that are affordable and equitable for tenants, and consider the financial impacts of this model on tenants compared to the existing arrangements.
4. Estimate the additional government subsidy required to ensure social housing providers are financially sustainable – taking account of the outcomes of Step 3 and existing sources of government funding for social housing.
5. Consider the appropriate governance arrangements to help ensure government subsidies provide social housing tenants and taxpayers with value for money, and how to deliver the government subsidy (as a demand or supply side measure).

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<sup>23</sup> Shelter NSW submission to Issues Paper, p20, NSW Council of Social Services submission to Issues Paper, p13, Combined Pensioners and Superannuants Association of NSW submission to Issues Paper, p5.

<sup>24</sup> Evolve Housing submission to Issues Paper, p10 Louisa Domestic Violence submission to Issues Paper, p3.

<sup>25</sup> Evolve Housing submission to Issues Paper, p10, Louisa Domestic Violence submission to Issues Paper, p3, Shelter NSW submission to Issues Paper, p20.

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6. Consider the most appropriate incentives – whether eligibility, tenure or rent-related – to encourage workforce participation where appropriate.
  7. Assess the existing waiting list, prioritisation and allocation process to identify opportunities to better match the housing stock with tenants’ needs and characteristics, including their own preferences as well as their capacity to benefit from employment, education and training opportunities.



## 3 Affordable and equitable tenant rent contribution

Under the current rent-setting framework, FACS determines whether social housing tenants are eligible to pay 'subsidised' rent based on their assessable weekly household income.<sup>26</sup> If they are eligible, their rent is set at between 25% and 30% of this income. If they are not, their rent is set at the market rent for their property.

We considered whether this income-based rent model or an alternative model is most appropriate, given the objectives for this review – particularly, to support a housing assistance system that is affordable and equitable for tenants. We also considered other aspects of the current income-based rent model, including:

- ▼ the levels at which tenant rents are set under this model and the income thresholds that determine these levels
- ▼ the way assessable weekly household income is calculated, including the sources of income included and any concessional rates that apply, and
- ▼ the impact of the income-based rent model on tenants' incentives for workforce participation.

Our draft findings and recommendations are summarised below, and then discussed in more detail.

### 3.1 Summary of draft findings and recommendations on the rent model

We found that an income-based tenant rent contribution is the best option to ensure affordability for tenants. We also found little scope to increase the rental contribution for tenants eligible for a rent subsidy above the current 25% to 30% of household income without making it unaffordable or discouraging tenants from increasing their income.<sup>27</sup> Therefore we found that the rent model needs to consist of an income-based tenant rent contribution and an explicit subsidy component. This chapter explains more about our findings and recommendations on the tenant rent contribution, while Chapter 4 explains our recommendations on the explicit subsidy component required to make social housing providers financially sustainable.

We also found that there are opportunities to improve the equity of the current tenant rent contribution. In particular, we are recommending that:

- ▼ tenants whose income exceeds the rent subsidy eligibility threshold pay market rent plus 5% to reflect the value of higher security of tenure provided by social housing compared to private rental

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<sup>26</sup> Although these tenants are described as subsidised tenants, the subsidy is largely implicit rather than explicit, leading to the funding gap for social housing providers that is explained in Chapter 4.

<sup>27</sup> For over 90% of 'subsidised' social housing tenants, their main source of income is Centrelink benefits. Source: Internal FACS data

- ▼ some variations in the way different sources of income are assessed in the tenant rent contribution calculation be removed to increase equity between tenants.

In addition, we found multiple factors influence tenants' incentives for workforce participation, not only the rent model, and that other measures are likely to be more effective in strengthening these incentives.

In line with these findings, we are recommending several improvements to the current method for determining tenant rent contributions, but no major changes.

### **3.2 Income-based tenant rent contribution is the best option to ensure affordability**

In our Issues Paper, we identified a range of models that could be used to calculate the rent for social housing tenants. These included:

- ▼ Household rental models – such as the current household income-based rent model – where rent is based on the characteristics of the tenant household such as its income and/or composition.
- ▼ Property-based rental models – such as market rent with subsidy – where rent is based on the tenant dwelling and movements in the rental market.
- ▼ Hybrid household-property-based models – such as income-based with fixed subsidy – where rent is based on the characteristics of both the tenant household and the tenant dwelling.

We considered the different models and stakeholder comments on them, and modelled the resulting tenant rent contribution for different household types across NSW to assess their impact on affordability. Housing is usually considered affordable if it costs less than 30% of a household's gross income. (This affordability benchmark applies to households in the lowest two quintiles of household income; a household in the moderate income quintile or above could more readily afford housing costs that constitute more than 30% of that household's income.)

We found that basing tenant rent contribution on anything other than household income is likely to make social housing unaffordable for most tenants, particularly in Sydney. It could also lead to worse outcomes for tenants and the broader community. In particular, our modelling indicates a property-based or hybrid household-property-based rental model would make rents in many locations unaffordable for a significant proportion of social housing tenants, even if it included a large subsidy. This would mean tenants could only afford rents in lower cost locations, potentially with lower access to employment and educational opportunities, resulting in concentrations of disadvantage.

For example, a **market rent model with a subsidy**<sup>28</sup> equal to 33% of the market rent would result in rents that exceed 30% of income:

- ▼ for most tenants in the Sydney metropolitan area
- ▼ for most tenants on NewStart in all locations across NSW except the Far West, and
- ▼ for most tenants on Aged and Disability pensions in all districts except the Murrumbidgee, Western NSW and the Far West.

Stakeholders also argued against this model because of concerns about its affordability and impact on socio-economic diversity. For instance, the City of Sydney submitted it “opposes the introduction of market-based rent models for social housing that would...differentiate rates of rent [for the tenant] with regard to the location of property” and argued “pegging social housing [tenant] rents to the market will effectively expel many or most social housing tenants from the inner city.”<sup>29</sup>

Further, an **income-based with fixed subsidy model**<sup>30</sup> would result in some tenants paying more than 50% of their income in rent because the dwelling they occupy is larger than their assessed needs. This would not be affordable, nor equitable given the large mismatch between current social housing stock and tenant characteristics (see section 2.2.4). As Evolve Housing argued, while a model that accounts for differences in property amenity sounds equitable in theory, this is not the case when tenants cannot make an effective choice about amenity due to supply constraints.<sup>31</sup>

Although potentially simpler to administer than the **income based fixed subsidy model**, no submission expressed support for a **fixed property based amenity charges model**.<sup>32</sup> The reasons for this included: a lack of capacity for meaningful choice to pay for greater amenity as supply is constrained; and that such a model could lead to conflicting priorities and perverse outcomes as housing that could increase educational and employment opportunities may attract a higher amenity charge.<sup>33</sup>

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<sup>28</sup> Under a market rent with subsidy model the tenant contribution to rent is based on the market rent of the dwelling, with a subsidy which could be a set dollar amount or a percentage of the market rent. Our model set the subsidy as a percentage of the market rent for actual bedrooms.

<sup>29</sup> City of Sydney Council submission to Issues Paper, pp 4-5.

<sup>30</sup> Under this model, a standard market rent would be established for each household type, based on the average of market rents for all suitable public housing or segmented by location. The subsidy would equal the standard market rent less 25% of household income. If the market rent for the house chosen by the tenant is above the standard market rent, the tenant pays the extra for the higher amenity of the dwelling.

<sup>31</sup> Evolve Housing submission to Issues Paper, p 20.

<sup>32</sup> A fixed property-based amenity model is another hybrid rent model where the tenant’s contribution to rent is based on household income as well as fixed charges for particular features of the property such as size, location or quality.

<sup>33</sup> Evolve Housing submission to Issues Paper, p 21; and Shelter NSW submission to Issues Paper, p 29.

Some stakeholders supported a **cost rent model**,<sup>34</sup> but noted that the viability of this model depends on income or supply subsidies to bridge the gap between costs and the tenant's contribution to rent.<sup>35</sup>

#### Draft finding

- 1 An income-based tenant rent contribution is the best option to ensure affordability for tenants.

### 3.3 Tenant rent contributions of 25% to 30% of income appropriate for those eligible for rent subsidy

Under the current rental model, FACS determines the level of rent social housing tenants pay based on their gross assessable weekly household income and a series of weekly income allowance thresholds for four types of household members (Table 3.1).

FACS determines these income thresholds and subsidy eligibility limits and updates them every year.

**Table 3.1 Household member types and weekly income allowance from 4 July 2016**

Household member	Weekly income allowance \$		
	25% income threshold	30% income threshold	Subsidy eligibility limit
First adult	755	944	1,405
Each additional adult	200	250	375
First child	150	188	285
Each additional child	105	131	185

**Source:** FACS Tenancy Charges and Account Management Policy Supplement, last amended 11 August 2016.

Under this model, if the tenant's gross assessable weekly household income is:

- ▼ below the 25% income threshold, they pay 25% of this income in rent
- ▼ equal to or above the 25% income threshold and below the 30% income threshold, their rent increases on a sliding scale from 25% to 30% of this income in rent
- ▼ equal to or above the 30% income threshold and below the subsidy eligibility limit, they pay 30% of this income in rent
- ▼ equal to or above the subsidy eligibility limit, they pay the market rent for the property they occupy.

<sup>34</sup> Under a cost rent model the tenant contribution to rent would be calculated to recover the operating and replacement costs of social housing dwellings over time.

<sup>35</sup> Shelter NSW submission to Issues Paper, pp 29-30; and City Futures Research Centre UNSW submission to Issues Paper, p 21.

All new entrants to social housing pay 25% of their assessable income in rent because the income threshold for entry eligibility is lower than the 25% income subsidy eligibility threshold. We estimate that most existing social housing tenants are eligible to pay 25% of their assessable income in rent, and around 5% of existing tenants pay more than 25% up to 30%. Around 10% of public housing tenants pay market rent – either because their household income exceeds the subsidy eligibility threshold, or because the market rent for their property is less than 30% of their income (as is often the case in regional areas).

To understand what the current income thresholds and subsidy eligibility limit mean for the affordability of tenant rent contributions, we compared them to the household income distribution quintiles. Table 3.2 sets out the upper bands of the very low, low and moderate income quintiles for Sydney and the rest of NSW.

**Table 3.2 Weekly income – very low, low and moderate income quintiles (\$)**

	Very low	Low	Moderate
<b>Sydney</b>			
Adult	479	767	1,149
Additional adult	240	384	575
Child	144	230	345
Additional child	144	230	345
<b>Rest of NSW</b>			
Adult	422	675	1,015
Additional adult	211	338	508
Child	127	203	305
Additional child	127	203	305

**Note:** These are upper bands for each income level.

**Source:** FACS, Household median incomes 2016-17 and IPART calculations.

We found that tenants with incomes at or below the 25% income threshold are in the low or very low income quintiles. This suggests that the 25% income threshold is appropriate and there is no scope to increase the level of rent for these tenants.

We also found that those with incomes closer to or at the 30% income threshold would mostly be in the moderate income quintile. We modelled the impact of reducing the subsidy eligibility limit so that households currently paying between 26% and 30% of their income in rent would pay the market rent for the property they occupy.

This modelling showed that these households – especially those just above the 25% threshold and particularly those in Sydney – would face large increases in rent if they were paying market rent. For some households this higher rent would represent more than 40% of their income (Table 3.3). We consider this would be unaffordable for most of these households and would act as a strong disincentive to increasing household income, particularly for those just above the 25% threshold.

**Table 3.3 Impact on weekly rent payable of removing the rent subsidy on households in Sydney**

Household	No. of Bedrooms	Income \$	Current rent \$	Mkt rent \$	Increase in rent %	Rent as % of income	
						Current	Mkt rent
Single person	1	806	215	333	55%	27%	41%
Single parent 1 child	2	1,033	281	447	59%	27%	43%
Couple 2 children	3	1,417	367	578	57%	26%	41%

Source: IPART modelling

The current income thresholds for entry to social housing are set such that only very low and low income households are eligible for a social housing place. If a household reaches the higher rental contribution threshold while living in social housing it is likely to be because of workforce participation. This is an outcome we wish to encourage rather than discourage.

Therefore, we consider the current approach whereby social housing tenants eligible for a rent subsidy pay a rent contribution of between 25% to 30% of their income should be retained.

#### Draft finding

- The current rates for tenant rent contributions (25% - 30% of income) and thresholds at which they apply are appropriate. The threshold at which tenants are no longer eligible for a subsidy is appropriate.

### 3.4 Tenants not eligible for a rent subsidy should pay market rent plus 5%

As section 3.3 noted, around 10% of public housing tenants currently pay market rent – either because their household income exceeds the subsidy eligibility threshold or the market rent for their property is less than their calculated income-based rent. We consider these tenants are in a position to move into the private rental market. However, they may prefer to stay in social housing because of the additional security of tenure it offers.

In our view, tenants who are not eligible for a subsidy should be required to pay the market rent plus a premium to reflect the value of the additional security of tenure.<sup>36</sup> We consider this premium should be equal to 5% of the market rent. Box 3.1 shows how we estimated that the premium should be 5%. Tenants who are paying market rent because it is below their calculated income-based rent would continue to pay market-based rent.<sup>37</sup>

<sup>36</sup> In its 1993 review of public housing, the Industry Commission recommended that tenants who can afford to rent in the private sector, but who choose to remain in public housing, should pay market rents that include a premium of 2 or 3 per cent to reflect the security of tenure provided; Industry Commission, *Public Housing, Volume 1: Report*, 1993, Recommendation 7.

<sup>37</sup> For example, income-based rent for a single age pensioner is currently \$101 per week. In some country towns, a pensioner could be paying \$95 a week market rent currently; under our recommendation, they would continue to pay \$95 a week.

### Box 3.1 How we estimated a 5% premium for security of tenure

Social housing tenants benefit from the security of tenure social housing provides compared to if they were renting in the private market. We estimated the amount of this benefit by calculating what a household would save, on average, by not moving property every 2 years.<sup>a</sup> This saving ranged around 4% to 8% of market rent depending on rent (which varies by location) and the level of the moving costs. Given this range, we made a draft recommendation to include a 5% premium on market rent to reflect the security of tenure.

Our estimate of moving costs includes the cost of:

- ▼ hiring professional removalists or hiring a truck and paying for fuel
- ▼ packaging material, eg cardboard boxes (new or second hand)
- ▼ cleaning, either using professional cleaners or paying for cleaning materials and equipment<sup>b</sup>
- ▼ incidental costs, such as breakages and reconnecting services,<sup>c</sup> and
- ▼ one week overlap of rent payable on both the new and old property.

We estimated costs where a household moves itself - its own labour (and/or that of family and friends), uses second hand boxes and undertakes the cleaning. We also estimated moving costs where a household hires professional cleaners and removalists and uses new boxes.

Our estimated range for moving costs, excluding the rent overlap, is \$850 to \$2,910 per move. The cost of the rent overlap will vary depending on location and dwelling size. We based our recommendation on the costs of a household moving itself.<sup>d</sup>

Our estimates did not include any costs for

- ▼ packing up household goods, we assumed that the household (and/or family and friends) would undertake this
- ▼ forgone wages from taking time off work, or
- ▼ costs that might arise due to moving to another neighbourhood, such as new school uniforms or higher transport costs.

If these costs were included the overall costs saved would be higher and the value of security of tenure would also be higher.

**a** Around 50% of households in private rental accommodation move at least twice every five years (Australian Bureau of Statistics, *Housing Occupancy and Costs, 2013-14, Cat. No. 4130.0, Housing Mobility and Costs 2013-14, Table 1*).

**b** Hiring a carpet cleaner.

**c** We allowed a basic amount of between \$400 and \$500 per move, and included a further \$100 to \$250 per move if the household did not use a professional removalist with insurance against breakages. The costs vary depending on dwelling size.

**d** Our estimated range for moving costs when a household moves itself is \$850 to \$1,580 per move, and our estimated range when a household hires professional cleaners and removalists and uses new boxes is \$1,230 to \$2,910 per move. Based on LAHC's estimates of the market rent for social housing stock, the cost of one week of rent overlap could vary from less than \$120 for a one bedroom apartment in the Far West to over \$500 for a larger dwelling in inner Sydney.

**Source:** IPART calculations

We consider these changes are consistent with the objectives of a housing assistance system that:

- ▼ is affordable and equitable for tenants
- ▼ assists those who are most in need
- ▼ is financially sustainable for housing providers, and
- ▼ is consistent with achieving the goals of *Future Directions*, particularly opportunities, support and incentives to leave social housing.

#### Draft recommendation

- 1 To ensure rent is affordable and assistance is provided to those most in need, that FACS revise its *Tenancy Charges and Account Management Policy Supplement* so that social housing tenants above the subsidy eligibility threshold pay market rent plus 5%, to reflect the security of tenure provided by social housing compared to private rental.

### 3.5 Variations in how different sources of income are assessed should be removed

We considered how different sources of income are treated in calculating a tenant's gross weekly household income to assess whether their treatment is consistent with the objectives of our review. We identified scope to remove some variations in this treatment to improve equity between tenants who receive a similar level of income from different sources. In particular, we found that:

- ▼ Family Tax Benefits Part A and B not taken through the taxation system should be assessed at the full rate of 25%, not the current concession rate of 15%.
- ▼ All benefits or allowances that are regular, ongoing and for general living expenses should be assessable, including the Pension Supplement which is currently exempt.

We also considered whether income from wages should be assessed on a net (after tax) basis rather than a gross (before tax) basis. While some submissions considered that assessing net income would assist working families and remove some work disincentives, others considered that it was not relevant for the vast majority of tenants whose incomes fall below the tax free threshold, and that it would complicate assessment of rent payable for little benefit.<sup>38</sup> We are not proposing a change to the current assessment of gross income.

#### 3.5.1 Family Tax Benefits Part A and B not taken through the taxation system should be assessed at 25%

Currently FACS assesses two sources of income at a concession rate of 15%. These are:

- ▼ income from Family Tax Benefits Part A and B that is not taken through the taxation system, and
- ▼ income from household members aged 18-20 who are not the tenant or their partner.

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<sup>38</sup> See for example Inner West Tenant Group submission to Issues Paper, p 10; Yfoundations submission to Issues Paper, p 25; City Futures Research Centre UNSW submission to Issues Paper, p 22.



In our view, because Family Tax Benefits are provided to assist with the cost of raising children (which includes providing housing), these benefits should be assessed at the full rate of 25%. We estimate that this change could increase total revenue from tenant rent contributions by around \$30 million per annum.

However, we consider the concessional rate should continue to be applied for income received by household members aged 18-20 who are not the tenant or their partner. This concession is time limited (by age). We consider allowing these household members to contribute to rent at a concessional rate for a limited time could assist them to become more independent. NCOSS argued that increasing the rate for this group could put them at risk of disengaging from work or study.<sup>39</sup>

Stakeholders that addressed the issue of concessional rates expressed mixed views. NCOSS argued that both the current concessions should remain.<sup>40</sup> Louisa Domestic Violence Service considered these benefits should be assessed at 25% instead of 15%.<sup>41</sup>

We have modelled the impact of increasing the rate from 15% to 25% for Family Tax Benefits A and B. The additional rent per week per child ranges from \$9 to \$17 depending on the age of the child and whether the household has a single or dual income as shown in Table 3.4.

**Table 3.4 Family Tax Benefits Parts A and B assessed at 25% - additional rent per child per week (\$)**

		Per child aged years		
		0-5	6-12	13-18 <sup>c</sup>
Single parent	FTB A and B	17	15	17
Couple with single income	FTB A and B <sup>a</sup>	17	15	12
Couple with dual income	FTB A <sup>b</sup>	9	9	12

<sup>a</sup> Two parent households are eligible for FTB B if the secondary income earner earns no more than \$5,475 per year.

<sup>b</sup> Two parent household only receives FTB A if the secondary income earner earns more than the threshold above which FTB B no longer applies (around \$25,000 pa).

<sup>c</sup> Couples do not receive FTB Part B if their youngest child is 13 years or older unless they are a grandparent or great-grandparent.

**Note:** this assumes households qualify for the maximum Family Tax Benefit.

**Source:** <http://guides.dss.gov.au/family-assistance-guide/3/6/1>; <http://guides.dss.gov.au/family-assistance-guide/3/6/3>; and <http://guides.dss.gov.au/family-assistance-guide/3/1/9/10> accessed 15 March 2017

For families with several children the increase in rent per week is larger, again depending on the age of the child and household income. Table 3.5 shows the impact on various family compositions.

<sup>39</sup> NCOSS submission to Issues Paper, p 20.

<sup>40</sup> NCOSS submission to Issues Paper, pp 18-20.

<sup>41</sup> Louisa Domestic Violence Service submission to Issues Paper, p 10.

**Table 3.5 Family Tax Benefits Parts A and B at assessed 25% – additional rent per week for various family compositions (\$)**

Children	Single parent	Couple with single income	Couple with dual income <sup>a</sup>
1 child < 6 years	17	17	9
1 child < 6 years and 2 children 6-12 years	46	46	27
1 child 6-12 years	15	15	9
1 child 6-12 years and 2 children 13-18 years	49	38	33

<sup>a</sup> Partner earns more than the threshold above with FTB – B no longer applies (around \$25,000).

**Note:** this assumes households qualify for the maximum Family Tax Benefit.

**Source:** IPART modelling

To avoid imposing hardship on current tenants, particularly those with several children, we recommend the maximum increase in weekly rent contributions payable as a result of the new calculation method be capped at \$10 per week per year until the household has transitioned to the full rent contribution amount.

### 3.5.2 All regular, ongoing benefits or allowances for general living expenses should be assessable

FACS' tenancy charges policy currently includes an extensive list of income and assets that are not assessable for the purpose of calculating the tenant's contribution to rent. However, we consider that a general principle should be applied in considering whether a type of income should be included in the tenant rent contribution calculation – that is, that any income which is regular, ongoing and for general living expenses be assessable and included as part of the rent assessment. This principle should also apply for any new payment or income source.

In line with this principle, we consider that the Pension Supplement (which is currently exempt) should be assessable. However, the following should continue to be exempt:

- ▼ One-off payments such as Disaster Recovery Allowance or Disaster Relief Payment.
- ▼ Payments for specific purposes such as the Child Care Benefit, Child Care Rebate, Clothing (DVA), and Fares Allowance. These payments are often paid directly to service providers and are not part of the tenant's general income.

FACS has previously advised that most exempt types of income are only received by a few tenants. The exception is the Pension Supplement. This benefit is around \$30 per week for singles and \$50 per week for couples and bundles formerly specific payments (Pharmaceutical Allowance, Utilities Allowance, GST supplement, and Telephone Allowances). We estimate that including the Pension Supplement as part of the rent assessment could increase annual revenue from tenant rent contributions by around \$40 million, and would cost tenants an average \$8 per week for singles and \$12 per week for couples.

Again, to avoid imposing hardship on current tenants, we recommend the maximum increase in weekly rent contributions payable as a result of the new calculation method be capped at \$10 per week per year until the household has transitioned to the full rent contribution amount. (We note that the removal of the concession for the Family Tax Benefits Parts A and B and the exemption for the Pension Supplement are likely to impact on different cohorts of tenants).

Stakeholders that addressed the issue of exempt sources of income generally did not support removing the current exemptions – particularly where the benefit or payment was for a specific purpose.<sup>42</sup> Evolve Housing suggested further modelling of the potential impacts was required, and that the recent experiences of Queensland and Western Australia regarding changes in rent policy be considered.<sup>43</sup>

We note that the sources of income exempt from the tenant rent contribution calculation are also exempt from the assessment of eligibility for social housing. As Chapter 5 discusses, we also consider any payments that are included in the tenant rent contribution calculation should be also included in the assessment of eligibility.

#### Draft recommendation

- 2 To improve equity between social housing tenants, that FACS revise its *Tenancy Charges and Account Management Policy Supplement* to:
  - assess Family Tax Benefits Parts A and B at 25% in the calculation of rent payable for social housing (instead of 15%)
  - include the Pension Supplement in the calculation of rent payable for social housing, and
  - include any benefits or allowances that are regular, ongoing and provided for general living expenses in the calculation of rent payable for social housing.
- 3 That the maximum increase in weekly rent contributions payable by applicable tenants associated with assessing benefits and assessable income be capped each year at \$10 per week.

### 3.6 Measures other than the rent model are likely to be more effective in strengthening workforce participation incentives

Our terms of reference for this review specifically ask us to recommend a rent setting framework for social and affordable housing that improves the incentives for workforce participation.

It has often been considered that an income-based tenant rent contribution is a disincentive to employment, because rents rise with income. However, as our Issues Paper discussed, there are many factors that contribute to the lower rates of workforce participation among social housing tenants.

We consider that issues related to security of tenure and maintaining eligibility when leases are reviewed have a larger influence on incentives for workforce participation than the rent model. We discuss these issues and our recommended changes to strengthen workforce participation incentives in Chapter 5.

#### Draft finding

- 3 Multiple factors influence tenants' incentives for workforce participation, not only the rent model, and other measures are likely to be more effective in strengthening these incentives.

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<sup>42</sup> Yfoundations submission to Issues Paper, p 24; and Domestic Violence NSW submission to Issues Paper, p 5.

<sup>43</sup> Evolve Housing submission to Issues Paper, p 22.

## 4 Financially sustainable for housing providers

Currently, both public and community housing providers receive explicit subsidies provided by the Commonwealth Government via national housing agreement funding and by the NSW Government. Tenants in community housing are also able to receive Commonwealth Rent Assistance (CRA) which is passed on to the provider through tenant rent contributions. However, these subsidies are not enough to cover the difference between tenants' rent contribution and the full costs of providing social housing, resulting in a funding 'gap'.

But while there is no explicit funding for this gap, it is nevertheless a cost that is paid for. Housing providers, including the NSW Government (and therefore taxpayers), implicitly bear this cost through a combination of operating losses, deferred maintenance, unfunded depreciation and forgone returns on the value of their social housing assets. This creates a financially unsustainable situation where the existing housing stock is:

- ▼ not maintained to an appropriate standard, thereby eroding the benefit of previous investment in social housing, and
- ▼ not able to grow to keep pace with demand, which is increasing due to population growth and declining housing affordability.

Given that we found that the current income-based tenant rent contribution is the best way to achieve affordable rents for social housing tenants, and are not recommending major changes to this rent model, we have looked at what options are available to support a social housing system that is financially sustainable for housing providers, in line with the objectives for our review.

Our draft recommendations are summarised below, and then explained in more detail.

### 4.1 Summary of draft recommendations

We consider that the best way to support a housing system that is both affordable for tenants and financially sustainable for housing providers is to establish a funding model under which tenants continue to pay an income-based rent contribution, and government pays housing providers an explicit subsidy equal to the gap between the tenant contribution and market rent. The level of the explicit subsidy per social housing property would vary depending on property location. We found that this variation is an appropriate way to facilitate socio-economically diverse communities.

To help ensure both tenants and taxpayers obtain good value from their financial contributions under this funding model, a clearer and stronger governance framework needs to be put in place. Within this framework, we are recommending:

- ▼ The NSW Government adopt a purchaser-provider approach with clear separation between policy and housing delivery roles.

- ▼ FACS develop a Social Housing Strategy to help ensure there is enough of the right housing stock in the right place to meet demand from those in need of assistance. The strategy would detail the number of dwellings to be delivered across NSW over the next three to five years by location, size and type and would be updated annually.
- ▼ FACS enter into long-term contracts with social housing providers, to deliver the dwellings as set out in the Social Housing Strategy.

Our draft recommendations would increase the benefits realised from existing social housing stock and help to ensure new stock that matches future needs and demand can be delivered.

At this stage, the above recommendations apply only to public and community housing. Financial sustainability is equally important for Aboriginal housing providers. Aboriginal housing has its own funding arrangements and rent models, and these are designed to transition to the same arrangement as other social housing. We consider this transition process should continue with the goal of putting Aboriginal housing on the same funding basis as social housing, while recognising the specific needs and issues for Aboriginal people. This is discussed further in Chapter 7.

## 4.2 Explicit government subsidy to housing providers

In our view, social housing is like other industries that provide critical services via a system of long-lived assets – for example, the water industry. In these industries, it is well-recognised that to be financially sustainable, service providers require enough revenue to recover the full efficient costs of provision, including allowances for depreciation and a return on assets. We consider the same is true for social housing providers.

Given our draft finding that tenants should continue to make an income-based rent contribution (see Chapter 3), we consider government needs to fund the gap between the tenant contribution and the market rent (as a reasonable estimate of the full efficient cost). This funding should be allocated to FACS, which would be responsible for paying housing providers an explicit subsidy per tenant (see section 4.3.2 below).

To estimate the size of the gap, we:

- ▼ estimated the total efficient costs of providing the current housing stock using a building block approach and a market rent approach, and
- ▼ estimated the current government funding available to cover these costs.

We estimate that around \$950 million was required to fund the gap in 2015-16. A higher amount would be required in future years, as the size of the gap would increase as the stock of social housing is increased to meet unmet and future demand.

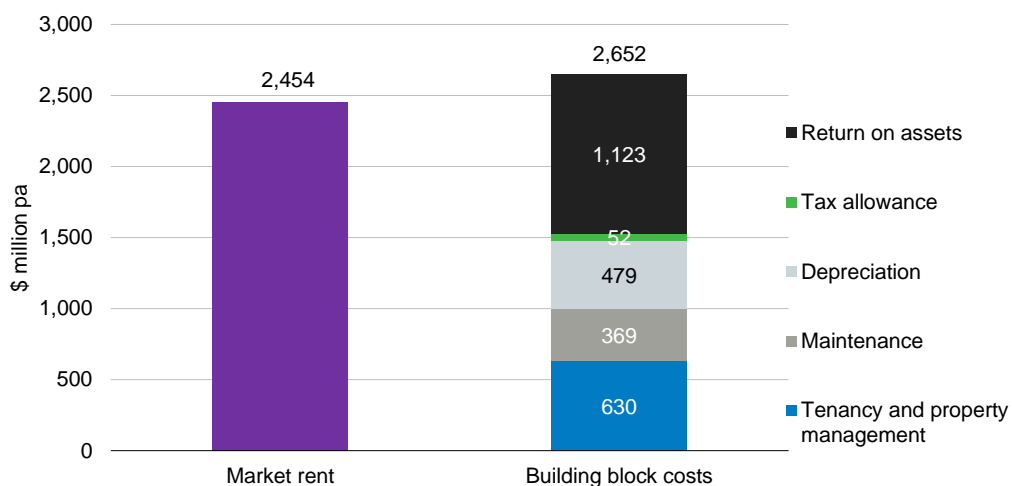
We emphasise that, although the NSW Government would need to explicitly fund this gap, social housing providers – including the NSW Government and taxpayers – already fund the gap implicitly through a combination of operating losses, deferred maintenance, unfunded depreciation and forgone returns on assets. In addition, some of the money the Government has already contributed to its Social and Affordable Housing Fund could be used to fund growth in the social housing stock.

The level of the explicit subsidy per social housing property would vary depending on property location. We consider this variation is an appropriate way to facilitate socio-economically diverse communities. If a fixed subsidy or a lowest (financial) cost subsidy model were pursued, it would result in social housing only being located in lowest cost areas, leading to concentrations of disadvantage that have a high social cost.

#### 4.2.1 Estimated total efficient costs of providing the current housing stock

We estimated the total efficient costs of providing the current stock of social housing using a 'building block' approach (see Box 4.1). We also estimated the annual value of the market rent for this stock (see Box 4.2). We found that the building block costs were around \$2.7 billion per annum (Figure 4.1). In comparison, the estimated annual value of the market rent was around \$2.5 billion per annum. We consider this is a relatively small difference, particularly given the potential for error in estimating these values. On this basis, we consider that market rent is a reasonable estimate for the efficient costs of providing social housing.

**Figure 4.1 Efficient costs and market rent for the existing housing stock (\$2015-16)**



We estimated the gap between the efficient costs and the current funding by estimating the value of all funding currently used to provide social housing (including the tenant contribution and existing government subsidies), and subtracting it from the annual value of the market rent (Figure 4.2). We included a small additional tenant contribution in line with our draft recommendation 2, discussed in section 3.5.2.

#### Box 4.1 Estimating efficient costs using a building block approach

To estimate the total efficient costs of providing the current housing stock, we used a building block approach like the one we use in industries where we regulate prices, such as water supply. This approach builds up the total costs of providing a service by considering different types of costs, some of which need to be met each year in cash, some of which are less frequent, and some of which represent the cost to an investor (including a Government investor) of choosing to spend their money on particular infrastructure. We consider that this approach is appropriate for estimating the costs of social housing because the service makes use of expensive long-lived infrastructure. The building block approach includes an allowance for:

- ▼ **Operating expenditure**, which represents our estimate of a reasonably efficient level of housing providers' operating, maintenance and administration costs. Operating expenditure excludes costs of managing the social housing waiting list.
- ▼ A **return on the assets** used to provide social housing. This amount represents our assessment of what investors would require to invest in social housing, and encourages investment in social housing in the future. This involves estimating the value of the social housing asset base and a benchmark rate of return.
- ▼ A **return of those assets (regulatory depreciation)**. This allowance recognises that through the provision of social housing to tenants, a housing provider's housing stock will wear out over time.
- ▼ An allowance for meeting **tax obligations** and **working capital**.

We normally calculate the cost building blocks above over a multiple year period, taking account of efficient capital expenditure required for maintenance backlogs, replacement and growth. Typically, an asset owner would forecast the required growth and replacement capital expenditure, including sale proceeds for assets that are no longer needed. In this instance, we have just estimated the cost at a point in time (2015-16). We consider that any additional capital expenditure for growing the housing stock, or revenue from selling stock that is no longer needed, would be based on a Social Housing Strategy which is discussed later in this chapter.

To estimate the efficient costs for a single year based on the existing housing stock, we have compared LAHC's costs with those of similar services provided in the residential property market. In addition, LAHC competitively contracts out its repair and maintenance functions and therefore these are likely to be reasonably efficient costs. However, we have not engaged expert advice to assess the efficiency of LAHC's or other housing providers' costs. A key issue in estimating efficient costs is determining an appropriate rate of return to calculate a return on assets. We have used a benchmark rate of return based on the historical returns for residential property investment. More information about our building block and rate of return analysis is provided in Appendices D and E.

### Box 4.2 Calculating market rent

FACS bases the market rent for a public housing property on the rent a tenant is likely to pay for a property in the private rental market that:

- ▼ is in a similar geographical location, and
- ▼ is a similar size, and
- ▼ has similar features.

FACS determines market rent using several sources, including property valuations, rental bonds and current trends in the private rental market.

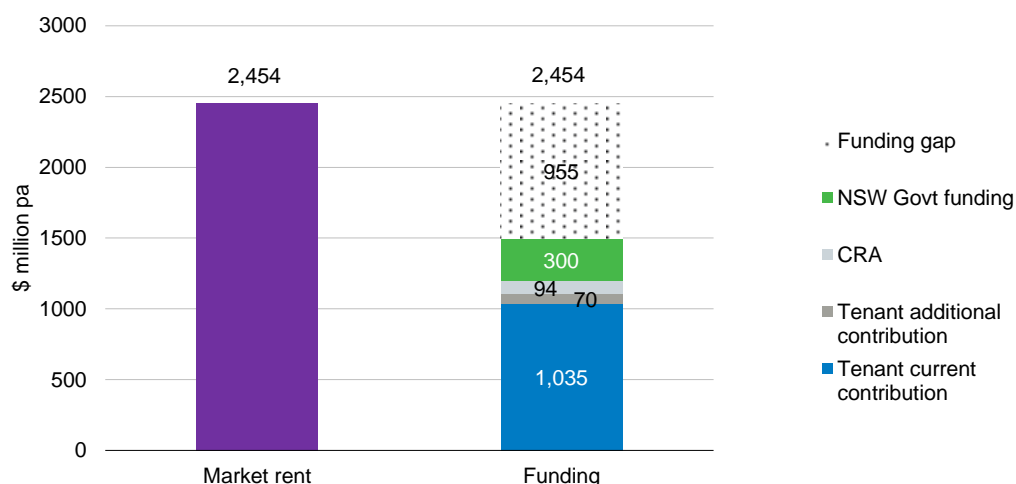
FACS does not value every public housing property, instead it values a subset of properties to benchmark the market rent for all other properties. Suburbs are grouped into a smaller number of benchmark localities, or markets, to ensure that rent variances within a suburb are minimised.

Each year the Audit Office of NSW checks FACS's process of setting market rents for its properties.

**Source:** FACS Charging Rent Policy, last amended 27 February 2017.

<http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/charging-rent-policy>, accessed 2 March 2017.

**Figure 4.2 Market rent and funding sources for social housing (\$2015-16)**



Currently, tenant contributions cover around 42% of the market rent. The additional tenant contribution, in line with our draft recommendation 2, contributes another 3% of market rent. Contributions from the NSW Government and the Commonwealth Rent Assistance (CRA) currently fund 16%, leaving a funding gap of 39% or \$955 million. (Appendix D provides more detail on the existing funding gap compared to operating and maintenance costs and depreciation.)

Funding this gap through an explicit subsidy from the NSW Government would enable LAHC and CHPs to operate on a financially sustainable basis. In the case of LAHC, this would mean it could reinvest funds to expand the supply of social housing and/or make a return to the NSW Government. In the case of CHPs or other providers, these providers could be contractually required to reinvest in expanding stock either through purchases or borrowing, rather than providing a return on assets to the NSW Government.



We recommend that the NSW Government place LAHC on a commercial basis as a priority. The remaining housing providers could be transitioned to the sustainable funding model over a 4-year period. In 2015-16 FACS' expenditure across all its services and programs was \$6.3 billion and around 10% of this was for social housing assistance and tenancy support.<sup>44</sup>

The NSW Government has committed to transferring the management of a further 18,000 properties to community housing providers.<sup>45</sup> As tenants in community housing are eligible for CRA, this transfer could result in an additional \$62 million in CRA payments, which would reduce the current funding gap.

#### **4.2.2 The cost of providing new housing stock to meet unmet and future demand**

We are recommending the cost of providing new housing stock to supply unmet existing and future demand be determined by FACS as part of a Social Housing Strategy (see section 4.3.1 below).

The NSW Government's key strategy to deliver more social housing is its Social and Affordable Housing Fund (SAHF). The Government has contributed \$1.1 billion in seed funding to be invested by the NSW Treasury Corporation, and the returns will be used to support SAHF Phase 1 projects. Service Agreements were awarded in March 2017 to five successful parties to deliver access to 2,200 additional social and affordable homes.<sup>46</sup>

The SAHF is an important initiative and its desired outcomes closely align with those of our recommended funding model and Social Housing Strategy. We consider that funding intended for subsequent SAHF rounds could be used to fund growth in the social housing stock as part of the Social Housing Strategy.

#### **Draft recommendations**

- 4 To support a financially sustainable social housing system, the NSW Government provide an annual explicit subsidy equivalent to the difference between:
  - market rent for the social housing system, and
  - the total tenant rent contribution (including Commonwealth Rent Assistance if applicable).
- 5 That the explicit subsidy per property to be paid by government vary by location (as market rents vary by location) to facilitate socio-economically diverse communities.
- 6 That LAHC be placed on a commercial basis as a priority, and the remaining housing providers transitioned to the sustainable funding model over a 4-year period.

### **4.3 Clearer and stronger governance framework**

To help ensure tenants and taxpayers obtain the best value from their financial contributions under our recommended funding model, a clear and strong governance framework needs to

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<sup>44</sup> NSW Government, *Family and Community Services Annual Report 2015-16 – Volume 1 Performance and activities report*, pp 12, 14.

<sup>45</sup> [https://www.facs.nsw.gov.au/about\\_us/media\\_releases/media\\_release\\_archive/better-outcomes-for-social-housing-tenants](https://www.facs.nsw.gov.au/about_us/media_releases/media_release_archive/better-outcomes-for-social-housing-tenants), accessed 10 March 2017.

<sup>46</sup> <https://www.facs.nsw.gov.au/reforms/social-housing/SAHF>, accessed 24 March 2017.

be in place. We consider that a purchaser-provider model would be appropriate, where policy and planning functions are distinct from housing provision. Under this model, we consider FACS would be responsible for:

- ▼ policy and planning, including developing and publishing a Social Housing Strategy, and
- ▼ contracting with housing providers to deliver housing in line with the Social Housing Strategy in return for receiving an explicit subsidy.

#### **4.3.1 Policy and planning**

Under our proposed model, FACS would undertake the policy, planning and allocation functions. These include managing the social housing waiting list and optimising the allocation of places to ensure the greatest benefit for tenants and the community.

One of FACS' key roles would be to plan for growth in the social housing stock. We recommend that it develop and publish a Social Housing Strategy that sets out the number of dwellings required by location, size and type over the next three to five years. It would take account of the changing size and composition of households, and the educational, health and employment needs of tenants, and would be updated annually.

We consider an independent evaluation of the effectiveness of the Social Housing Strategy should be undertaken every five years. To enable this, FACS would need to develop and report annually on performance indicators, as it currently does as part of its annual Performance and Activities Report.

Development of the Social Housing Strategy would encompass programs the NSW Government is currently undertaking to redevelop its social housing portfolio and improve social outcomes. This includes the redevelopment of Land and Housing Corporation sites through its *Communities Plus* program aimed at delivering a mix of social, affordable and private dwellings throughout metropolitan Sydney and regional NSW through private and non-government partnerships.

#### **4.3.2 Contracting with housing providers**

Under the purchaser-provider model, FACS would contract with housing providers to deliver the required dwellings in the Social Housing Strategy in return for receiving an explicit subsidy for doing so. We consider that these contracts should be of long-term duration, to provide certainty to housing providers.

We also considered an alternative arrangement where the explicit subsidy is paid to the tenant (Box 4.3). However, on balance we recommend that in order to place social housing on a sustainable basis the explicit subsidy be paid under long-term contractual arrangements to housing providers.

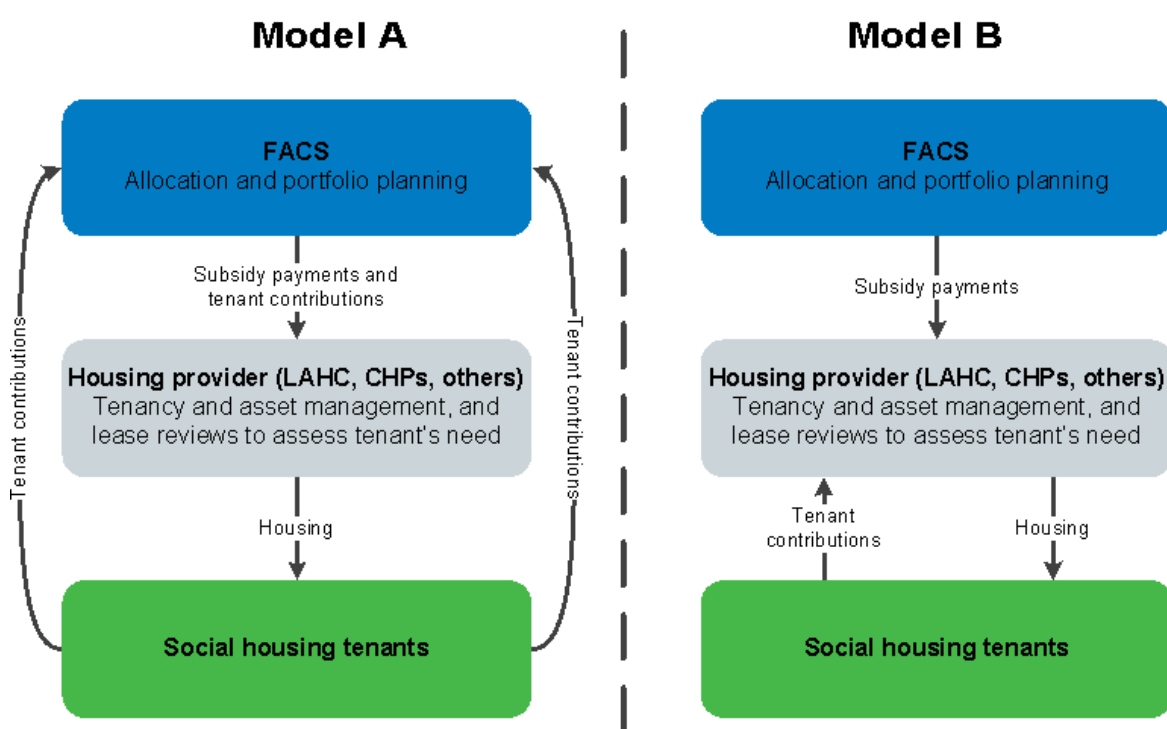
### Box 4.3 Paying the explicit subsidy to tenants

We considered whether the explicit subsidy should be paid to the tenant, who would combine this with their own contribution and pay rent to the housing provider. This would mirror the approach of the current Commonwealth Rent Assistance scheme. However, paying the subsidy to housing providers is likely to be simpler to administer and provides greater predictability of the size of the subsidy required. It also provides greater revenue certainty for the housing provider, allowing for the expansion of supply.

There are two options for contracting with housing providers:

- ▼ the tenant pays the rent contribution to FACS who bundles this with the explicit subsidy, and provides a single market rent payment to the housing provider (Model A in the figure below)
- ▼ the tenant pays the rent contribution to the housing provider, and FACS separately pays the explicit subsidy to the housing provider (Model B below).

Figure 4.3 Funding options for housing providers



Under Model A, the risk of tenant rent payments being made late, or not at all, and the cost of collecting them, is borne by the NSW Government. This would make investment in social housing a relatively low-risk venture, akin to investment in other infrastructure projects where the revenue stream is effectively underwritten by long-term contracts with the NSW Government. Under Model B, the housing provider would bear the risk in relation to tenant rent payments (and the cost of collecting them). However, some housing providers may prefer this model given their relationship with tenants and the broader services they provide to them. The most appropriate funding model would be considered on a case-by-case basis.

In some cases, social housing tenancy management is not undertaken by the owner of the housing stock. For example, the management of around 16,000 LAHC properties is currently undertaken by CHPs on a long leasehold basis, with another 18,000 to be transferred as mentioned above. In this role, the CHP undertakes the tenancy management and is responsible for recurrent maintenance of the properties. LAHC retains responsibility for the depreciation and major maintenance. In the future there may also be arrangements where properties are owned by private investors with the tenancy management role undertaken by CHPs or other housing organisations. In these instances, the subsidy could be paid to the tenancy manager (CHP or other housing provider) who would be responsible for collecting the tenant's rent contribution. The CHP would keep a fee for its tenancy management and recurrent maintenance functions and remit the remainder to the owner of the asset.

We consider this rental subsidy should be paid to providers on a fortnightly basis for tenanted properties, similar to New Zealand's Income-Related Rent Subsidy (see Box 4.4). Fortnightly payments would mean the provider only carries the risk of revenue shortfalls for a short time. This arrangement may involve costs for new IT systems for FACS and housing providers. We also consider that housing providers should be required to obtain an annual independent assessment of market rent to support their claims to FACS.

#### **Box 4.4 Social housing in New Zealand**

In New Zealand, the Ministry of Social Development (MSD) manages applications for social housing and manages the social housing register. It is also the sole purchaser of social housing tenancies through the payment of income-related rent subsidies (IRRS) to social housing providers. The MSD publishes a Social Housing Purchasing Strategy to share information with housing providers about the types and locations of social housing places that are needed, and how the MSD will fund and contract for these places to support providers' investment decisions.

Housing New Zealand (HNZ) is a Statutory Corporation and the largest social housing provider in New Zealand. Its core business is to give effect to the Crown's social objectives by providing housing, and housing-related services, in a business-like manner, to people in the greatest need for as long as that need exists. In delivering the Crown's social objectives, it must operate in a financially responsible manner and optimise its return to the Crown. HNZ owns approximately 61,600 residential properties, from each of which it receives revenue based on a level of rent equivalent to that which the property could be expected to generate in the open rental market. The Crown, however, subsidises the balance between the level of market rent and that deemed affordable from the tenant based on the tenant's level of income.

Like in NSW, New Zealand also has Community Housing Providers. To receive the Government's IRRS, Community Housing Providers in New Zealand must first be registered with the Community Housing Regulatory Authority.

**Source:** Housing New Zealand, Annual Report 2015-16, pp 13, 30, 65; Ministry of Social Development, *Social housing purchasing strategy for income-related rent subsidy places – December 2016 update*, p 4; Ministry of Social Development website, <http://www.msd.govt.nz/about-msd-and-our-work/work-programmes/social-housing/agencies.html>, accessed March 2017.

## Draft recommendations

- 7 That a purchaser–provider framework be implemented for social housing in NSW, with FACS responsible for policy, planning and allocation functions for social housing, and contracting tenancy management functions with housing providers.
- 8 To get the right housing stock in the right place to meet demand from those in need of assistance, that FACS develop and publish a Social Housing Strategy, updated annually, detailing the number of dwellings to be delivered across NSW over the next three to five years by location, size and type.
- 9 That FACS develop performance indicators for the Social Housing Strategy and report on these annually as part of its Annual Report.
- 10 That an independent evaluation be carried out and reported publicly every five years on the effectiveness of the Social Housing Strategy.
- 11 That FACS enter into long-term contracts with social housing providers, to deliver the dwellings as set out in the Social Housing Strategy.
- 12 That FACS distribute the explicit subsidy to social housing providers for tenanted properties on the basis of fortnightly claims submitted by these providers.
- 13 That social housing providers obtain an annual independent assessment of market rent for the basis of their subsidy claims to FACS.

## 5 Eligibility criteria and workforce participation incentives

The different forms of housing assistance available and the policy settings around security of tenure have a key bearing on people's decisions to apply for social housing and take up employment opportunities. With long waiting lists and limited resources available for social housing, it is important that:

- ▼ the eligibility criteria for entry into social housing are appropriate
- ▼ other forms of housing assistance are available for people whose need for assistance is likely to be shorter term
- ▼ people living in social housing have incentives to take up employment opportunities where they are able to
- ▼ people living in social housing who are able to move into private rental are supported to transition out of social housing if they wish to, and
- ▼ people living in social housing longer term have secure housing that meets their needs, including as their needs change over time.

We assessed whether this is the case under the current housing assistance policies, or whether it is possible to improve outcomes for tenants and taxpayers by adjusting these policies. Our draft recommendations are summarised below and then discussed in more detail.

### 5.1 Summary of draft recommendations on eligibility and work incentives

We found that the current eligibility criteria for entry into social housing are appropriate, but the way income is assessed to determine eligibility can be improved by removing some variations in how different sources of income are treated.

We also found that for some households, a time-limited private rental subsidy could be a more appropriate and cost-effective form of housing assistance. Subject to planned evaluations of existing private rental subsidy programs, we think there are potential benefits from making these programs available to a broader range of people.

In addition, we found that fixed tenure public housing lease terms reduce incentives for workforce participation. To strengthen these incentives, we are recommending all social housing leases be issued as continuous leases. However, we are also recommending that:

- ▼ continuous leases be reviewed at least every three years to assess whether the dwelling continues to be suitable for the tenant's needs and characteristics, and
- ▼ FACS adopt a formal policy that establishes that a tenant's eligibility for social housing means they are eligible to a suitable dwelling that meets their household's needs and characteristics, rather than any specific dwelling.

The risk of losing eligibility or tenure for social housing and having to pay higher rent contributions also act as disincentives for workforce participation. The risk of losing secure tenure also acts as a disincentive for people to transition to private rental. To reduce these disincentives, we are recommending that:

- ▼ tenants retain their original ‘application for social housing’ date for up to two years following a ‘positive exit’ from social housing to private renting
- ▼ the Start Work Bonus be extended to any increase in income from employment, and
- ▼ at the end of the Start Work Bonus period, and subject to their level of income, tenants be offered one-off private rental assistance to help them transition to private rental, or the option to remain in social housing and (if their income exceeds the subsidy threshold) pay market rent plus 5% to reflect the security of tenure provided by social housing.

## 5.2 Current eligibility criteria for entry into social housing are appropriate

Currently, to be eligible to enter the social housing system, an applicant must satisfy a set of general criteria, including the relevant income threshold for their household characteristics (Table 5.1).

**Table 5.1 Income thresholds for social housing eligibility at entry (July 2016)**

Household type	Gross weekly assessable household income for entry into social housing <sup>a</sup>
Single adult	\$595
Each additional adult (18 years or over)	Add \$225
First child (under 18 years)	Add \$290
Each additional child (under 18 years)	Add \$95
<b>Disability allowance, if applicable</b>	
Disability allowance (per person)	Add \$95
Exceptional disability allowance (per person)	Add \$225

a Currently, assessable gross income includes most forms of statutory income (pensions, benefits and allowances paid by Centrelink), but exempts some income supplements and assesses other incomes at a concessional rate.

Source: <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#iel>, accessed 7 March 2017.

In our Issues Paper we sought comment from stakeholders on whether these eligibility criteria should be narrowed so that only those most in need would be able to enter social housing (ie, those that currently meet the criteria for the ‘priority’ category on the waiting list).<sup>47</sup> Most stakeholders did not support this, noting that social housing is already extremely rationed and further narrowing of the eligibility criteria could exclude more people in need from accessing safe and affordable housing.<sup>48</sup>

We consider that the current income thresholds are appropriate for entry into social housing, as they limit entry to households with incomes in the very low to low incomes quintiles. We are not recommending changes to these thresholds, but we think some variations in the way

<sup>47</sup> IPART, *Review of rent models for social and affordable housing*, November 2016, p 39.

<sup>48</sup> See for example, Domestic Violence NSW submission to Issues Paper, p 5, Illawarra Forum Inc submission to Issues Paper, p 3, Inner West Tenant Group submission to Issues Paper, p 4, City Futures Research Centre UNSW submission to Issues Paper, p 18, NSW Federation of Housing Associations Inc submission to Issues Paper, p 9.

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different sources of income are assessed to determine eligibility should be removed. These variations are the same as those discussed previously in relation to assessable income for determining tenant rents in Chapter 3. Making the same changes to assessable income for determining eligibility at entry would increase equity between tenants and maintain consistency across the social housing system.

#### Draft recommendation

- 14 That FACS retain the current weekly income thresholds for social housing eligibility at entry and revise the way it assesses income in line with draft recommendation 2.

### **5.3 Time-limited private rental subsidies are potentially more beneficial and cost-effective for some households than social housing allocation**

Social housing is not the most appropriate form of housing assistance for all households, even if they meet the eligibility criteria discussed above. Depending on their needs, some households would benefit more from assistance that helps them to access and maintain suitable housing in the private rental market. This would allow them to avoid spending long periods of time on the waiting list or becoming long-term tenants in the social housing system, where their opportunities and incentives for employment may be fewer.

In the past, FACS has primarily used private rental subsidies as mid-term assistance for people who are priority approved and who have a disability or are at risk in their current dwelling until a social housing place becomes available. Under these arrangements, clients are responsible for finding their own property within locational rent benchmarks provided by FACS and pay their portion of the rent (usually 25% of income plus any CRA) directly to the landlord/agent. The remaining portion of rent is paid by FACS directly to the landlord/agent.<sup>49</sup> We consider that this form of private rental subsidy should continue as part of an improved allocation system for social housing (see Chapter 6).

FACS has also used various forms of private rental assistance to divert households from social housing or transition households out of social housing. This has in the past been limited to one-off assistance such as bond loans, grants for advance rent, or private rental brokerage to help clients access tenancies in the private rental market (see Box 5.1 for a summary of the forms of private rental assistance that are currently provided by FACS). We consider that these private rental assistance products should also continue to be provided.

More recently, FACS has expanded its use of private rental subsidies to divert people from or transition them out of social housing where appropriate. Typically, this involves providing a time-limited (eg, up to three years) private rental subsidy that covers the difference between market rent and an income-based tenant contribution and CRA, and targets specific groups of clients (eg, youth leaving out of home care, women leaving domestic violence situations, individuals with a sudden change in life circumstances such as retrenchment or illness). The subsidy may also taper over the period it is paid. These products (such as the Rent Choice private rental subsidies recently announced by Government) generally also require recipients to engage with education, employment or training.

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<sup>49</sup> Email correspondence with FACS, March and April 2017.



### Box 5.1 Private rental assistance currently available

In 2015-16 FACS assisted 18,152 unique households with housing assistance other than social housing at an estimated cost of \$26.4 million<sup>a</sup> through:

- ▼ **Private rental subsidies (temporary product while waiting for a suitable social housing property)**, available to 'priority' applicants on the social housing waiting list with a disability or mental illness and at risk of harm in current housing.
- ▼ **Start Safely private rental subsidy (diversion product)**, available for a maximum of three years to people escaping domestic violence. Start Safely subsidises the difference between the market rent and 25% of the recipient's gross assessable income plus 100% of the recipient's CRA entitlement.
- ▼ **Youth private rental subsidy (diversion product)**, available for a maximum of three years to young people aged 16-24 years and case managed by a Youth Subsidy Program manager. This product subsidises the difference between the market rent and 25% of the recipient's gross assessable income plus 100% of the recipient's CRA entitlement.
- ▼ **Rentstart (diversion and exit products)**, including bond loans (interest-free loans repayable to FACS), advance rent (for clients receiving bond loans, not repayable to FACS), tenancy assistance (for clients in a private rental property who are in rent and/or water arrears) and Rentstart move (for tenants leaving public housing voluntarily or at the end of their fixed term lease).
- ▼ **Tenancy guarantees (up to \$1500), private rental brokerage, and 'statements of satisfactory tenancy'** to facilitate private rental tenancies.

In *Future Directions*, the Government announced an increase in private rental assistance products by 60% by 2025 to help households avoid or leave social housing. It outlined three main ways to achieve this:

- ▼ **Rent Choice** – a medium-term rental subsidy (up to three years) focusing on young people transitioning to independent living and adults with low to moderate incomes and families facing homelessness because of a destabilising event. Clients will be required to engage with education and/or employment programs. All Rent Choice products will be subject to tapering which gradually reduces the subsidy provided by FACS and assists in the transition to independence.
- ▼ **Extension of Start Safely** – for people escaping domestic or family violence for three years. The June 2016 budget includes additional funding for this initiative.
- ▼ **Promotion of Private Rental Brokerage Services, Rent Start and Bond Plus.**

<sup>a</sup> Internal FACS data. Some households would have received more than one type of housing assistance. The estimated cost does not include non-financial assistance such as private rental brokerage and 'statement of satisfactory tenancy'.

**Source:** FACS website, <http://www.housingpathways.nsw.gov.au/additional-information/policies>; *Future Directions*, p 16.

We consider time-limited private rental subsidies have the potential to provide a cost-effective alternative to social housing for a broader group of clients than those currently being targeted, by providing assistance that is better matched to the period of time that it is required. However, the cost-effectiveness of the programs has not yet been evaluated. To date, FACS' evaluation of the various forms of private rental assistance has been limited to some small-scale pilot projects, with broader program evaluation scheduled within the next 18 months to two years.<sup>50</sup> If this evaluation demonstrates that the new private rental subsidies (eg, Rent

<sup>50</sup> Discussion with FACS, 16 February 2017.

Choice) are cost-effective and efficient, the Government should extend them to a wider range of clients.

#### Draft recommendation

- 15 If the scheduled evaluation of the current time-limited private rental subsidy programs demonstrates this form of assistance is both beneficial to clients and cost-effective for government, that the NSW Government extend these programs to other appropriate clients.

## 5.4 Continuous leases would strengthen workforce participation incentives

Stakeholders told us that for people already in the public housing system, a disincentive for taking up employment opportunities is concern about how this would affect their security of tenure. While community housing tenants still have continuous leases, new public housing tenants have been issued with fixed term leases since 2005. Terms are either two, five or 10 years, depending on the tenant’s circumstances.

Tenants on fixed tenure leases have their eligibility reviewed at the end of the lease term. The eligibility thresholds for renewal are set at considerably higher levels than the entry thresholds (Table 5.2). Those whose incomes increase beyond the threshold for renewal are required to pay higher rents as soon as their income changes, but may stay in public housing until the end of their fixed term lease.<sup>51</sup>

Tenants on continuous leases are also subject to an eligibility review. However, they can remain in social housing indefinitely, but pay market rent once their income exceeds the subsidy eligibility threshold.

**Table 5.2 Current weekly income thresholds for social housing entry, renewal and subsidy eligibility**

	Social housing entry threshold (\$)	Public housing renewal threshold (\$)	Subsidy eligibility threshold (\$)
Adult	595	944	1,405
Additional adult	225	250	375
Child	290	188	285
Additional child	95	131	185

**Source:** <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#iel> accessed 7 March 2017; <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#ilalr> accessed 7 March 2017 and <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/tenancy-charges-and-account-management-policy-supplement>, accessed 4 April 2017.

We understand that fixed term leases were introduced to help ensure housing assistance is provided to those most in need, and not those who no longer need it. The higher eligibility threshold for lease renewal was designed to address the potential work disincentive effect of a lower threshold.

<sup>51</sup> See Rent assessment rules at: <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/tenancy-charges-and-account-management-policy-supplement#current>, accessed 8 March 2017.

We also understand that, in practice, very few tenants do not have their leases renewed. The average length of tenure in public housing has also increased since the introduction of fixed term leases in 2005.<sup>52</sup>

Submissions from a wide range of stakeholders including social researchers argued that fixed term leases operate as an employment disincentive, as tenants fear losing their social housing place at the next renewal if they take up work opportunities.<sup>53</sup> To address this concern and strengthen incentives for workforce participation, we consider all social housing leases should be issued as continuous leases rather than fixed tenure. However, continuous leases should be reviewed periodically (at least every three years) to ensure that the dwelling continues to meet a household's needs and characteristics.

In addition, we consider FACS should adopt a formal policy that eligibility for social housing means eligibility for a suitable dwelling that meets the tenant household's needs, rather than a specific dwelling. In general, we found that both tenants and providers have equated a tenant's continued eligibility with entitlement to continue to occupy a specific dwelling. This has led to a 'set and forget' allocation of housing, with a review of eligibility only at the end of a fixed term lease. As a consequence, some tenants remain in a particular dwelling even when it no longer suits their needs or circumstances, and the stock of social housing is not used in the most efficient way.

These proposed changes would also provide an important foundation for improving the prioritisation and allocation processes for social housing to improve outcomes for tenants and the broader community. Our draft recommendations on these processes are discussed in the next chapter.

#### Draft recommendations

- 16 That all social housing leases be issued as continuous leases and be reviewed periodically (at least every three years) to assess whether the dwelling continues to meet the tenant's needs and characteristics.
- 17 That FACS adopt a formal policy that a tenant's continued eligibility to social housing means they are eligible for a suitable dwelling that meets their household's needs, rather than a specific dwelling.

### 5.5 A 'right of return' safety net would strengthen workforce participation incentives

Under current arrangements, former social housing tenants who wish to return to social housing are assessed for eligibility and join the end of the general waiting list (unless assessed as 'priority' applicants). Stakeholders told us that this discourages tenants taking up opportunities to work and transitioning from social housing.

For example, Mission Australia submitted that the lack of a right of return for a tenant whose circumstances change is a key workforce disincentive particularly in metropolitan Sydney where there are employment opportunities, but former tenants who lose their jobs or face

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<sup>52</sup> Internal FACS data.

<sup>53</sup> See for example City Futures Research Centre UNSW submission to Issues Paper, p 12, Evolve submission to Issues Paper, p 13, Shelter NSW submission to Issues Paper, p 24.

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reduced working hours could find themselves in housing stress or homelessness if they lose their social housing place.<sup>54</sup>

To address this disincentive and, if appropriate, encourage tenants to move to the private rental market without fear of losing 'their place' in social housing, we consider they should be permitted to retain their original 'application for social housing' date for up to two years after leaving social housing.

We consider that a two-year right of return period provides reasonable time for a tenant to become established at work and in private rental. It provides a 'safety net' so that if they need to return to social housing they will be assessed against their original application date which has the effect that they have higher priority on the waiting list than they otherwise would.

This right of return should apply only to 'positive' tenant exits – that is, not to tenants who have been evicted due to breach of lease conditions.

#### Draft recommendation

- 18 That tenants with positive exits from social housing to private rental be permitted to retain their original 'application for social housing' date for up to two years.

### **5.6 Extending the Start Work Bonus to any increase in income from employment would strengthen workforce participation incentives**

In Chapter 3 we outlined why we consider an income-based rent model is the best way to achieve affordability. However, an income-based rent contribution may weaken the incentive to seek employment as the tenant's additional income contributes to higher rent and loss of benefits.

Currently, the Start Work Bonus is intended to strengthen incentives to take up employment. It is available on application, when a social housing tenant or member of their household obtains employment for the first time or re-enters the workforce after a break.<sup>55</sup> If the application is approved, the rent contribution is not adjusted for their new income for six months. After this 'rent contribution freeze' period, the rent contribution is increased (if they remain in employment) based on the full assessable household income. Their lease continues until the end date, at which time their income is reviewed for eligibility.

Box 5.2 provides further details on how the Start Work Bonus operates, including the eligibility requirements.

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<sup>54</sup> Mission Australia submission to Issues Paper, p 4.

<sup>55</sup> <http://www.housing.nsw.gov.au/living-in-public-housing/rent-and-other-charges/start-work-bonus>, accessed 8 March 2017.

## Box 5.2 How Start Work Bonus currently operates

Start Work Bonus was introduced in June 2016. In the first six months after introduction, around 500 tenancies have received a Start Work Bonus.<sup>a</sup> The program provides a 26-week rent freeze when someone in the household over 18 years of age starts work:

- ▼ for the first time (eg, they have been on Newstart and this is their first job), or
- ▼ after a period of unemployment.

To be eligible, applicants must submit a Rent Subsidy Application within 28 days of starting work (this is the standard form that all tenants must submit to report a change of circumstances). They are not eligible for Start Work Bonus if they:

- ▼ already pay market rent
- ▼ are changing jobs
- ▼ are moving from casual to permanent or from part-time to full-time work
- ▼ are receiving certain types of other statutory payments eg, Work for the Dole, New Enterprise Incentive Scheme (NEIS) Allowance
- ▼ have already exhausted the 26 weeks Start Work Bonus allocation for the financial year.

<sup>a</sup> Correspondence with FACS, March 2017.

**Source:** <http://www.housing.nsw.gov.au/living-in-public-housing/rent-and-other-charges/start-work-bonus> and <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/tenancy-charges-and-account-management-policy-supplement>

We consider that any increase in income due to additional employment-related income<sup>56</sup> should be exempt from assessment for tenant rent contribution for the first six months it is received, including additional income from:

- ▼ changing jobs
- ▼ increasing casual hours
- ▼ moving from casual to permanent or part-time to full-time work.

This would provide incentives for household members to seek better or more hours of employment as appropriate.

We consider that the other currently ineligible categories (households already paying market rent, people who are receiving other statutory benefits such as Work for the Dole and NEIS<sup>57</sup> allowances, and those who have already received a 26-week rent contribution freeze in a financial year) should continue to be ineligible for a Start Work Bonus. Any increases that result in incomes exceeding the subsidy eligibility limit should likewise be ineligible for Start Work Bonus, as well as non-employment-related income increases, such as biannual indexation of benefits.

At the end of the rent contribution freeze period, if a tenant's income is above the subsidy eligibility limit, they should be offered one-off private rental assistance – such as a bond loan, advance rent and moving expenses – to support them in moving to the private rental market, if they so wish. Alternatively, if they opt to remain in social housing, they would pay market

<sup>56</sup> Additional employment-related income could lead to a drop in benefit income; we consider that it is the net increase in household income that should be exempt from inclusion in the rent contribution calculation, rather than the increase in employment-related income alone.

<sup>57</sup> New Enterprise Incentive Scheme (NEIS) is a program delivered by a network of providers who provide individualised help for job seekers to become self-employed business owners.

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rent and a premium of 5% to reflect the value of the security of tenure provided with social housing, in line with our draft recommendations in Chapter 3.

#### Draft recommendations

- 19 That an increase in household income due to an increase in employment-related income be exempt from assessment for tenant rent contributions for the first six months it is received.
- 20 That, following the 6-month rental contribution freeze, if the tenant's household income is over the threshold for a subsidy, that the tenant be offered alternatives of either:
  - One-off private rental assistance (for example, a bond loan, rent in advance and (capped) moving expenses) as per current arrangements to move to private rental, or
  - Stay in the social housing property and pay the full property rent without subsidy (market rent) plus 5% to reflect the security of tenure provided by social housing.

## 6 Matching households to the best housing for their needs

Currently, once applicants are accepted as eligible for social housing, they are placed on the NSW Housing Register. FACS maintains this centralised register (waiting list) for both public and community housing. The waiting list is segmented into 'general' and 'priority' categories. The general category is for anyone who is eligible for social housing, while the priority category is for those with a more urgent need for shelter, such as people who are at risk of homelessness or domestic violence, or have complex needs and are unable to house themselves.

When a property becomes vacant, the housing provider managing the property offers it to the first priority category applicant on the waiting list that it would suit, taking account of a limited set of property and household characteristics. If it does not suit anyone in the priority category (or no one accepts it), the provider then offers it to the first general category applicant on the waiting list that it would suit.

We considered whether these prioritisation and allocation processes could be improved to provide better outcomes for tenants and the community. Our draft recommendations are summarised and then explained in more detail below.

### 6.1 Summary of recommendations on prioritisation and allocation processes

We found that current prioritisation and allocation processes can be improved to provide better outcomes by better matching households to housing that meets their needs, both on entry to social housing and as their needs change over time. We are recommending this be achieved by adopting a more sophisticated system that continues to use a centralised waiting list and take account of applicants' priority (based on the urgency of their need for shelter and their date of application), but places greater emphasis on:

- ▼ allocating applicants social housing properties that will help them access the amenities and opportunities they need and will benefit from, and
- ▼ reallocating existing tenants when identified as being in properties that are no longer suitable to their needs.

This system should be combined with a choice-based letting scheme that allows eligible households to express interest in properties as they become available. We have designed a proposed allocation process to illustrate how this might work (see Figure 6.1 and section 6.5).

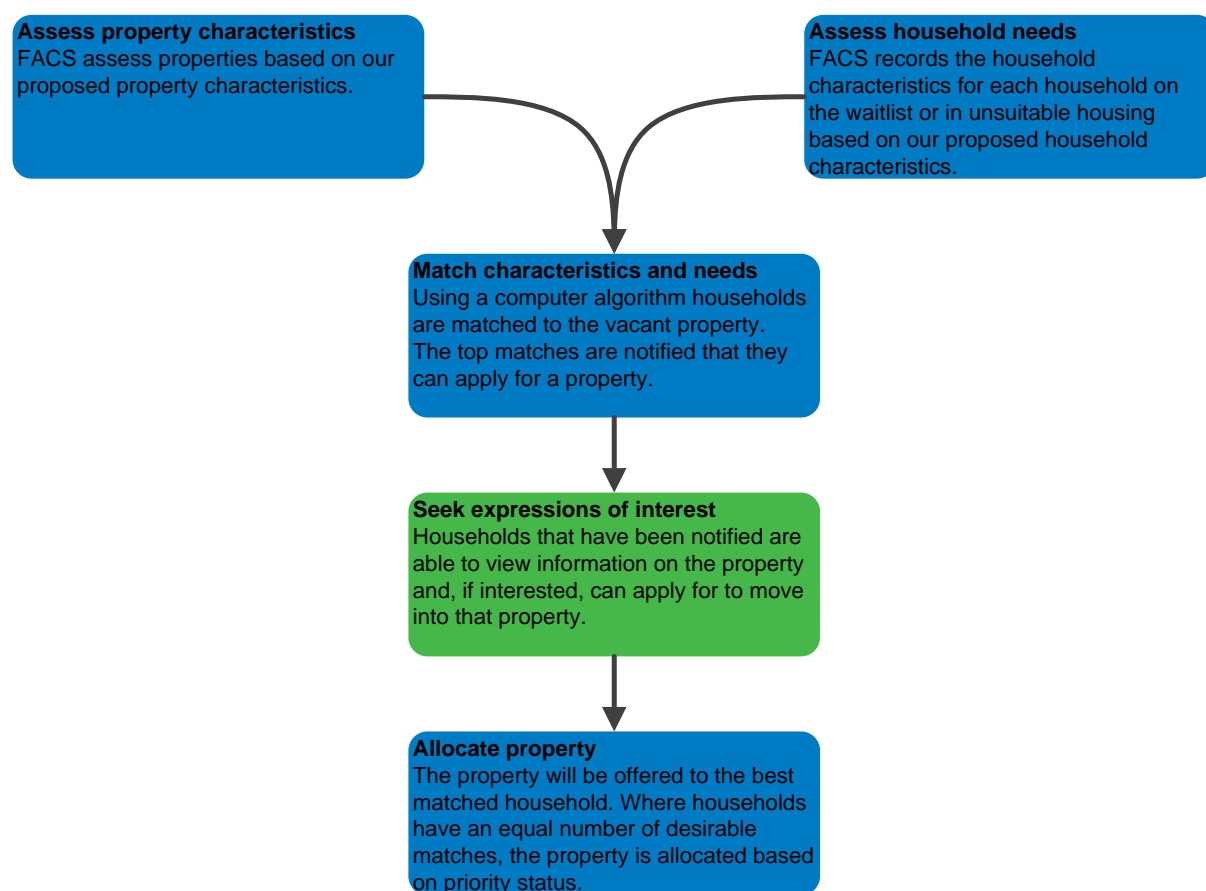
Choice-based letting systems are widely used in Europe, and have recently been adopted in Toronto which faces similar social housing issues to NSW.<sup>58</sup> Evaluations of choice-based

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<sup>58</sup> Craig C., Toronto's new social housing waiting list: putting the choice-based rental model into local context, research paper, 2007, p 1.

letting programs indicate that choice-based letting reduces the time that properties are vacant and improves user satisfaction with their housing.<sup>59</sup>

**Figure 6.1 Proposed allocation process**



**Note:** Green step would be undertaken by households and blue steps by FACS.

## 6.2 Place greater emphasis on allocating applicants to housing that can help them access the amenities and opportunities they need

Currently, the main focus of the prioritisation and allocation processes is on the priority categories, which reflect the urgency of an applicant’s need for shelter. The extent to which housing providers are able to match the characteristics of an available property with the applicant’s household characteristics, needs and preferences is limited.

Typically, an applicant’s property entitlements are assessed using a standard set of criteria, including:

- ▼ number of bedrooms (based on applicant’s household composition)
- ▼ age (as some properties are designated for aged tenants)
- ▼ Aboriginal heritage (required for AHO properties), and

<sup>59</sup> Jones C. and Pawson H., Best value, cost-effectiveness and local housing policy, Policy Studies, Vol 30., No 4, September 2009, pp 467-469, and Craig C., Toronto’s new social housing waiting list: putting the choice-based rental model into local context, research paper, 2007, p 27.



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- ▼ special needs (eg, accessibility).

Applicants have a tightly restricted opportunity to choose between housing features, location, and expected wait times. For example, public housing applicants can only identify a single allocation zone (small group of suburbs) for which they want to be considered. In addition, while they may reject a property they are offered, applicants who reject two reasonable offers can be removed from the waiting list.

We consider this approach leads to suboptimal outcomes for both the tenants and the community. For example, this has resulted in significant under-occupation, with around 15% of public housing dwellings having two or more spare bedrooms during 2015-16.<sup>60</sup> Instead, these processes should take account of a wider range of property and household characteristics, and focus on allocating applicants housing that will help them access the amenities and opportunities they need and can benefit from.

Several stakeholders submitted that a property's characteristics, particularly its location, can make a significant difference to the benefits it can provide for tenants. For example:

- ▼ NSW Council of Social Services (NCOSS) and the City Futures Research Centre UNSW noted the importance of location to employment and training opportunities.<sup>61</sup>
- ▼ Two youth-focused stakeholders, Yfoundations and Youth Action, highlighted the needs of young people, including access to education, employment, support and transport services.<sup>62</sup>

We agree that allocating households that include young people and adults with the capacity to work to properties located near education and employment hubs would make it easier for them to access opportunities and therefore should lead to better outcomes, including improved workforce participation. We consider FACS should redesign the prioritisation and allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities.

We recognise that Aboriginal people may have specific needs in housing and particularly links to country. We consider that our recommendations to redesign the allocation processes for mainstream social housing can also be applied to Aboriginal housing. With consultation, the mechanism and matching of tenants to vacancies can be developed to include additional criteria which take into account specific and diverse needs of Aboriginal communities including, for example, taking account of variable household size and links to country.

We are not suggesting that ensuring applicants with urgent needs are housed is less important. However, we consider that temporary accommodation or other housing assistance products be used to meet these urgent needs until a suitable property becomes available.

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<sup>60</sup> Internal FACS data.

<sup>61</sup> See NSW Council of Social Services submission to Issues Paper, pp 8-9, and City Futures Research Centre UNSW submission to Issues Paper, p 6.

<sup>62</sup> See Yfoundations submission to Issues Paper, p 14, and Youth Action submission to Issues Paper, p 8.

## Draft recommendations

- 21 That FACS redesign the waiting list prioritisation and allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities.
- 22 That households in urgent need of housing are provided with temporary accommodation or other forms of housing assistance until they can be placed in suitable social housing.

### 6.3 Provide for existing tenants to be reallocated as their needs and capacities change

As Chapter 2 discussed, a general mismatch between the size and location of current housing stock and tenant characteristics has developed over time. To help correct this mismatch, and to ensure that households continue to be in the properties that best meet their needs as those needs change over time, we consider social housing prioritisation and allocation processes need to provide for existing tenants to be moved:

- ▼ to properties with access to amenities and opportunities they require from unsuitable properties, and
- ▼ from properties with access to amenities and opportunities they do not require to other suitable properties.

To identify such tenants, housing providers would need to conduct periodic reviews to determine if their existing housing is suitable or if there would be benefits in moving them to more suitable housing. In Chapter 5, we made a draft recommendation that all social housing leases be issued as continuous leases and be reviewed at least every three years to assess whether the dwelling continues to meet the tenant's needs and characteristics. We also consider that tenants should be able to self-identify that their current social housing does not suit their needs.

Transfer rules should be developed to ensure tenants understand the circumstance in which they will be added to the waiting list for reallocation. These rules should include:

- ▼ households should not be removed from their existing dwelling until they have been offered a suitable replacement dwelling, and
- ▼ households who have moved to a more suitable dwelling should not have their suitability reviewed (unless they self-identify) for three years.

Where an existing tenant self-identifies that their current social housing does not suit their needs, a review should be triggered. Where FACS concludes:

- ▼ the current property is not suitable, the household would be identified as in unsuitable social housing and be marked as in unsuitable housing in the allocation and prioritisation system, or
- ▼ the current property is suitable, the household would be added to the general category on the waiting list with no priority status.

Several stakeholders supported periodic eligibility reviews.<sup>63</sup> NCOSS submitted that any review should consider the suitability of the property,<sup>64</sup> and noted that while supporting a flexible system where tenants are better able to move between social housing properties as their needs change, transfer policies must also consider:

- ▼ tenant choice, recognising a person's connection to their 'home'
- ▼ connection to community engagement opportunities to prevent isolation, and
- ▼ access to family and other support services to promote independence.<sup>65</sup>

We acknowledge the importance of considering these factors for achieving good outcomes for tenants. At the same time, we consider tenants should not be entitled to continue to occupy a specific dwelling when it no longer suits their needs and would help another eligible household access amenities and opportunities they can benefit from. For this reason, we have made a draft recommendation that FACS adopt a formal policy that eligibility for social housing means eligibility for a suitable dwelling that meets the tenant household's needs, rather than a specific dwelling (see Chapter 5).

#### **6.4 Adopt a choice-based letting system**

Our draft recommendations for improving the current prioritisation and allocation processes should be combined with a choice-based letting system for social housing in NSW. Under this kind of system, vacant properties are advertised to eligible households, who can apply for the individual properties they are interested in. The property is then offered to the applicant household with the highest rank, based on how well the property matches their characteristics and needs and their priority status.

Yfoundations advocated the introduction of choice-based letting. It submitted:

Such a framework in Australia would allow individuals the freedom to make informed decisions and to have conscious control and choice over their lives. It might also reduce the number of complaints within the social housing sector, and limit the number of current tenant transfers to more suitable properties.<sup>66</sup>

Several other stakeholders agreed that there should be greater tenant choice in the social housing allocation system.<sup>67</sup> Shelter NSW noted that the current portfolio of social housing limits the ability for the system to provide tenants with effective choice.<sup>68</sup>

Choice-based letting does create additional administrative costs. However, most choice-based letting schemes we have reviewed have generated significant benefits that offset these costs (see Box 6.1).

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<sup>63</sup> See for example Inner West Tenant Group submission to Issues Paper, pp 4-5, Illawarra Forum submission to Issues Paper, p 3, and Louisa Domestic Violence Service submission to Issues Paper, pp 5-6.

<sup>64</sup> NSW Council of Social Services submission to Issues Paper, pp 16-17.

<sup>65</sup> NSW Council of Social Services submission to Issues Paper, p17.

<sup>66</sup> Yfoundations submission to Issues Paper, p 14.

<sup>67</sup> See Domestic Violence NSW submission to Issues Paper, p 8, Evolve Housing submission to Issues Paper, pp 19-21, NSW Council of Social Services submission to Issues Paper, p 13, and City Futures Research Centre UNSW submission to Issues Paper, p 14.

<sup>68</sup> Shelter NSW submission to Issues Paper, p 20.

### Box 6.1 Implementing choice-based letting

Choice-based letting provides for all matched households the opportunity to express interest in available properties. There would be some administrative costs to implement choice-based letting as it requires the customer support, marketing and administrative capabilities. For example:

- ▼ developing computer programs and algorithms to match and rank households
- ▼ developing and administering websites to allow advertising of matched properties and online expressions of interest, and
- ▼ publishing brochures or sending out staff to help households without access to the internet or little technological skill to view matched properties and to make expressions of interest.

However, choice-based letting also has financial and social benefits. Most studies have found that choice-based letting reduces the time that properties are vacant (as multiple people can express interest simultaneously) thereby reducing rent forgone. It has also been found that choice-based letting leads to happier tenants.

**Source:** Jones C. and Pawson H., *Best value, cost-effectiveness and local housing policy*, Policy Studies, Vol 30, No 4, September 2009, pp 467-469, and Craig C., *Toronto's new social housing waiting list: putting the choice-based rental model into local context*, Research Paper, 2016, p 27

For NSW, another benefit of using choice-based letting is that it would help identify the properties and housing estates that are substandard. If no household expresses interest in or applies for a property, after multiple rounds of advertisement, it signals that the property is either substandard or in an undesirable location. Similarly, a pattern of no or low interest in a housing estate may signal an issue with this estate. This would help providers identify properties and housing estates that need to be renovated or sold.

## 6.5 Our proposed prioritisation and allocation process

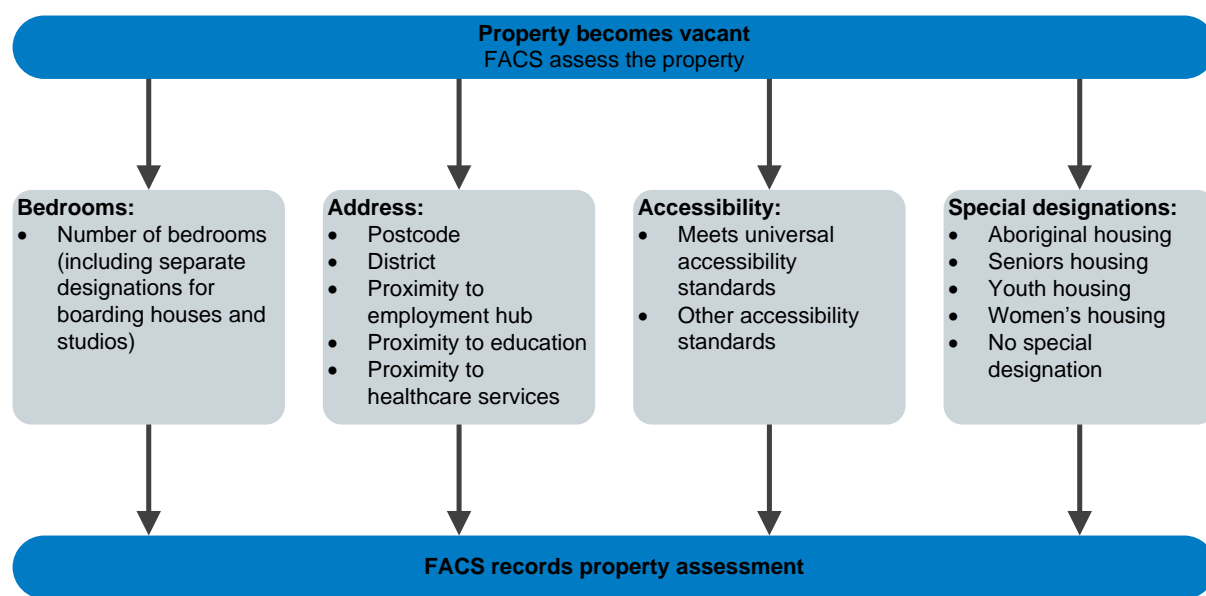
We have designed a proposed prioritisation and allocation process to illustrate how our draft recommendations might combine with choice-based letting. We consider such a system would optimise the allocation of households to properties and improve the customer experience of social housing. As outlined in Figure 6.1 above, our proposed process has five steps:

- ▼ Assess property characteristics.
- ▼ Assess household characteristics and needs.
- ▼ Match property characteristics to household characteristics and needs.
- ▼ Seek expressions of interest.
- ▼ Allocate property.

### 6.5.1 Assess property characteristics

The first step in our proposed process is to assess and record the characteristics of each property that suit common household needs (Figure 6.2). All properties would need to be assessed; however, vacant properties would be prioritised.

**Figure 6.2 Proposed property assessment process**



**Note:** Blue steps would be undertaken by FACS.

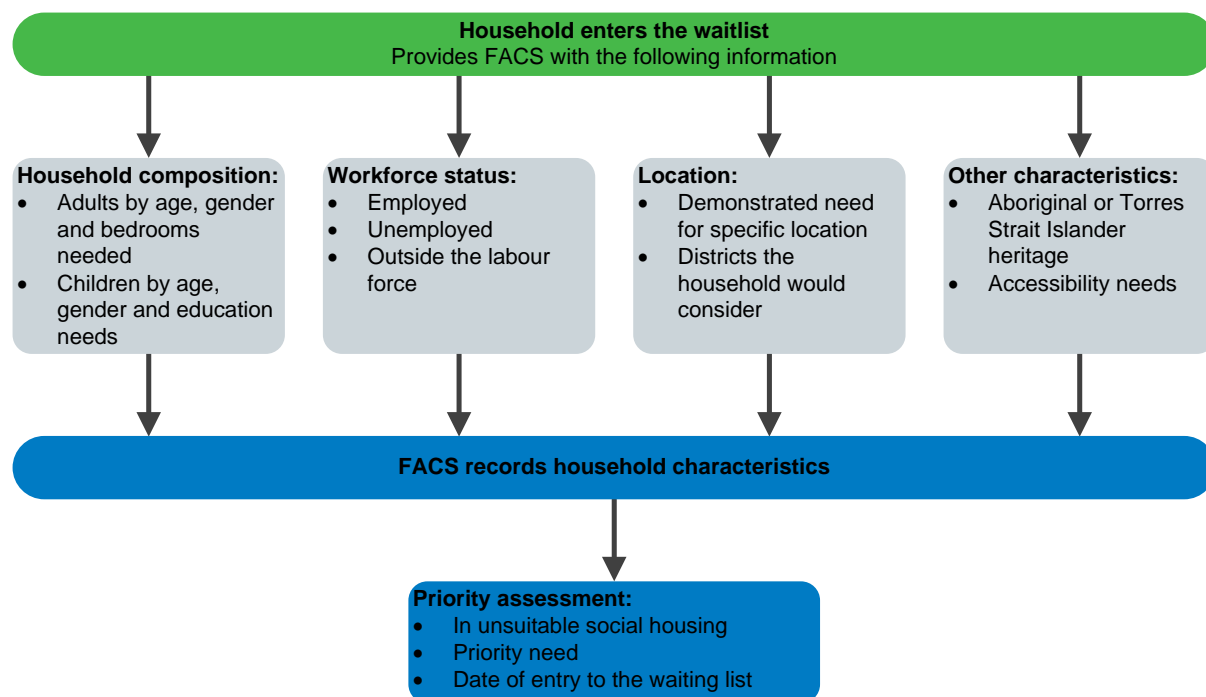
We consider the following property characteristics are important, and would not create unwarranted complexity in matching properties to households:

- ▼ **Number of bedrooms** – this determines which household compositions can live in the property. It would include special designations for boarding houses and studios as these properties may not suit some households that can be housed in a single bedroom property.
- ▼ **Address** – most households will have a preferred district in which they are applying for housing and some households will need to be in a specific location.
- ▼ **Proximity to employment hubs** – being near an employment hub is important for helping social housing residents find and maintain work. Proximity may be measured in a number of ways, such as distance, time taken on public transport or time taken in a private vehicle. The appropriate measure of proximity may vary by location.
- ▼ **Proximity to education hubs** – being near an education hub is important for helping social housing residents access education, improve their skill base and increase their future earning potential. There will need to be subcategories based on primary, secondary and tertiary education. As with proximity to employment hubs there are a number of ways to define proximity and the most appropriate may vary by location.
- ▼ **Proximity to healthcare** – being near healthcare services is important for many tenants including those with chronic illnesses and the elderly. As with proximity to employment hubs there are a number of ways to define proximity and the most appropriate may vary by location.
- ▼ **Accessibility** – a property's suitability for people of differing physical abilities needs to be recorded.
- ▼ **Special designations** – if a dwelling is reserved for specific categories of tenants (such as Aboriginal Housing Office properties) this also needs to be recorded.

## 6.5.2 Assess household characteristics and needs

The characteristics and needs of each household seeking a social housing property, and their priority status, would also need to be assessed and recorded (Figure 6.3).

**Figure 6.3 Proposed household characteristics and priority assessment**



**Note:** Green step undertaken by households and blue steps by FACS.

We consider the following characteristics are important, and would not create unwarranted complexity in matching properties to households:

- ▼ **Household composition** – this determines how many bedrooms the household is entitled to. It will also inform whether the household needs proximity to primary or secondary schools. Age and gender will inform whether the household is eligible for certain special designation properties (eg, women housing and seniors housing).
- ▼ **Workforce status** – this influences the location the household needs. Households that are currently employed would need proximity to the location of their current job(s), and households that are unemployed should be located near an employment hub to increase their chances of finding work. There will be some households, through age or ability, that are permanently outside of the workforce who do not need housing near employment opportunities.
- ▼ **Location** – households would be able to nominate as many locations (including all locations) that they will consider. Households may also be able to demonstrate a need for a specific location (for example, due to specialised education, healthcare or work).
- ▼ **Other characteristics** – there may also be additional characteristics that need to be recorded. For example, we have identified Aboriginality and accessibility needs as important characteristics.

We propose three main categories of priority status:

- ▼ existing tenants in unsuitable housing – prioritising these tenants first creates another vacancy somewhere else, and results in a better matching of housing stock with tenants
- ▼ applicants who are in the priority category on the waiting list - to ensure applicants in urgent need still receive urgent assistance, FACS would need to provide temporary accommodation options or alternative housing assistance to these applicants until they are allocated a suitable social housing property, and
- ▼ applicants and existing tenants in the general category on the waiting list.

As with the current system, time on the waiting list would also affect a household's priority.

### **6.5.3 Match property characteristics with household characteristics and needs**

In general, the matching process would involve:

- ▼ identifying the households whose recorded characteristics and needs match some or all of the characteristics of the vacant property, and
- ▼ ranking these households based on the number of matches between their characteristics and needs and the vacant property's characteristics.

A match between certain household and property characteristics would be considered essential for the property to be potentially suitable. These include matches between:

- ▼ the property's number of bedrooms and the household's requirements based on household composition
- ▼ the property's special designation and the household's characteristics
- ▼ the property's accessibility and the household's accessibility needs, and
- ▼ the property's address and the household's demonstrated need for a specific location.

Matches between all other characteristics would be considered desirable. The households for which the property is potentially suitable would be ranked according to their number of desirable matches. Where households have an equal number of desirable matches, they would be ranked according to the priority categories outlined above:

- ▼ existing tenants in unsuitable housing
- ▼ applicants who are in the priority category on the waiting list, and
- ▼ existing tenants and applicants who are in the general category on the waiting list.

As noted above, to ensure applicants in urgent need still receive urgent assistance, FACS would need to provide temporary accommodation options or alternative housing assistance to these applicants until they are allocated a suitable social housing property. Making existing tenants in unsuitable housing the highest priority would help optimise the allocation of households to properties. Housing an existing tenant would make another property vacant. We expect that this would have a small impact on total waiting time for applicants (as the existing tenant would need time to move).

#### 6.5.4 Seek expressions of interest

The ranked list of households for whom the property is potentially suitable would be used to develop a shortlist of households. All households on this list would be notified that the property is available, what its characteristics are, and how well these match their household's characteristics, and what they need to do if they are interested in the property.

Properties would be 'advertised' like this on a regular basis. We consider there would be benefits in pooling properties to advertise them in groups, perhaps weekly or fortnightly. This would allow for a better optimisation of the housing stock and reduce advertising costs. We consider that an individual property should be advertised to a maximum of 100 households.

Most households would have full discretion over whether they express interest in or apply for an individual property advertised to them. However, existing tenants that have been identified as being in unsuitable housing would need to express interest in some properties. We consider these tenants should be required to express interest in a minimum proportion of properties advertised to them that both:

- ▼ match their essential characteristics, and
- ▼ are within their preferred housing districts.

For example, this proportion could be 20% (eg, for every 10 properties advertised to the household in their preferred housing districts, they must apply for at least two). This would ensure households are not able to stay in unsuitable housing indefinitely, while also avoiding a forced relocation to another property or to another part of the state.

#### 6.5.5 Allocate property

The final step of our proposed process is to allocate the property. This would involve identifying which of the households that expressed interest in the property has the highest ranking and offering them the property.

We consider that through experience with this system, certain elements can be refined. In particular, it may become clear that advertising to the 100 top ranking households is too few or too many based on responses.



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## 7 Aboriginal Social Housing

Social and community housing plays a significant role in housing Aboriginal households. In NSW, around a quarter (23%) of Aboriginal households currently rent social housing, including mainstream social housing and housing targeted for Aboriginal households.<sup>69</sup> The targeted housing is owned and/or managed the Aboriginal Housing Office (AHO) and Aboriginal Community Housing Providers (ACHPs). ACHPs are currently funded separately from other social housing and have different rent models. However, the current rent arrangements are designed to transition Aboriginal Community Housing to the same rent model as other social housing.<sup>70</sup>

As part of our review, we considered how our recommendations on tenant rent contributions would apply to Aboriginal social housing tenants. Our draft recommendations are summarised below and then discussed in more detail.

### 7.1 Summary of our draft recommendations

Our draft findings and recommendations on social housing apply to all tenants in mainstream social housing, including Aboriginal Australians.

We recognise that Aboriginal households often have distinctive needs and characteristics that are more effectively met through ACHPs. We found that the current transition process under the Build and Grow Aboriginal Community Housing Strategy (see Box 7.1) should continue, with the goal of putting Aboriginal housing on the same rent model and funding arrangements as social housing, while continuing to recognise the specific needs and issues for Aboriginal people through the allocation, tenancy and asset management processes.

However, we found that assessing the effectiveness of the transition to new rent arrangements for Aboriginal Housing is limited by the lack of reliable data. We are recommending that Build and Grow continue to be implemented and AHO have access to rental data and publicly report on tenant rent contributions paid. We are also recommending this data contribute to an independent review of the implementation and effectiveness of the Build and Grow Strategy.

In addition, we found that our recommendations for redesigning the prioritisation and allocation processes to better match housing to the tenant's characteristics and needs can be applied to Aboriginal housing. We are recommending that FACS/AHO consult with ACHPs and Aboriginal representatives to consider additional criteria relevant to Aboriginal tenants.

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<sup>69</sup> Australian Institute of Health and Welfare, *Housing circumstances of Indigenous households: tenure and overcrowding*, 2014 p 32.

<sup>70</sup> AHO typically refers to the community housing sector. We use the term social housing.

## 7.2 Continue implementing the Build and Grow strategy

The AHO<sup>71</sup> and ACHPs own and/or manage Aboriginal Community Housing, which is targeted specifically for Aboriginal households. While AHO operates as a division of FACS, it is governed by an Aboriginal board. This model of provision is consistent with the principles of self-management and self-determination for Aboriginal people.

Currently around 13% of AHO properties are managed by ACHPs, 5% by CHPs, while the remainder are managed by FACS.<sup>72</sup> Rents for these properties are calculated differently:

- ▼ For AHO properties being managed by ACHPs, rents are based on the Build and Grow rent policy (discussed further below).
- ▼ The FACS-managed properties are treated as community housing by Centrelink, and tenants are eligible to receive CRA where they meet the general (essentially income and rent) requirements of that program. Rents are calculated the same way as for other community housing<sup>73</sup> (25% of household's assessable income plus 100% of CRA entitlement).

Over the next four years AHO plans to transfer the management of its dwellings from FACS to suitable and registered ACHPs, with the aim of delivering culturally appropriate services managed by Aboriginal organisations that understand the needs of Aboriginal people.<sup>74</sup>

### 7.2.1 Historical ACHP rents

Historically, rents for ACHP-managed properties have not been based on income. They have been a mix of rents set to cover costs and historical rents. In many cases these rents have been low, and some have been a flat rate regardless of household size. Low rents meant providers have not had access to CRA<sup>75</sup> (which is only payable where rents are above a threshold amount).<sup>76</sup> The rent collection rate has generally been low. These practices have contributed to the poor financial viability of the sector and a large maintenance backlog. In 2011, the estimated maintenance backlog was more than \$100 million.<sup>77</sup>

<sup>71</sup> The Aboriginal Housing Office (AHO) is established under the *Aboriginal Housing Act 1988, NSW*. Its aims include ensuring Aboriginal and Torres Strait Islander people have access to affordable quality housing that is appropriate to Aboriginal social and cultural requirements and living patterns, and enhancing the role of Aboriginal people in determining and delivering housing policy and programs.

<sup>72</sup> IPART calculation based on Family and Community Services, *Annual Report 2015-16*, Volume 1 p 41.

<sup>73</sup> The maximum CRA is added to tenant's rent if they are eligible for CRA. Tenants are not out of pocket as they receive the same amount of CRA back from Centrelink. (see Family and Community Services, Aboriginal Housing Office website, accessed 2 December 2016, <http://www.aho.nsw.gov.au/tenants/commonwealth-rent-assistance>.) The CRA payment is not taken into account in determining the subsidy eligibility threshold. (FACS Tenancy Charges and Account Management Policy Supplement, 11 August 2016).

<sup>74</sup> NSW Aboriginal Housing Office, Family and Community Services, *Fact sheet for Aboriginal Community Housing Providers Issue No 1*, 1 September 2016. See <http://www.aho.nsw.gov.au/housing-providers/property-management-transfers-aho-messages-2016>.

<sup>75</sup> NSW Aboriginal Housing Office, Human Services, *The Build and Grow Aboriginal Community Housing Strategy*, pp 6-7.

<sup>76</sup> Currently \$117.80 for a single person household and \$229.40 for a partnered family with one or more children. See Commonwealth Department of Social Services website, <https://www.dss.gov.au/housing-support/programmes-services/commonwealth-rent-assistance>, accessed 23 March 2017.

<sup>77</sup> NSW Aboriginal Housing Office, Human Services, *The Build and Grow Aboriginal Community Housing Strategy*, p 6.

## 7.2.2 Build and Grow rents

ACHP rents are transitioning from historical rents to a new model under the Build and Grow Aboriginal Community Housing Strategy (See Box 7.1). This strategy includes similar aims to our review - ensuring rents are affordable for tenants and housing providers are financially sustainable so that the appropriate quality of housing can be provided.

The Build and Grow rent model requires ACHPs to charge household rent (based on household size and composition) or property rent, whichever is lower. These rents are to be charged after backlog repairs and refurbishments have been completed. Existing tenants on low rents may be charged an \$80 capped rent (regularly reviewed) until Build and Grow rents are reached.

When this occurs, the Build and Grow rents will transition over two years to social housing rents based on household income. When Build and Grow is fully implemented, rent contributions by ACHP tenants would be set at around 25% of households' assessable income.

AHO advises it does not have access to data on the various types of rent adopted by ACHPs under Build and Grow (household rent, capped rent, income based).<sup>78</sup> However, it considers Build and Grow has been associated with an increase in the number of approved providers, and improved property conditions and rental returns without financially burdening the tenants. It suggests that these are proxy indicators of progress with implementing the Build and Grow rent model. Registrations and rent collections have both increased since 2011-12:

- ▼ Registrations of ACHPs under the Build and Grow Program and dwellings managed by registered ACHPs increased from 40 ACHPs in December 2012 (19% of ACHPs) to 103 at June 2016 (52% of ACHPs), and ACHPs registered under Build and Grow manage 70% of all ACHP dwellings.
- ▼ Average weekly rent collected by ACHPs has increased from \$104.50 in 2011-12 to \$134.30 in 2015-16 (\$ nominal).<sup>79</sup>

AHO understands that the majority of ACHPs receiving funding under Build and Grow have adopted the Build and Grow rent model, with some adapting it to an income-based rent model and a small number adopting a cost recovery model.<sup>80</sup>

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<sup>78</sup> AHO receives final Provider Assessment and Registration System registration and performance review reports, but does not have a database to capture this information.

<sup>79</sup> Data provided by Aboriginal Housing Office, Family and Community Services 14 February 2017.

<sup>80</sup> Data provided by Aboriginal Housing Office, Family and Community Services 14 February 2017. The cost recovery model outlined in Housing Aboriginal Communities Program takes account of council rates and fees, water rates, annual building insurance, day-to-day repairs and maintenance, cyclical maintenance and management fees. Rents are not to exceed market rents. See NSW Aboriginal Housing Office, *Housing Aboriginal Communities Program Policy 2006/07-2007/8*, p 25.

## Box 7.1 Build and Grow Aboriginal Community Housing Strategy

The Build and Grow Aboriginal Community Housing Strategy is a package of reforms launched in 2010, to be implemented over 10 years. It aims to address concerns about the financial viability of Aboriginal Community Housing (evidenced by a large maintenance backlog) and the need to build capacity among ACHPs to provide better quality tenancy and housing management and improve accountability. Its key elements are:

- ▼ A new Provider Assessment and Registration system (PARS), under which ACHPs are assessed against criteria and either approved, conditionally approved, or not approved.
- ▼ Six monthly performance reporting and monitoring for approved and conditionally approved PARS providers.
- ▼ Increased financial assistance for approved and conditionally approved providers
  - funds to complete backlogs of maintenance on dwellings and
  - operating subsidies of up to \$2,500 per dwelling per annum for up to eight years, reducing to match expected rent increases.
- ▼ Ongoing subsidies for providers in remote and very remote areas due to low rent and costs of distance.
- ▼ A new rent policy (described below), and
- ▼ Capacity building and business development assistance.

Providers who are not approved or do not want to be assessed for PARS can access Build and Grow funding by head-leasing their dwellings to AHO which subleases them to an approved provider.

Over 1,200 ACHP dwellings<sup>a</sup> have been upgraded under the Strategy and 103 (52%) ACHPs have registered under the Program, (45 as approved providers, 58 via signing a head lease).<sup>b</sup>

### *Build and Grow Rent policy*

This policy was introduced in 2011 to be implemented following registration of ACHPs under PARS and completion of backlog repairs and refurbishments. The policy is for ACHPs to charge either household rent or property rent, whichever is the lower, for two years and then transition to the income-based rent model used in community housing.<sup>c</sup>

- ▼ *Property rent* is based on local market rents in cities, large regional towns and in coastal NSW. In remote, very remote, outer regional communities where there is no comparable market, property rents are set by AHO. In these remote areas property rents are currently set at \$120 per week for a 1 bedroom house to \$205 per week for a 4 bedroom house.<sup>d</sup>
- ▼ *Household rent* is set by family composition, starting at \$145.17 per week for a single person and increasing to \$228.58 per week for a couple with three or more children. Once CRA payments are taken into account for eligible tenants, weekly out of pocket rent amounts range from \$79.87 for a single person to \$141.99 for a couple with three children.<sup>e</sup>

Existing tenants have their rent reassessed after repairs and refurbishments have been completed. Where they have been charged less than \$80 for rent, the new rent is set at a minimum of \$80 and for those tenants who receive CRA the rent increases by \$10 each rent review.<sup>f</sup>

- a Derived from *FACS Annual Reports* for 2012, p 13; 2013, p 40; 2014, p 30; 2016, p 41.
- b Correspondence with FACS, March 2017
- c NSW Aboriginal Housing Office, Human Services, *Build and Grow Rent Policy*, 2011, p 2.
- d NSW Aboriginal Housing Office, Family and Community services, *Build and Grow CPI Supplement for the rent policy*, 21 September 2016.
- e NSW Aboriginal Housing Office, Family and Community Services, *Build and Grow CPI supplement for rent policy*, September 2016.
- f NSW Aboriginal Housing Office, Family and Community Services *Build and Grow rent policy – Fact sheet*, 2016, p 2.

Given the lack of data, we are not able to calculate how much of the increase in average weekly rents collected since 2012 is due to increased tenant rent contributions resulting from the Build and Grow rent model, and how much is due to CRA payments. However, we consider the current transition process should continue with the goal of placing Aboriginal housing on the same rent model as social housing.

Our recommendation that government fund the gap between tenant rent contribution (based on 25%–30% of assessable household income) and market rents would apply to all social housing, including Aboriginal Community Housing. This would ensure that ACHPs are financially sustainable and can provide appropriate housing including new stock that matches future needs.

To assist with the transition, further data and analysis on the progress with the implementation of the Build and Grow rent model is needed. The Build and Grow strategy has been in place since 2011 and has not been formally reviewed. Although PARS registered ACHPs are required to provide regular reports to the Registrar of Community Housing, the AHO does not have access to information on rental types adopted by ACHPs under this model.<sup>81</sup> We consider that this data is necessary for program evaluation, planning for the financial sustainability of the sector and assessing progress with implementation of the Build and Grow rent model, and its eventual transition to income based social housing rents.


#### Draft recommendations

- 23 That the Build and Grow Aboriginal Community Housing Strategy continue to be implemented to transition this housing to the same funding and rent model as other social housing.
- 24 That the AHO monitor and publicly report on rents charged by Aboriginal Community Housing Providers (ACHPs) under Build and Grow and this data on rents and financial sustainability contribute to an independent review of the ongoing implementation of Build and Grow.

### 7.3 Reforming allocation processes to improve outcomes for Aboriginal social housing

Aboriginal people seeking social housing apply through Housing Pathways to join the NSW Housing Register. They are able to indicate that they wish to be considered for mainstream housing and/or housing specifically targeted for Aboriginal people (that is AHO or ACHP properties).

<sup>81</sup> Correspondence with FACS, March 2017.



ACHPs may also have their own waiting lists that are not linked to the NSW Housing Register. Some applicants may only be on the ACHP waiting list while others may be on both. ACHPs allocating their own properties can access the NSW Housing Register to allocate dwellings but may rely on their own waiting list.

In Chapter 6 we recommended adopting a more sophisticated system for allocating mainstream social housing by matching household characteristics and needs (such as age, household size, school-aged household members, workforce status, demonstrated need for specific location, accessibility, Aboriginality) to dwelling characteristics, particularly location. This is described in more detail in Section 6.5.

We recognise that Aboriginal people may have specific needs in housing and particularly links to country. We consider that our recommendations to redesign the allocation processes for mainstream social housing can be applied to Aboriginal housing. With consultation, the mechanism and matching of tenants to vacancies can be developed to include additional criteria which take into account specific and diverse needs of Aboriginal communities including, for example, taking account of variable household size and links to country.

#### Draft recommendation

- 25 That FACS/AHO consult with Aboriginal representatives and Housing Providers on additional criteria relevant to Aboriginal clients to be included when matching Aboriginal applicants to Aboriginal housing under our recommended allocation process (see recommendation 21).

## 8 Subsidised affordable housing

Affordable housing is not the same as the broader issue of ‘housing affordability’. Rather, it is a subsidised housing product to supply affordable rental housing for very low, low and moderate income earners.

Affordable housing is delivered using some form of government support or intervention, such as funding/subsidies, policy or legislation. It is available to households with a broader range of incomes than social housing, and so could be a stepping stone between social housing and the private market.

In NSW, affordable housing schemes have been developed in a range of ways and through a mix of sources including:

- ▼ Government (local, state and Commonwealth) contributions
- ▼ planning incentives, including inclusionary zoning, and
- ▼ philanthropic investment.

These schemes are managed by community housing providers or private organisations, who typically develop the rent, eligibility and allocation policies in line with the requirements of the funding organisation.

We considered the rent and allocation arrangements for affordable housing schemes in the context of our findings and recommendations on social housing, set out in the previous chapters. Our draft recommendations on affordable housing are summarised below, and then discussed in more detail.

### 8.1 Summary of draft recommendations on affordable housing

We consider that a government-subsidised affordable housing product is not consistent with the objectives of this review, as it diverts available resources for housing assistance away from people in the greatest need. To target those who are most in need, subsidised housing assistance in NSW should focus on providing:

- ▼ social housing for people on very low to low incomes in need of long-term secure accommodation, and
- ▼ time-limited private rental assistance as a diversion from social housing and a transition opportunity out of social housing.

We also consider it is inappropriate to change the arrangements for existing affordable housing schemes.

We therefore recommend that the NSW Government make no further investments in subsidised affordable housing for people on moderate incomes, and impose no new requirements on existing affordable housing schemes.

In relation to the distinct and broader issue of housing affordability, we note that this is outside the scope of our review and that the NSW Government has announced other measures focused on this issue.<sup>82</sup>

## 8.2 Subsidised housing assistance should target those in the most need

In line with the objectives of this review, we consider all NSW Government-subsidised housing assistance should target those in the greatest need. This is typically households on very low to low incomes. Based on our consultations and analysis for this review, we consider the best outcomes for tenants and the community can be achieved by providing:

- ▼ social housing to eligible households who are likely to require support for an extended time, and
- ▼ private rental assistance programs to eligible households to divert or transition them from social housing to the private housing market (see Chapter 5), where they are likely to need support for a shorter time.

In recent years, community housing providers (CHPs) have offered a mix of both social and affordable housing, and used rent contributions from affordable housing tenants to improve the financial sustainability of social housing. For example, Evolve Housing submitted:

Affordable housing has served the purpose of not only helping a different cohort of people otherwise experiencing affordability stress in the private market but has provided a valuable source of income for community housing providers and helped cross subsidise their 'social housing' operations.<sup>83</sup>

However, our recommended rent setting framework would fully fund social housing. With this framework in place, there would no longer be a need for CHPs to seek funding from affordable housing contributions to support social housing.

Affordable housing has also been proposed as a way to create paths out of social housing into the private housing market. Our recommendations would create new and improved paths out of social housing that do not require additional government-subsidised affordable housing (see Chapter 5). For example, funding time-limited private rental subsidies may be a more cost-effective method to transition tenants who expect to be able to sustain private rental independence in the future.

<sup>82</sup> Premier of NSW, *NSW Government tackling housing affordability*, Media Release, at <https://www.nsw.gov.au/your-government/the-premier/media-releases-from-the-premier/nsw-government-tackling-housing-affordability/>, 15 February 2017, accessed on 24 March 2017.

<sup>83</sup> Evolve Housing submission to Issues Paper, p 10.



#### Draft recommendation

- 26 That, rather than investing in government-subsidised affordable housing for people on moderate incomes, the NSW Government focus housing assistance on:
- providing social housing for people on very low to low incomes in need of long-term secure accommodation, and
  - providing time-limited private rental subsidies for people on very low to low incomes in need of temporary assistance.

### 8.3 Changing arrangements for existing affordable housing schemes is inappropriate

In addition to the NSW Government, the Commonwealth Government, local governments and philanthropic organisations have funded affordable housing schemes in NSW. The government responsible for funding or mandating the affordable housing is the appropriate authority to set the rules for that affordable housing. Where no government was involved, the providers set their own rent and eligibility rules.

Existing affordable housing schemes have been built based on the rules that applied at the time of construction. The rules about who is eligible and how much tenants contribute to rent would be critical to any provider's (not-for-profit or for profit) investment decision. Therefore, any decision to change these rules would have a direct financial impact on the housing provider.

As a consequence, we consider that it is not appropriate or necessary to propose any changes to the operating rules for existing affordable housing schemes.

#### Draft recommendation

- 27 That the NSW Government not impose any new requirements on existing affordable housing schemes.

### 8.4 Other measures to address housing affordability

As noted above, affordable housing is not the same as 'housing affordability', which is a broader issue facing our community, including households with moderate or higher incomes, and a priority for the NSW Government.

This broader issue is outside the scope of our review. Many factors influence housing affordability including:

- ▼ economic and demographic factors – such as supply and demand for housing, interest rates, population growth and unemployment
- ▼ state and local government planning policies and procedures – by impacting the responsiveness and cost of new housing supply, and
- ▼ taxation settings by distorting the housing market.

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The NSW Government has announced that it has established a cross-Government working group to explore options to make housing more affordable for NSW residents.<sup>84</sup>

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<sup>84</sup> Premier of NSW, *NSW Government tackling housing affordability*, Media Release, at <https://www.nsw.gov.au/your-government/the-premier/media-releases-from-the-premier/nsw-government-tackling-housing-affordability/>, 15 February 2017, accessed on 24 March 2017.



## Appendices



## A Terms of reference

Independent Review of NSW Social and Affordable Housing Rent Models

### **Terms of Reference for a review by IPART on rent models for social and affordable housing services**

I, Mike Baird, Premier of New South Wales, pursuant to Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, request that the Independent Pricing and Regulatory Tribunal (IPART) conduct an investigation in accordance with these 'terms of reference'.

#### **Purpose**

IPART should recommend an appropriate rent setting framework for social and affordable housing that improves incentives for workforce participation; and consider the eligibility criteria, and wait list and prioritisation policies for social housing and other subsidised housing assistance.

The review should aim to ensure the housing assistance system is affordable and easy to understand for clients, and allocations of assistance are needs-based, efficient and equitable.

The review is to make recommendations that are consistent with achieving the goals of the NSW Government's Social Housing Strategy, namely:

- More social housing.
- Opportunities, support and incentives to leave social housing.
- A better customer experience of social housing.

#### **Considerations**

IPART is to consider the following:

1. The costs and benefits of rent setting models applying in Australia and overseas jurisdictions. This includes models that allow variation to respond to the characteristics of different social housing tenant households, circumstances and locational factors. Factors could include:
  - Level of support needed by different cohorts.
  - Geographic differences in housing affordability.
  - Changing economic circumstances of clients.
  - Circumstances and needs of Aboriginal people living in social housing.
  - Potential impacts of any change to the National Affordable Housing Agreement and Commonwealth Rental Assistance.
2. Rent models that best balance the need for rents to be affordable to tenants, with the need to encourage people living in social housing to take up opportunities for education, employment and higher personal incomes. This includes consideration of:
  - The ability to transition to other housing tenures and products, including private market rental housing and targeted sub market rental housing (i.e. affordable housing).
  - Potential impacts of any broader welfare reform undertaken by the Commonwealth.

- The costs and benefits of greater choice so tenants can decide what trade-offs between rent, location, and housing type, size and quality are best for them, and decide whether to opt-in to a different rent model.
3. The existing eligibility criteria, and wait list and prioritisation policies, for social housing and other subsidised housing assistance, estimating the potential impact of any recommended changes on the future demand for housing assistance.
  4. The rent models and eligibility criteria applied across the social and affordable housing sector.
  5. The total cost of running the social housing system, and the impact of rent models on the financial sustainability of the system, with reference to the rental income streams of Land and Housing Corporation (LAHC), community housing providers and Aboriginal community housing providers.

#### Public Consultation

IPART should consult the public as part of this review, including inviting submissions from stakeholders on an Issues Paper and a Draft Report, and holding public forums.

#### Procedure

IPART should publicly release a Draft Report for comment within nine months of receiving these Terms of Reference. A Final Report should be provided to the Minister for Social Housing three months after release of the Draft Report. The Minister for Social Housing will decide on the timing of release of the Final Report.

#### Governance

IPART should provide progress briefings at regular intervals or as requested by the Secretary of the Department of Family and Community Services.



**Mike Baird MP**  
Premier

## B List of submissions

<b>Submitter</b>	<b>Date received</b>
Individual (Anonymous)	8 November 2016
Infrastructure Partnerships Australia	28 November 2016
Individual (C. Baulman)	29 November 2016
Individual (Anonymous)	13 December 2016
Illawarra Forum	15 December 2016
Shelter NSW	15 December 2016
Individual (Anonymous)	16 December 2016
NSW Council of Social Service	16 December 2016
Homelessness NSW	16 December 2016
Australian Housing and Urban Research Institute	16 December 2016
Carers NSW	16 December 2016
Mission Australia Housing	16 December 2016
Kingsford Legal Centre	16 December 2016
MetroAssist	16 December 2016
Youth Action	16 December 2016
Louisa Domestic Violence Service	16 December 2016
Inner West Tenant Group	16 December 2016
People with Disability Australia	16 December 2016
City Futures Research Centre, UNSW	16 December 2016
Organisation (Anonymous) – Confidential	16 December 2016
Yfoundations	16 December 2016
Flourish Australia	16 December 2016
Tenants Union of NSW	16 December 2016
NSW Federation of Housing Association Inc.	19 December 2016
Evolve Housing	19 December 2016
City of Sydney	22 December 2016
Domestic Violence NSW	23 December 2016
Legal Aid New South Wales	23 December 2016
Office of Jamie Parker MP	23 December 2016
Combined Pensioners & Superannuants Association of NSW Inc	23 December 2016
St Vincent de Paul Society (NSW)	9 January 2017

## C The social housing system in NSW

This Appendix provides information about the NSW social housing system and the people who live in it.

### C.1 What is social housing?

Social housing is rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market.<sup>85</sup>

Social housing in NSW comprises:

- ▼ **public housing** - dwellings owned or leased by NSW Land and Housing Corporation (LAHC) and tenancies managed by FACS.
- ▼ **community housing** - dwellings owned or leased and tenancies managed by not-for-profit, non-government community housing providers (CHPs) and dwellings owned by LAHC and tenancies managed by CHPs.
- ▼ **Aboriginal housing** - dwellings owned by the Aboriginal Housing Office (AHO) with assets managed by LAHC and tenancies managed by FACS; and dwellings owned or leased and tenancies managed by Aboriginal community housing providers (ACHPs). The AHO also delivers other housing programs and services to assist Aboriginal people.

In 2015-16, around 139,000 NSW households lived in social housing. The majority of these households (around 78%) lived in public housing.

**Table C.1 NSW households living in social housing**

	2013-14		2014-15		2015-16	
Housing type	Number households	% of total households	Number households	% of total households	Number households	% of total households
Public	109,371	78.4	108,732	78.0	108,637	77.9
Community	25,624	18.4	26,107	18.7	26,218	18.8
AHO properties managed by FACS	4,528	3.2	4,551	3.3	4,518	3.2
Total	139,523		139,390		139,373	

**Note:** ACHP data not available

**Source:** FACS 2015-6 Annual Report, p 31 and IPART calculations.

#### C.1.1 Who owns and asset manages social housing dwellings?

NSW's social housing system consists of around 152,000 dwellings, which is around 5% of all housing stock in NSW. Of these, 73% are owned and assets managed by the Land and

<sup>85</sup> NSW Government, *Future Directions for Social Housing in NSW*, p 7.



Housing Corporation (LAHC)<sup>86</sup> and a further 10% are owned by LAHC and assets managed by Community Housing Providers (CHPs). **Error! Reference source not found.** below illustrates these arrangements, and the ownership and asset management configurations of the remaining 15%.

**Figure C.1 Ownership and asset management of NSW social housing dwellings, 30 June 2016**

		Asset ownership							
		Government		Community		Private sector			
		LAHC	AHO	CHPs	ACHPs	Private sector			
Asset management	Government	LAHC	110,479 (72.8%)	4,647 (3.1%)	-	-	2,940 (1.9%)	118,066 (77.8%)	77.8%
		AHO	-	-	-	-	-	-	
	Community	CHPs	15,658 (10.3%)	262 (0.2%)	7,140 (4.7%)	-	5,881 (3.9%)	28,941 (19.1%)	22.3%
		ACHPs	-	710 (0.5%)	-	4,135 (2.7%)	-	4,845 (3.2%)	
			126,137 (83.1%)	5,619 (3.7%)	7,140 (4.7%)	4,135 (2.7%)	8,821 (5.8%)	151,852 (100%)	
			86.8%		7.4%		5.8%		

**Note:** Discrepancies between total and sum of components are due to rounding

**Data source:** Internal FACS data

Since 1996, the NSW Government has been transferring management of some publicly-owned property to CHPs. In May 2009, the States and the Commonwealth agreed to develop a large scale community housing sector in Australia to own and/or manage up to 35% of social housing by 2014.<sup>87</sup> As part of this and other agreements, 6,276 LAHC properties were vested to CHPs including:

- ▼ 5,820 properties with a value of \$1.4 billion in 2013-14 and prior years
- ▼ 296 properties with a value of \$70.5 million in 2014-15, and
- ▼ 160 properties with a value of \$45.7 million in 2015-16.<sup>88</sup>

One objective of the agreement is that CHPs will leverage these assets to borrow funds from the private sector and invest in additional housing stock. As a condition of the vesting, CHPs were given a target of 20% additional stock. FACS had advised that the CHPs were on track to deliver an additional 1,400 dwellings by 2021.<sup>89</sup> The current NSW Government policy focuses on the transfer of 'management' of social housing properties to community housing. Under the Social Housing Management Transfer program, the management of around 18,000 properties will be transferred to community housing providers.

### C.1.2 Tenancy management in social housing

Social housing tenancy managers undertake similar activities to private tenancy managers, ie, rent collection, management of rent arrears and coordinating repairs and maintenance.

<sup>86</sup> LAHC is a Public Trading Enterprise operating under the portfolio and direction of the Minister for Family and Community Services and Minister for Social Housing.

<sup>87</sup> The reform agenda set out in the National Affordable Housing Agreement and the Nation Building and Jobs Social Housing Initiative places significant emphasis on the community housing sector as a provider of social and affordable housing.

<sup>88</sup> FACS, *Vested Assets Program*.

<sup>89</sup> Internal FACS data.

However, given the ‘complex-needs’ profile of many tenants, they generally undertake, or partner with other services to provide, a wider range of support activities:

- ▼ FACS provides tenancy management for public housing and some Aboriginal housing through a fee-for-service arrangement with LAHC and the AHO, including assessing housing applications and administering the NSW Housing Register (the social housing waiting list) for access by all social housing providers. Rents collected by FACS are remitted to LAHC.
- ▼ FACS and CHPs provide tenancy management with a ‘whole-of-tenant’ focus, eg, connecting tenants to support services and opportunities for employment, education and training. In 2014-15, 18.7% of the social housing portfolio was managed by CHPs.<sup>90</sup> Where CHPs manage LAHC properties, they retain the rent collected.
- ▼ ACHPs must be registered with the AHO to receive funding support for carrying out operational and management services. Currently 13% of AHO properties are managed by ACHPs (82% are managed by FACS and 5% by CHPs).<sup>91</sup> ACHPs also manage tenancies in dwellings that they own. They may deliver additional support programs eg, workshops on budgeting, home maintenance, literacy and key messages about overcrowding, rents and tenancy changes.<sup>92</sup>

Both FACS and CHPs head-lease properties for social housing. FACS historically used this as a transitional measure for tenancies with complex needs or when suitable properties are unavailable in a particular location. CHPs also use it for these reasons and as part of their business model. They receive funding from FACS (around \$75 million annually) to subsidise the difference between market rent and income-based rent.<sup>93</sup>

## C.2 Who is eligible for social housing?

To be eligible for social housing, an applicant’s assessable household income must be below a specified threshold.<sup>94</sup> The level of this threshold means that generally, only applicants who rely on some form of government income support are eligible. If an applicant owns or has a share in a property that could be a viable alternative to social housing, they are not eligible for social housing if they could live in the property or sell their equity in the property. There are no other asset limits, although savings and financial assets above \$5,000 are assessed as contributing to income, based on the Commonwealth deeming rate.

### C.2.1 How does the application and prioritisation system work?

Applications for one or more type of social housing (public, community and Aboriginal housing owned by the Aboriginal Housing Office<sup>95</sup> (AHO) and managed by FACS) are made through a single system, *Housing Pathways*.<sup>96</sup> Applicants may nominate an ‘allocation

<sup>90</sup> FACS, *Statistical report 2014-15*, p 17.

<sup>91</sup> IPART calculation based on FACS, *Annual Report 2015-16*, Volume 1 p 41.

<sup>92</sup> Legislative Assembly of NSW Public Accounts Committee, *Tenancy Management in Social Housing*, November 2014, p 52.

<sup>93</sup> NSW Government, *Budget Paper No.3 Budget Estimates 2016-17*, p 3.4.

<sup>94</sup> Applicants must also meet some general eligibility criteria, such as Australian and NSW residency, age requirements and not own a dwelling in which they could reasonably live.

<sup>95</sup> The AHO (a division of FACS) is a statutory body established in 1998. It owns around 4,600 properties managed either by FACS or ACHPs.

<sup>96</sup> Currently the majority of Aboriginal Community Housing Providers do not access *Housing Pathways*.

zone'. Offers may be made in any of the suburbs in the allocation zone. Standard bedroom entitlements also apply depending on the household type and size.

Once an applicant is assessed as eligible for social housing, they are placed on the NSW Housing Register. FACS maintains the Register (waiting list) for public and community housing. This waiting list is segmented into 'priority' and 'general' categories, which determines the order of housing allocation. The general category is for anyone who is eligible for social housing, while the priority category applies to people who are at risk of homelessness or domestic violence, or have complex needs and are unable to house themselves.

Aboriginal applicants on the NSW Housing Register can also ask to be listed for an Aboriginal Housing Office property. To be eligible, their Aboriginality needs to be confirmed. Vacant AHO properties managed by FACS will be allocated to applicants who are listed for an AHO property. Aboriginal Community Housing Providers (ACHPs) administer their own waiting lists and they can also allocate housing to Aboriginal applicants on the NSW Housing Register.

Community Housing Providers (CHPs) are able to develop their own policies in relation to allocation, consistent with their constitution, although most use the Housing Register policies and priorities. CHPs' operations and allocation policies and practices are overseen by the Registrar of Community Housing NSW<sup>97</sup> and reflect local housing needs and priorities, their constitution, social sustainability, organisational target groups and viability (eg, a CHP may focus on housing women escaping domestic violence, particular ethnic groups, or aged or youth clients).<sup>98</sup> ACHPs also fall into this category and this is also overseen by the Registrar of Community Housing under the AHO's Provider Assessment and Registration System.

### **C.2.2 How long is the wait to be allocated housing?**

The expected waiting time for housing allocation varies greatly, depending on the applicant's nominated allocation zone, and whether they are in the priority or general category. In some popular locations, the waiting time for social housing for applicants in the general category can be more than 10 years.<sup>99</sup>

An applicant in the general category may be allocated a social housing tenancy ahead of people in the priority category if the vacant property available is not suitable for anyone on the priority list (due to its size, accessibility or location). People with an urgent housing need who are homeless may be housed in emergency accommodation or temporary accommodation (eg, a motel) while awaiting an alternative housing solution. A private rental subsidy may be also offered to some priority clients while they wait for suitable social housing to become available.

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<sup>97</sup> The Registrar of Community Housing is responsible for regulating CHPs in NSW under the National Regulatory System for Community Housing (NRSCH). The Registrar is an independent statutory officer reporting directly to the Minister for Family and Community Services. The Registrar is also commissioned by the AHO to undertake and report on performance assessments of ACHPs.

<sup>98</sup> Community Housing Federation of Australia, *Allocation, eligibility and rent setting in the Australian community housing sector*, 2014, p 16.

<sup>99</sup> Family and Community Services, *Expected Waiting Times for Social Housing June 2015 – Overview*, [http://www.housingpathways.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/332274/2015-EWT-Overview-table.pdf](http://www.housingpathways.nsw.gov.au/__data/assets/pdf_file/0003/332274/2015-EWT-Overview-table.pdf) accessed on 19 September 2016.

FACS reported that the median waiting time for newly housed applicants during 2015-16 was 26.1 months and 2.7 months for priority applicants.<sup>100</sup> FACS also reported that:

- ▼ At June 2016, 8,937 applicants were housed (4,059 were in the priority category and 4,878 in the general category), and
- ▼ as at 30 June 2016, 59,907 applicants were on the waiting list (4,516 in the priority category and 55,391 in the general category).<sup>101</sup>

### C.3 How is rent calculated for social housing?

In NSW, the approach used to set rents for social housing differs between public housing, community housing and Aboriginal housing. However, as in other Australian jurisdictions, most social housing tenants pay a proportion of their household income in rent.

#### C.3.1 Public housing rents

Public housing rents are nominally set at market rates. But if a tenant's household income is below a threshold amount, they are eligible for 'subsidised rent'. Their rent payable is calculated as a proportion of their assessable household income or the market rent, whichever is lower. In most cases, this proportion is 25%. However, as a tenant's assessable income approaches the threshold the proportion ranges from 25% to 30% (on a sliding scale).<sup>102</sup> The difference between the rent payable by the tenant and the nominal market rent is the implicit rental subsidy (or rent forgone) by the Land and Housing Corporation (LAHC).<sup>103</sup> Public housing tenants are not eligible for Commonwealth Rent Assistance (CRA).

As at 30 June 2016, around 90% of public housing tenants paid subsidised rent (Table C.2). The remainder paid market rent, either because the market rent in their location was lower than the calculated income-based rent or because their income exceeded the threshold for subsidisation (or they did not declare their income to FACS).<sup>104</sup>

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<sup>100</sup> Internal FACS data.

<sup>101</sup> FACS, *Expected waiting times*, FACS website accessed 29 March 2017, [http://www.housingpathways.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/332274/2016\\_EWT\\_Overview\\_table.pdf](http://www.housingpathways.nsw.gov.au/__data/assets/pdf_file/0003/332274/2016_EWT_Overview_table.pdf)

<sup>102</sup> Some components of assessable income are assessed at concessional rates (eg, Family Tax Benefit Parts A and B are assessed at 15%) and most pension supplements are exempt from assessable income.

<sup>103</sup> LAHC is a Public Trading Enterprise operating under the portfolio and direction of the Minister for Family and Community Services and Minister for Social Housing. LAHC owns and asset-manages about 130,000 social housing properties. Where FACS is the tenancy manager for the properties, LAHC receives the rental income; where a CHP is the tenancy manager, the CHP receives the rent.

<sup>104</sup> All new entrants to social housing have incomes below the threshold for subsidisation. However, some existing tenants may have incomes above the threshold because their circumstances have changed. Public housing tenants housed before July 2005 have continuous leases, meaning these tenants can remain in public housing even if their income increases above the threshold, but they must pay market rent. Many community housing tenants also have continuous leases.

**Table C.2 Social housing households on subsidised rent as at 30 June 2016<sup>a</sup>**

	Households on subsidised rent	As percentage of total households (%)
Public housing	100,133	92
AHO housing managed by FACS	3,206	71
Community housing <sup>a</sup>	24,551	90
Total subsidised tenancies <sup>a</sup>	127,771	91

**Note:** ACHP data is not available.

**Source:** Internal FACS data

**a** Community housing data is for 2015. 2016 data for community housing is not available.

### C.3.2 Community housing rents

Like public housing, community housing rents are nominally set at market rates, but if a tenant's household income is below a threshold amount, they are eligible for subsidised rent. However, in this case the subsidised portion of the rent is partly funded by the Commonwealth Government. Community housing tenants are eligible for CRA, an income supplement payable to Commonwealth benefit recipients who are not public housing tenants and whose rent is more than a threshold amount.

The rent policies under which CHPs operate require that rents are set to maximise the tenant's entitlement to CRA.<sup>105</sup> The rent payable is usually calculated as 25% of tenant's assessable household income plus 100% of the household's entitlement to CRA. The total tenant rent including CRA is capped at market rent.<sup>106</sup>

CHPs have reported that on average they access around \$3,000 per tenant per year in CRA.<sup>107</sup>

<sup>105</sup> FACS, *NSW Community Housing Rent Policy*, July 2014, p 7.

<sup>106</sup> *Ibid*, p 7. CRA is paid at the rate of 75 cents for every dollar above a minimum rent threshold, up to a maximum CRA payment. The rent thresholds and maximum CRA payment differ for different household types.

<sup>107</sup> NSW Federation of Housing Associations, *Submission to Social Housing in NSW: a discussion paper for input and comment*, February 2015, p 2. CRA is technically an income supplement rather than tied housing assistance, but it is assessed for rent at 100% by community housing providers so it functions as an explicit subsidy.

### C.3.3 Aboriginal housing rents

For properties owned by the AHO and managed by FACS, rent is set as described above for community housing.

Aboriginal housing rents for properties managed by the ACHP sector on behalf of the AHO (13%) or some properties owned by the ACHP sector are based on the *Build and Grow Rent Policy*.<sup>108</sup> Tenants pay property (market) rent or household rent, whichever is lower. The household rent is based on household composition (eg, one adult, three children, or a couple, no children) rather than income. Aboriginal housing tenants are also eligible for CRA, but some do not qualify due to low market rents in regional and remote areas where a substantial proportion of Aboriginal housing is located.

For some other ACHP owned properties rent may be based on cost recovery.

## C.4 What are the residential tenancy agreements in social housing?

Social housing tenants have a residential tenancy agreement ('lease') with their housing provider under the *Residential Tenancies Act 2010*. Rights and obligations of both tenants and landlords are covered by this Act.

### C.4.1 Residential tenancy agreements

Tenancy agreements for **new public housing tenants** have fixed terms, usually of two, five or 10 years, of which the first year is probationary.<sup>109</sup> There are also 6-month leases which are used for a number of purposes including Recognition as a Tenant (RAAT), clients with unsatisfactory tenancy histories or where there are concerns about the capacity to sustain a tenancy. These terms also apply to AHO properties.<sup>110</sup> However, prior to 1 July 2005, continuous leases with no end-date applied for all public housing leases. As grandfathering provisions apply for tenants housed prior to July 2005, the proportion of tenants on continuous leases remains relatively high at 57% of all public housing tenants.<sup>111</sup>

Under a fixed term lease, the tenant's ongoing eligibility for public housing is reviewed prior to the end of the lease. The income threshold for ongoing eligibility is around 60% higher than that for entry into public housing. If the tenant's income exceeds this threshold, they could still be exempt from a lease termination if they meet certain criteria.<sup>112</sup> FACS has advised that in practice more than 98% of leases reviewed are renewed due either to continuing income eligibility or to circumstances warranting continuing support (eg, medical/social support, or local affordability issues relating to place of employment needs).<sup>113</sup>

<sup>108</sup> The *Build and Grow Rent Policy* aims to ensure consistency in NSW across the Aboriginal community housing sector and to maximum capture of CRA to create sustainability for ACHPs registered with the AHO.

<sup>109</sup> <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/types-and-length-of-lease-policy>

<sup>110</sup> ACHPs have ongoing leases for their properties. AHO properties managed by FACS Housing follow the same policy settings as FACS Housing tenants with the exception of succession of tenancy.

<sup>111</sup> Internal FACS data.

<sup>112</sup> Eg, households with vulnerable children and young people at risk of abuse or neglect if required to move from social housing. <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/types-and-length-of-lease-policy#exemptions>, accessed 19 September 2016.

<sup>113</sup> Internal FACS data.

Under a continuous lease, a tenant's ongoing eligibility for public housing is not reviewed. However, if their income exceeds the eligibility threshold (or they do not declare their income), they are charged market rent.

Most **community housing** is provided as continuous tenure,<sup>114</sup> except where a program specifies maximum lease terms or eligibility criteria for ongoing occupancy.<sup>115</sup> CHPs are required to review household income at least every six months to determine ongoing eligibility for subsidised rent.

#### **C.4.2 Tenant transfers**

Unlike most private rental providers, social housing providers generally manage a portfolio of dwellings. Tenants may request a transfer for reasons such as changing requirements for access to medical facilities.

FACS and CHPs also have policies regarding their use of management-initiated transfers (including for AHO properties). For example, they may have asset management objectives for a dwelling, including selling, renovating or replacing the dwelling, or they may have tenancy management objectives, including allocating the dwelling to another household with needs that are a better match for the dwelling's characteristics (eg, a person without a disability occupying a house modified for persons with disability).<sup>116</sup>

### **C.5 Who is living in social housing?**

The profile of tenants in social housing has changed substantially since the inception of the social housing system in the 1950s. Originally the system was targeted at supporting individuals re-establishing their lives after the Second World War. Over time policy changes focused on targeting 'those most in need' ie, people on low incomes with complex needs as well as those on low incomes unable to resolve their own housing need in the private rental market.<sup>117</sup>

#### **Main source of income**

Tenants' main source of income has considerably shifted since the 1960s, where wages were the primary income source for 85% of public housing households. Today, only 5% rely on wages as their main source of income, with Centrelink benefits supporting the remaining 94% of subsidised public housing tenants. As at June 2016, more than 90% of social housing tenants on subsidised rent reported a Centrelink benefit as their main source of income (Table C.3).

Public housing tenants primarily supported by Centrelink payments receive a mean income of \$485 per week, whilst tenants relying on wages earn an average weekly income of \$750 (as at 2012-13).<sup>118</sup>

<sup>114</sup> FACS, *NSW Community Housing Access Policy*, June 2016, p 7.

<sup>115</sup> <http://www.sgch.com.au/wp-content/uploads/2015/09/End-of-Tenancy.pdf>, accessed 19 September 2016.

<sup>116</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#relocation1>, accessed 19 September 2016.

<sup>117</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 51.

<sup>118</sup> *Ibid*, p 60.

**Table C.3 Main source of income of head tenant in subsidised social housing 30 June 2016**

	Public housing	AHO housing managed by FACS <sup>a</sup>	Community housing
<b>% Centrelink benefits (%)</b>	93.4	92.1	88.0
-Age pension (%)	30.4	8.8	NA
-Disability pension (%)	35.4	27.6	NA
-Newstart allowance (%)	12.6	22.5	NA
-Parenting payment (%)	5.3	20.6	NA
-Carer payment (%)	5.9	9.0	NA
-Other CentreLink or Veterans Affairs payment (%)	3.7	3.7	NA
<b>Wages (%)</b>	5.0	6.5	9.0
<b>Other (%)</b>	1.6	1.4	2.0
<b>Total subsidised tenancies</b>	100,133	3,206	26,218

<sup>a</sup> Refers to FACS-managed AHO housing only, excludes ACHP tenancies

**Note:** ACHP data is not available.

**Source:** Internal FACS data

NA – not available.

## Household composition

In the 1950s, social housing provided housing for low income working families, often as a pathway to home ownership with couples with children the dominant household type (73% of public housing tenants). By 2012-13, singles with no children living with them had become the dominant household type (60% of public housing tenants) and couples with children were less common (4% of public housing tenants).

## Age

About 55% of social housing residents are of working age, that is, between 18 and 64 years. Approximately 20% are of retirement age (over 64 years), and a quarter are children. More than one in three individuals living in social housing is a child or young adult (aged 18-24). In 2013, around 4,000 of these young adults were the household head of a social housing tenancy.<sup>119</sup>

## Disability

The proportion of social housing tenants with a significant disability has been increasing in recent years, reaching 38% of all public housing tenants in 2016.<sup>120</sup> FACS does not collect data on the prevalence of mental health issues in social housing, but their internal modelling estimates people living in social housing are 2.4 times more likely to have a severe mental illness than those not living in social housing.<sup>121</sup>

<sup>119</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 59.

<sup>120</sup> Internal FACS data.

<sup>121</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 59.



## Education

Approximately 85% of social housing tenants have completed junior secondary schooling, and one in three have completed Year 12 education or beyond.

### C.5.2 Aboriginal households in social housing

The following applies to Aboriginal households living in social housing:

- ▼ 13% of Aboriginal households in public housing have 5 or more members and 15% of households in AHO properties (compared to 5% of non- Aboriginal households in public housing).<sup>122</sup>
- ▼ Around 7% to 8% of Aboriginal and Torres Strait Islander households in NSW public housing, State Owned and Managed Indigenous Housing (that is, Aboriginal Housing Office housing managed by FACS) and 10% in community housing are living in overcrowded conditions.<sup>123</sup> (Around 5% of all households living in NSW mainstream public and community housing are overcrowded).<sup>124</sup>
- ▼ Overcrowding among Aboriginal and Torres Strait Islander households in NSW public housing is more prevalent in major cities (8%) than in regional and remote areas (5% to 6%). Overcrowding in AHO housing managed by FACS is more prevalent than in public housing in all remoteness zones. Overcrowding in FACS managed AHO housing is highest in very remote areas and major cities (8% to 9%), compared to around 7% in inner regional, outer regional and remote zones).<sup>125</sup>
- ▼ Around 35% to 40% of Aboriginal and Torres Strait Islander households in public and AHO housing are living in dwellings in an unacceptable condition (compared to around 25% for all public housing tenants in NSW).<sup>126</sup>
- ▼ The dwellings of around 20% of Aboriginal and Torres Strait Islander families in community housing are in an unacceptable condition (compared to around 10% to 15% for all community housing tenants in NSW).<sup>127</sup>
- ▼ Around half of Aboriginal and Torres Strait Islander households in public housing where a member has a disability are living in dwellings in an unacceptable condition (compared to around 30% of all NSW households renting public housing where one member has a disability).<sup>128</sup>

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<sup>122</sup> IPART calculation using internal FACS data.

<sup>123</sup> Overcrowding is defined using the Canadian National Occupancy Standard where housing is deemed overcrowded if one or more additional bedrooms are required to meet the standard. The standard is based on the age, sex and relationship status of the households. Productivity Commission, *Report on Government Services 2017*, Tables GA.5 (2016 data), p G.8.

<sup>124</sup> Productivity Commission, *Report on Government Services 2016* G.2 (2015 data).

<sup>125</sup> Productivity Commission, *Report on Government Services 2017*, Table 18A.28, 18A.27

<sup>126</sup> A dwelling is considered in acceptable condition if it has working facilities for washing people, washing clothes, preparing/storing food, sewerage and 0-2 major structural problems. Productivity Commission, *Report on Government Services 2017*, Tables GA.6, Table 18A.36, Table 18A.38.

<sup>127</sup> Productivity Commission, *Report on Government Services 2017*, Tables GA.6, Table 18A.36, Table 18A.38.

<sup>128</sup> Productivity Commission, *Report on Government Services 2017*, Table 18A.36.

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Most Aboriginal households in public housing are in the Sydney area, but some regional districts have a higher proportion of Aboriginal households:

- ▼ 35% of Aboriginal households living in public housing live in Sydney districts, 19% in Hunter/New England and 13% in Western district.<sup>129</sup>
- ▼ Although there are more Aboriginal households in Sydney districts, Aboriginal households make up high proportions of households in public housing in the Western District (29%), Murrumbidgee District (18%), Northern District (15%) and Mid North coast District (13%).<sup>130</sup>

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<sup>129</sup> IPART calculation using internal FACS data.

<sup>130</sup> IPART calculation using internal FACS data.

## D The building block approach

In Chapter 4 we outlined our estimate of the efficient costs of providing social housing for the existing housing stock; however, we have not undertaken an efficiency review. To estimate efficient costs we used the building block approach. In this appendix we provide more information on our building block analysis.

To apply the building block approach we first established a regulatory asset base (RAB) for social housing, and then calculated the following cost building blocks:

- ▼ operating costs (maintenance & repairs, property and tenancy management)
- ▼ allowance for depreciation,
- ▼ return on assets, and
- ▼ an allowance for tax and working capital.

More information on these steps is provided below.

### D.1 Regulatory asset base

The RAB represents the estimated market value of the social housing stock. Table D.1 shows the 2015-16 RAB. About 60% of dwellings and 75% of the value of the RAB are in the Sydney metropolitan area.

**Table D.1 Regulatory asset base for social housing (\$2015-16)**

	Public housing	Community housing	Total social housing
Value of land (\$b)	20.1	4.0	24.1
Value of buildings (\$b)	18.9	4.9	23.8
Total RAB (\$b)	39.0	8.8	47.8
Total RAB per dwelling (\$'000)	354	329	349
Number of dwellings <sup>a</sup>	110,066	26,864 <sup>b</sup>	136,930

<sup>a</sup> We have assumed a vacancy rate of around 1.5%.

<sup>b</sup> LAHC owns around 60% of the dwellings that CHPs manage.

**Note:** Totals may not add due to rounding.

**Sources:** LAHC and FACS, IPART calculations

LAHC values its properties at highest and best use – which is residential property. Each year LAHC engages accredited property valuers to provide market values for approximately a third of its benchmark properties and to calculate a market movement index. It applies this market movement index to the remaining two thirds of the benchmark properties, and then uses these benchmark values to revalue its property portfolio.<sup>131</sup>

<sup>131</sup> FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, Note 3, p217 and Note 21, p239.

To estimate the asset value for dwellings owned by CHPs, we applied the LAHC valuations in the absence of detailed information about the value of these dwellings. LAHC owns around 60% of social housing dwellings that CHPs manage.

## D.2 Allowance for operating costs

Operating costs comprise maintenance and repair costs and tenancy and property management costs.

### D.2.1 Maintenance and repair costs

Maintenance and repairs costs (maintenance costs) may be either capitalised or treated as recurrent expenditure (ie, operating expenditure). LAHC generally capitalises maintenance costs of over \$5,000, and expenses the remainder.<sup>132</sup> We consider that this approach is reasonable.

We estimated maintenance costs with reference to a maintenance benchmarks for private dwellings. This data indicates that average annual maintenance costs are likely around 1% of the value of the property over a long period (10 years or more).<sup>133</sup>

We estimated that:

- ▼ Recurrent maintenance costs are around \$2,700 per dwelling, based on LAHC's actual 2015-16 expenditure. This amount represents around 0.8% of the average value per dwelling (land and building) and 1.6% of the average value per building.
- ▼ Capitalised maintenance costs are around \$1,900 per dwelling per year. This is comparable to the amount that LAHC spent on capitalised maintenance in 2015-16, and represents 1.1% of the average value of buildings.

Our estimate of total annual maintenance costs (recurrent and capital costs) represents around 1.3% of the average value per dwelling (land and building) and 2.6% of the average value of per building.

LAHC contracts out repairs and maintenance on a competitive basis to the private sector. These costs should be reasonably efficient.

### D.2.2 Tenancy and property management costs

We used LAHC's 2015-16 financial statements and information provided by FACS to estimate tenancy and property management costs<sup>134</sup> (Table D.2). Tenancy management includes activities such as rent reviews, new tenant induction and managing tenant transfers, complaints and appeals. Tenancy management costs are likely to be higher for providing social housing, relative to private housing. For example, social housing providers

<sup>132</sup> FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, p216.

<sup>133</sup> <https://www.thebalance.com/home-maintenance-budget-453820>, accessed February 2017.

<sup>134</sup> FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*

will likely spend more time managing tenant payment arrears, and need to regularly reassess their tenant's income to determine their rent payment.

Property management includes costs such as property inspections, grounds maintenance and managing maintenance and repairs. Our costs exclude managing the waiting list.

**Table D.2 Tenancy and property management costs (\$2015-16 per dwelling per year)**

	LAHC and FACS costs	AHURI costs <sup>a</sup>	Property agent fees
	Public and Community housing	Sample of CHPs	
Tenancy management	1,488 <sup>c</sup>	1,554 <sup>d</sup>	
Property management	1,106	681 <sup>d</sup>	
Total tenancy and property management	2,594	2,235	1,500- 3,000 <sup>e</sup>
Water rates	915	na	na
Council rates <sup>b</sup>	1,148	na	na
Total including water rates and charges	4,657	na	na

<sup>a</sup> Pawson et al, *Assessing management costs and tenant outcomes in social housing: recommended methods and future directions*. AHURI Final Report No. 257, December 2015, p25.

<sup>b</sup> CHPs do not currently pay council rates on the properties they own, but we have included these costs for modelling purposes. In a separate review IPART has recommended that CHPs pay council rates.

<sup>c</sup> FACS estimates that tenancy management cost are around \$1,300 per household per year in the Sydney metropolitan districts, \$1,550 in outer metropolitan districts and \$2,300 in the regional districts.

<sup>d</sup> Inflated from 2013-14 to 2015-16 costs.

<sup>e</sup> Range based on letting fee of one week's rent, other once-off costs of \$300, a 12 month lease and assuming that the percentage of rent for ongoing services is lower for higher value properties and *vice versa*.

**Note:** Totals may not add due to rounding.

**Sources:** FACS, LAHC, Pawson et al and IPART calculations,

To review the reasonableness of these costs we compared the annual fees charges by property agents in the residential rental market. Using information from the Office of Fair Trading,<sup>135</sup> we estimated that property agents would probably charge between \$1,500 and \$3,000 per year per dwelling on average, depending on the location and value of the dwelling.<sup>136</sup> This compares with FACS/LAHC costs of around \$2,600 per dwelling per year.

We also compared LAHC/ FACS costs with costs for a small sample of CHPs, as estimated by the Australian Housing and Urban Research Institute<sup>137</sup> (see Table D.2).

<sup>135</sup> According to the Office of Fair Trading, most agents charge a letting fee (eg. 1 week's rent) and a management fee based on a percentage of the gross weekly rental (usually between 5 – 12%) plus other fees which many include advertising costs and preparing the tenancy agreement. [http://www.fairtrading.nsw.gov.au/ftw/Tenants\\_and\\_home\\_owners/Being\\_a\\_landlord/Starting\\_a\\_tenancy/Deciding\\_to\\_use\\_an\\_agent.page](http://www.fairtrading.nsw.gov.au/ftw/Tenants_and_home_owners/Being_a_landlord/Starting_a_tenancy/Deciding_to_use_an_agent.page), accessed March 2017.

<sup>136</sup> We have assumed that higher value properties attract a low percentage fee, and vice versa (see <https://www.agentscompare.com.au/property-management-fees/property-management-fees-nsw/property-management-fees-sydney/>)

<sup>137</sup> Pawson et al, *Assessing management costs and tenant outcomes in social housing: recommended methods and future directions*. AHURI Final Report No. 257, December 2015, pp 8 and 25.

We have included in our tenancy and managements costs estimates the cost of CHPs paying council rates, in line with IPART's recommendation in our review of the Local Government Rating System.<sup>138</sup>

### D.3 Allowance for depreciation

The building block approach includes an allowance for a return of capital, commonly known as depreciation. Including a return of capital recognises that through the provision of social housing services to tenants, a provider's capital stock will wear out.

LAHC depreciates most of its buildings at a rate of 2% per year (ie, over 50 years). However, buildings that are marked for demolition have a remaining life of one to five years.<sup>139</sup> We adopted these asset lives, which we consider are reasonable. We also assumed that 2% of the dwelling stock was marked for demolition (around 18,000 dwellings), with an average remaining life of 1 year. We therefore used a weighted-average remaining life of 49 years.

### D.4 Allowance for return on assets

We calculate the allowance for a return on capital by multiplying the value of the RAB by the benchmark rate of return. More information on the rate of return is provided in Appendix E.

### D.5 Allowance for tax and working capital

Both the allowance for tax and the allowance for working capital are very small. We estimated an allowance for tax based on the following assumptions:

- ▼ **50% gearing ratio:** According to the Australian Prudential Regulatory Authority, in the September 2016 quarter around 14% of new housing loans had a loan-to-valuation ratio (LVR) of between 80% and 90%. Around 8.5% had a LVR greater than 90%. More than 50% of new housing loan approvals have a LVR of at least 60%.<sup>140</sup> Since equity increases as the loan is paid, on balance we considered a gearing ratio of 50% is appropriate for a typical investor in residential property market. This is also in line with the gearing assumption adopted by Russell Investments and the ASX in calculating investment returns on residential property for geared investors in their Long-Term Investing Report.
- ▼ **6.2% cost of debt (nominal pre-tax):** The cost of debt used to calculate the tax allowance is based on IPART's standard WACC methodology. We have first established a range for the cost of debt by calculating the 40-day and 10-year risk free rates and debt margins as of 28 February 2017, and selected the midpoint estimate based on our WACC decision rule.

<sup>138</sup> IPART, Review of the Local Government Rating System – Draft Report, August 2016, p 78, available at: [https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-legislative-review-of-the-local-government-rating-system/draft\\_report\\_-\\_review\\_of\\_the\\_local\\_government\\_rating\\_system\\_-\\_august\\_2016.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-legislative-review-of-the-local-government-rating-system/draft_report_-_review_of_the_local_government_rating_system_-_august_2016.pdf), accessed March 2017.

<sup>139</sup> FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, p218.

<sup>140</sup> Australian Prudential Regulation Authority, *Quarterly ADI Property Exposures*, September 2016, p 6.

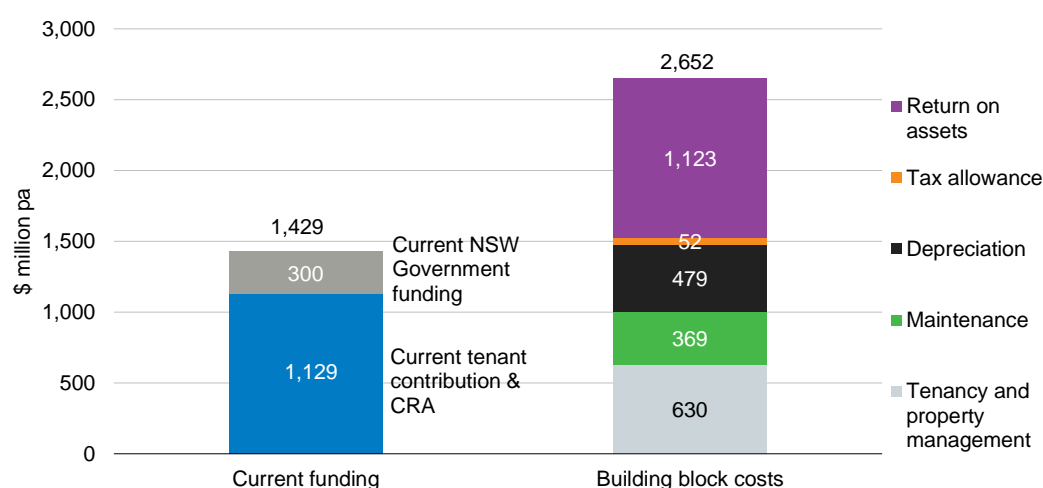
- ▼ **Effective tax rate of 23%:** The effective tax rate is obtained from the Russell/ASX Long-term Investing Report, which we use as the basis for calculating an appropriate benchmark rate of return for social housing (see Appendix E). The Russell/ASX Long-term Investing Report presents effective tax rates for top marginal tax payers for different asset classes. For residential investment property, the overall effective tax rate is estimated to be 23% per annum for the 20-year period to 31 December 2015.<sup>141</sup>
- ▼ **Tax depreciation that is 80% of regulatory (ie, building block) depreciation** – this assumption reflects that unlike the RAB, the tax asset base is not periodically revalued.

We also estimated an allowance for working capital using our standard approach.<sup>142</sup>

## D.6 Summary of building block costs

A summary of the building block costs is provided in Figure D.1 below. We have also included existing funding sources from the tenant’s contribution (excluding the additional tenant contribution in line with our draft recommendation 2) and government funding for social housing. This existing funding is insufficient to cover operating costs and depreciation based on our building block analysis.

**Figure D.1 Summary of building block costs (\$2015-16)**



<sup>141</sup> <http://www.asx.com.au/documents/research/russell-asx-long-term-investing-report-2016.pdf> accessed 24 February 2017, p 12.

<sup>142</sup> We calculated accounts receivable at seven days of payment, on the assumption of a two week payment cycle. We assumed a 30-day payment period of accounts payable.

## E Benchmark rate of return

As discussed in Appendix D, a key issue in the building block approach is determining a benchmark rate of return to calculate a return on assets. The return on assets represents our assessment of what investors would require to invest in social housing, and encourage investment in social housing in the future.

To calculate the allowance for a return on assets, we multiplied the value of the asset base used to provide social housing by a benchmark rate of return. We have used a benchmark rate of return for social housing based on the historical returns for residential property investment.

This appendix provides details of our analysis.

### E.1 Summary of our analysis of the appropriate net rental yields

A rate of return on residential property investment consists of a capital gains yield and a net rental yield. As we are estimating the efficient costs of providing social housing services, the allowance for a return on assets should reflect only the rental yield component of the total rate of return on residential property investment. The capital gains yield is reflected in the value of the RAB and including this in the rate of return would result in double-counting.

Estimating a rental yield involves two steps:

- ▼ First, we have estimated the rate of return, and capital gains yields on residential property investment. We have separately estimated capital gains yields for NSW, Sydney metro, outer metro and rest of NSW.
- ▼ We have then subtracted the capital gains yields from the rate of return estimated above. As a result, we have estimated rental yields for NSW, Sydney metro, outer metro and rest of NSW.

Table E.1 sets out the estimated rental yields which we used to calculate the return on assets.

**Table E.1 Estimated rental yields used in the building block analysis (post-tax, % per annum, including inflation)**

Area	Estimated rental yield
NSW	2.9%
Sydney metro	1.7%
Outer metro	4.1%
Rest of NSW	5.1%

Source: IPART calculations.

The estimated rental yield is lower in the Sydney metro area compared to the outer metro area and the rest of NSW due to a higher capital gains yield in the Sydney metro area (see



Section E.3). While rents are higher in the Sydney metro area compared to other areas, substantially higher property values in the Sydney metro area reduce the rental yield compared to the rest of NSW.

### **E.1.1 Estimated rental yields are similar to the implied rental yields estimated using market rents obtained from LAHC**

LAHC estimates the market rent for a subset of public housing properties based on the rent a tenant is likely to pay for a property in the private rental market that is in a similar geographical location, of a similar size, and with similar features. Using this information, we have estimated that a rental yield implied by the current market rent for NSW is 2.1%, which is comparable to the estimated rental yield we estimated for NSW of 2.9%.

### **E.1.2 Estimated rental yields are a post-tax net rental yield, expressed in nominal terms**

IPART's standard building block approach is based on a post-tax framework where the allowance for a return on assets is estimated using a post-tax rate of return and the allowance for tax liability is estimated as a separate building block. Therefore, we have estimated rental yields on an after-tax basis. We have adopted an effective tax rate of 23% (see section D.5).

Our estimated rental yields are net rental yields. Using a gross rental yield to calculate the return on assets would result in double-counting as operating costs and depreciation are accounted for as a separate cost building block. In addition, estimated rental yields are expressed in nominal terms since cash flows within the building block model are single-year cash flows expressed in nominal terms.

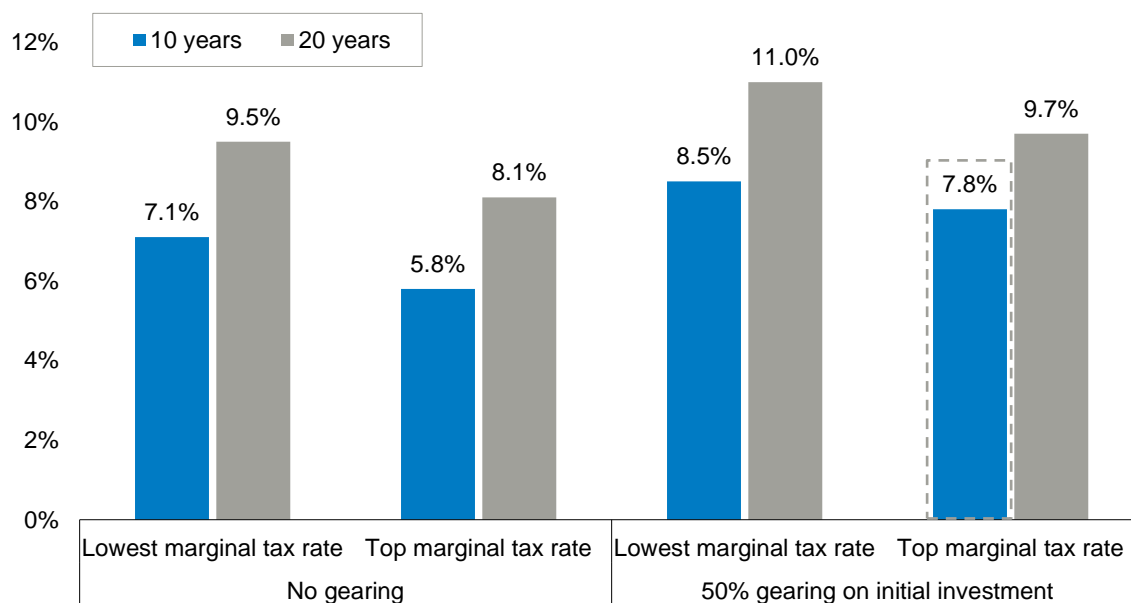
## **E.2 Estimating the rate of return for residential investment**

Each year Russell Investments and the ASX publish the Russell/ASX Long Term Investing Report, which presents the performance of various asset classes over the last 10 and 20 year periods. Figure E.1 shows investment returns for Australian residential property for 10 years and 20 years to December 2015. We find that:

- ▼ Investment returns for Australian residential property were greater for a longer investment period. The after-tax returns over 20 years to December 2015 range from 8.1% to 11%, while those over 10 years range from 5.8% to 8.5%.
- ▼ Borrowing materially enhanced returns for residential investment property. As the cost of borrowing was offset by rental income and tax deduction, total returns were higher for geared investors than for those who did not borrow.
- ▼ Investment returns for investors with higher marginal tax rates were smaller than those with lower marginal tax rates.

Box E.1 provides details of the Russell/ASX Long Term Investing Report, including how it measures investment return on residential property.

**Figure E.1 Investment returns for 10 and 20 years to December 2015 (% per annum, after-tax)**



Data source: ASX and Russell Investments, 2016 Long-term Investing Report, May 2016, pp 9-10.

### Box E.1 Information on Russell/ASX Long-term Investing Report

- ▼ **Measuring investment return on residential property:** The return on residential property is a population-weighted average return calculated across major capital cities. Increases in value are based on median house prices obtained from the Real Estate Institute of Australia. Data from the Australian Bureau of Statistics is used to make adjustments for capital improvements. Net rental income allows for vacancy rates, maintenance expenses, management fees, government charges, land tax and insurance. Acquisition and disposal costs include conveyancing, stamp duty and agent's fees.
- ▼ **Gearing:** After-tax returns with gearing assume that half of the initial investment is borrowed. Gearing arrangements are assumed to involve interest-only loans (that is, periodic payments do not include any repayment of principal). In addition, allowance is made for the deductibility of interest costs.
- ▼ **Borrowing costs:** The borrowing costs for residential investment property are based on the standard variable rate for housing loans.
- ▼ **Income tax:** The lowest and highest marginal tax rates are currently 19% and 45% respectively. These rates have varied slightly over the 10 and 20 years due to changes in taxation policy. These variations have been taken into account in the calculation of after-tax returns. The calculation of after-tax returns is also inclusive of the 2% Medicare levy, which brings the applied lowest and highest marginal tax rates to 21% and 47% respectively.

Source: ASX and Russell Investments, 2016 Long-term Investing Report, May 2016, pp 11-13.

For our building block analysis, we have derived the estimated net rental yield from the total return of 7.8% per annum, which is based on the 10-year investment return for investors with top marginal tax rate who borrowed 50% of their initial investment. We consider this represents a reasonable estimate of the total rate of return required by investors in residential property market.

### E.3 Estimating capital gains yield

To derive estimated rental yields, we need to estimate capital gains yields and subtract these from the rate of return estimated for residential property investment in Section E.2. Table E.2 sets out our estimated capital gains yields for a 10-year holding period to June 2016.

**Table E.2 Weighted average capital gains yield for a 10-year holding period (% per annum)**

Area	Capital gains yield net of expenses
NSW	4.9%
Sydney metro	6.1%
Outer metro	3.7%
Rest of NSW	2.7%

**Note:** 10-year holding period is from June 2006 to June 2016. Weights are based on population estimates as of June 2015 obtained from Australian Bureau of Statistics.

**Source:** Family and Community Services, Australian Bureau of Statistics, <http://www.realestate.com.au/advice/how-much-does-it-cost-to-sell-a-house/>; IPART analysis.

We have estimated the capital gains yields presented in Table E.2 by first calculating capital gains yields for each Local Government Area (LGA). We then calculated the weighted-average capital gains yields for NSW, the Sydney metropolitan area, outer metropolitan area and the rest of NSW, where the weights are based on population estimates obtained from the Australian Bureau of Statistics.

The capital gains yield for each LGA is calculated using the following equation:

$$(1) \quad \text{Capital gains yield} = \left[ \frac{\text{Sales price}_{\text{June 2016}} - \text{seller's transaction costs}}{\text{Purchase price}_{\text{June 2006}} + \text{buyer's transaction costs}} \right]^{\frac{1}{10}} - 1$$

Transaction costs of selling property include the cost of conveyancing, agent commission and fees and marketing fees. Transaction costs of buying property include the cost of conveyancing and stamp duty. Table E.3 summarises our input assumptions.

**Table E.3 Summary of inputs**

	Input	Source
Sales price	Median sales price in June 2016	FACS
Purchase price	Median sales price in June 2006	FACS
Conveyancing	\$1,050 for June 2016 \$831 for June 2006	realestate.com.au
Agent commission and fee	2%	realestate.com.au
Marketing	\$7,250	realestate.com.au
Stamp duty	3%	Office of State Revenue

#### Cost of conveyancing

Cost of conveyancing ranges from \$800 to \$1,300 according to realestate.com.au. We have adopted the midpoint value for the cost of conveying as of June 2016.<sup>143</sup> For the cost of

<sup>143</sup> <http://www.realestate.com.au/advice/how-much-does-it-cost-to-sell-a-house/> accessed 24 February 2017.

conveyancing as of June 2006, we assumed that the cost of conveyancing remained constant in real terms, and adjusted the cost of conveyancing as of June 2016 for inflation.

### Agent commissions and fees

Agent commissions and fees range from 1% to 3% of the final sale price according to realestate.com.au. We have adopted the midpoint value of 2%.

### Marketing

In Sydney the cost of selling can range between \$4500 to \$10,000, depending on the property and the advertising schedule according to realestate.com.au. We have taken the midpoint value of \$7,250.

### Stamp duty

Stamp duty depends on the value of the property subject to the transaction. Using the stamp duty rates in Table E.4 and property valuation data from LAHC, we estimated that stamp duty on an average property is 3% of the value of the property subject to the transaction.

**Table E.4 Stamp duty - current rates and thresholds**

Value of the property subject to the transaction	Rate of duty
\$0 - \$14,000	\$1.25 for every \$100 or part of the value
\$14,001 - \$30,000	\$175 plus \$1.50 for every \$100, that the value exceeds \$14,000
\$30,001 - \$80,000	\$415 plus \$1.75 for every \$100, that the value exceeds \$30,000
\$80,001 - \$300,000	\$1,290 plus \$3.50 for every \$100, that the value exceeds \$80,000
\$300,001 - \$1m	\$8,990 plus \$4.50 for every \$100, that the value exceeds \$300,000
over \$1m	\$40,490 plus \$5.50 for every \$100, that the value exceeds \$1,000,000
Premium Property Duty: over \$3m	\$150,490 plus \$7.00 for every \$100, that the value exceeds \$3,000,000.

Source: Office of State Revenue.

## Glossary

Aboriginal housing office (AHO)	A statutory body established under the <i>Aboriginal Housing Act 1988 (NSW)</i> and part of the FACS cluster. It is advised by a strategic advisory board and provides funding support to the Aboriginal community housing sector for the purpose of carrying out operational and management services and acquisition/construction of dwellings. It owns social housing used by Aboriginal people and is responsible for delivering housing and housing-related programs for Aboriginal and Torres Strait Islander people across NSW.
Aboriginal community housing providers (ACHPs)	ACHPs are Aboriginal community organisations that exclusively support Aboriginal people across NSW to provide housing needs. Organisations include Aboriginal Corporations, Cooperatives and Local Aboriginal Land Councils.
Affordable housing	Housing delivered using some form of government intervention (via funding, subsidies, policy or legislation) to supply housing that is affordable for and targeted to households on very low to moderate incomes. Affordable housing is open to a broader range of household incomes than social housing.
Assessable household income	Income sources used to determine eligibility for social housing and for calculating tenant rent contribution.
Asset management	<p>Asset management includes:</p> <ul style="list-style-type: none"><li>▼ Advising the Government on how best to utilise its land and housing assets for the delivery of agreed social housing outcomes</li><li>▼ Managing and developing land and housing assets</li><li>▼ Maintaining and upgrading existing dwellings</li><li>▼ Acquiring, planning and developing land and dwellings</li><li>▼ Disposing of land and dwellings</li></ul> <p>Asset management does not include Tenancy management.</p>

Australian Housing and Urban Research Institute (AHURI)	A national independent research network with an expert not-for-profit research management company. AHURI is funded by grants from the Commonwealth and State and Territory Government, contributions from university partners in the National Housing Research Program; and third parties through professional services.
Commonwealth Rent Assistance (CRA)	A non-taxable fortnightly rent supplement paid by the Commonwealth Government to eligible income support recipients renting in the private or community housing markets. Recipients include people on social security pensions (eg the Disability Support Pension), allowances and more than the base rate of Family Tax Benefit Part A.
Commonwealth State Housing Agreement (CSHA)	A 2003 agreement under the <i>Housing Assistance Act 1996</i> , between the Commonwealth Government and the states and territories to provide funding for those whose needs for appropriate housing could not be met by the private market. Operations of public housing authorities were principally funded through the CSHA. The CSHA expired in 2008 and was superseded by the National Affordable Housing Agreement (NAHA) 2009.
Community housing	Subsidised rental housing for very low to moderate income households managed by a CHP. Community housing can include social housing, affordable housing for very low to moderate income households and crisis accommodation for people who are homeless or at risk of homelessness.
Community housing providers (CHPs)	<p>CHPs are registered organisations offering subsidised rental housing for very low to moderate income households. They are independent of Government and often also registered as a charity with the Australian Charities and Not-for-Profits Commission and endorsed by the Australian Tax Office. There are three classifications of CHPs:</p> <ul style="list-style-type: none"> <li>▼ Tier 1 have the highest level of performance requirements and regulatory engagement and operate at and have ongoing development activities at a large scale</li> <li>▼ Tier 2 have an intermediate level of performance requirements and regulatory engagement and operate at a moderate scale, and have small scale development activities</li> <li>▼ Tier 3 have a lower level of performance requirements and regulatory engagement and operate at a smaller scale and do not have development activities.</li> </ul>

Co-operative housing	A specific model of community housing management based on mixed income eligibility, tenant management and co-operative principles.
Crisis or emergency accommodation	Short term accommodation (generally three months or less) for people that are experiencing homelessness or at risk of homelessness and must require immediate housing and support.
Equity	<p>A concept relating to the fairness of the treatment of individuals and groups of individuals by governments. Fair treatment is necessary to safeguard the cohesion of society. It is therefore an important social justice issue. Three categories of equity are:</p> <ul style="list-style-type: none"> <li>▼ Horizontal equity- Those in similar circumstances should be treated similarly.</li> <li>▼ Vertical equity – Those in the worst circumstances should be assisted more than, and in some cases before, those not as badly off.</li> <li>▼ Intergenerational equity – Later generations should be treated fairly. Decisions about the use of resources by the present generation ought to include consideration of effects on future generations.</li> </ul>
Family and Community Services (FACS)	FACS is a NSW Government agency responsible for the delivery of services to some of the most disadvantaged individuals, families and communities in NSW. It is a cluster agency formed from the former Department of Housing, Department of Community Services, and the Department of Ageing, Disability and Home Care.
Head-leasing	Refers to properties that FACS leases from the private rental market and sub-leases to approved social housing tenants. The dwelling must meet similar standards to the properties FACS owns.
Housing affordability	A way of examining housing affordability is to look at households whose spending on housing costs is likely to impact on their ability to afford other living costs such as food, clothing, transport and utilities. The 30/40 rule is currently the most widely used criterion for housing affordability. This refers to the point at which 30% of the gross income of a household in the lowest 40% cent of the income distribution is allocated to housing costs, beyond this, housing is deemed unaffordable.

Housing stress	Low income households that spend 30% or more of their gross income on housing costs are often referred to as being in 'housing stress'. Measures of housing stress are often restricted to renters as the nature of mortgage payments can make analysis of owners with a mortgage in housing stress difficult.
Income quintiles	Where the distribution of income is divided into five equal income bands.
Land and Housing Corporation (LAHC)	NSW Statutory body established under the <i>Housing Act 2001 (NSW)</i> , LAHC owns and/or provides asset management for land, buildings and other assets within the public housing portfolio. It is responsible for planning and building public housing as well as maintaining and upgrading the public housing portfolio of social housing dwellings across NSW. Frontline tenancy management services for LAHC are mostly delivered by FACS.
Low income households	Households that earn 50% to 80% of the median income in their region. This is used to estimate the 2nd quintile of household income, representing households with incomes between the lowest 20% of incomes and the highest 60% of incomes (ie, the 20th percentile to the 40th percentile of households). The calculation is generally adjusted for household size.
Maintenance costs	Costs incurred to maintain the value of an asset or to restore an asset to its original condition. The definition includes day to day maintenance reflecting general wear and tear, cyclical maintenance performed as part of a planned maintenance program and other maintenance such as repairs as a result of vandalism.
Market rent	Aggregate rent that would be collected if the social rental housing dwellings were available in the private market.
Moderate income households	Households that earn 80% to 120% of the median income in their region. This is used to estimate the 3rd quintile of household income, representing the households with the middle 20% of incomes (ie, the 40th percentile to the 60th percentile of households). The calculation is generally adjusted for household size.
National Affordable Housing Agreement (NAHA)	Commencing on 1 January 2009, the NAHA is an agreement by the Council of Australian Governments (COAG) initiating a whole-of-government approach in tackling the problem of housing affordability. It supersedes the CSHA which originated in 1945 and expired in 2008.



National Regulatory System for Community Housing (NRSCH)	The NRSCH sets out a consistent regulatory framework for community housing providers across Australia. From 1 January 2014, it replaces the NSW Regulatory System and over an 18-month period all organisations that receive housing assistance from the NSW Government will need to become registered under the National System.
National Rental Affordability Scheme (NRAS)	A partnership between the Commonwealth Government and the States and Territories to invest in affordable rental housing. The NRAS commenced in 2008 and seeks to address affordable rental housing by offering financial incentives to persons or entities such as the business sector and community organisations to build and rent dwellings to low and moderate income households at a rate that is at least 20% cent below the market value rent.
NSW Housing Register	The state wide list of eligible applicants for social housing in NSW managed by FACS. Applicants apply through Housing Pathways to be listed on the Register.
Private rental assistance policy	A FACS policy outlining the various forms of private rental assistance available from the social housing sector in NSW. Different eligibility criteria may apply for each type of service or product.
Private rental subsidies	Assistance provided to a client accessing affordable accommodation in the private market.
Productivity Commission	An independent Commonwealth agency which is the Government's principal review and advisory body on microeconomic policy and regulation.
Public housing	Dwellings owned (or leased) and managed by State and Territory housing authorities to provide affordable rental accommodation. In NSW, public housing includes dwellings managed by LAHC and AHO.
Subsidised household	A household that receives housing products and services and pays less than the market rent value for the dwelling.
Short-term or emergency accommodation	Living situations where people who would otherwise be homeless, receive temporary accommodation, including refuges, crisis shelter, couch surfing, living temporarily with friends and relatives, insecure accommodation on a short-term basis, and emergency accommodation arranged by a specialist homelessness agency (eg, in hotels, motels).

Social housing	Rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market. Social housing includes public and community housing, as well as other services and products.
Social housing clients	Individuals or households who receive one or more benefits from the social housing system, including for example, approved applicants on Housing Register waiting list, recipients of private rental assistance and social housing tenants.
Social housing tenants	A subset of social housing clients, households who live in dwellings owned and/or managed by a social housing provider.
Start Safely Subsidy	A subsidy to provide short to medium term financial help to eligible people who have experienced domestic or family violence so they can secure private rental accommodation and do not have to return to the violent situation.
State Environmental Planning Policy (Affordable Rental Housing) 2009 (AHSEPP)	<p>A policy introduced on 31 July 2009 to increase the supply and diversity of affordable rental and social housing in NSW.</p> <p>The AHSEPP covers housing types including villas, townhouses and apartments that contain an affordable rental housing component, along with secondary dwellings (granny flats), new generation boarding houses, group homes, social housing and supportive accommodation.</p>
Supported housing	Supported housing targets both new and transfer applicants living in unsuitable housing who have a disability or long term health problem and require either significant personal support or housing with major or full disability modifications.
Tenancy management	Tenancy management services include the frontline services with clients and tenants. Tenancy management is delivered differently across the types of social housing providers.
Tenant rent/ tenant contribution/ rent contribution	The rent paid by social housing tenants, usually 25% of household income. Above a 'moderate' income limit, rent contributions are scaled between 25% and 30%. Above the subsidy eligibility limit, market rent is payable.

Total gross household income	The value of gross weekly income from all sources (before deductions for income tax, superannuation etc) for all household members, expressed in dollars per week. The main components of gross income are usual wages and salary; income derived from self-employment; Government pensions, benefits and allowances, and other income comprising investments and other regular income. CRA payments are not included as income.
Transitional housing	Interim accommodation (generally from three to 18 months) for people that are experiencing homelessness or people who are at risk of homelessness.
Transitional Housing Plus	Time limited accommodation designed so that rents scale up annually over five years to just below private market rent. Training and/or employment outcomes are a condition of tenancy. Fixed term leases can be renewed for a period of up to five years for people that are homeless, or at risk of homelessness, and who are able to exit to private market housing at the end of their tenancy.
Very low income households	Households that earn less than 50% of the median income in their region. This is used to estimate the 1st quintile of household income, representing households with the lowest 20% of incomes (ie, up to the 20th percentile of households). The calculation is generally adjusted for household size.
Youth private rental subsidy	A subsidy to provide short to medium term financial help to eligible people aged 16 to 24 years who are recommended by a local support agency and are homeless or at risk of being homeless. The program is currently available in the Hunter, Tamworth, Orange, Bathurst and Penrith/Blue Mountains areas.