



Submission to IPART Review of Rent models for Social and Affordable Housing

Issues Paper
November 2016



Independent Pricing Regulatory tribunal NSW
PO Box K35Haymarket Post Shop
Sydney
NSW 2000

Submission Review of rent models for social and affordable housing - Issues Paper

Thank you for the opportunity to comment on the Review of Rent Models for social and affordable housing. Please find attached Evolve Housing's response.

Evolve Housing is a Tier 1 Community Housing Provider managing some 4200 dwellings, 3,000 of which are in NSW, housing nearly 12,000 residents including social and affordable housing as well as providing specialist Youth Homelessness support services through Evolve Housing for Youth (EHY).

Evolve Housing's principal business is developing and managing long term housing for low and moderate income households. Evolve Housing also works with a wide range of service providers to deliver tailored support to our residents in areas including, health and mental health, financial counselling, life skills, access to education, training and employment.

Attached is our submission which seeks to address a number of the questions raised. The submission includes an initial section - Section 1, which provides some general comments about the context of the wider housing assistance system which impacts on establishing a rent setting approach and the goals of transitioning the 'opportunity cohort' to greater levels of housing independence. A subsequent section – Section 2 responds to questions specifically raised in the Issues Paper.

It is worth noting that without undertaking detailed modelling it is difficult to fully quantify the impacts of different rent setting options on the system, the social / community housing sector, individual housing providers and tenants. This in our view would be an important next step.

We are also interested to understand how the work of IPART will link to other relevant work being undertaken by the Federal Government including the work of the Productivity Commission into Reforms to Human Services (including social housing) and the work of the Council of Federal Financial Relations' Affordable Housing Working Group .

Please contact Leonie King [REDACTED] or Helen O'Loughlin [REDACTED] if you need further information.

Yours sincerely

[REDACTED]

Andrea Galloway
Chief Executive Officer
Evolve Housing

Executive Summary

Evolve Housing welcomes the opportunity to contribute to a considered exploration of eligibility and rent setting approaches that:

1. deliver housing assistance tailored to need;
2. provide assistance options which facilitate and support households with the capacity to progressively transition from social housing to more independent housing models; and
3. are efficient, equitable, and balance affordability for tenants with financial sustainability for the housing provider.

The scope of the IPART review is broad (much wider than the potential workforce disincentives for social housing tenants of the current income based social housing rent policy) and requires an understanding of complex interactions arising from potential changes to eligibility or rent setting models within the context of the wider housing, taxation and social security assistance systems. The rental system determines the rent but operates as part of a social housing finance system with interrelationships between rent, subsidies, ongoing costs and capital arrangements. There needs to be greater clarity on whether the objective of the rent setting review is to meet all of the following three objectives, *covering operating costs of social housing providers, meeting capital replacement costs for social housing properties and growing supply*, or whether these objectives are to be separated. This decision in turn drives the nature of the subsidy required.

The possible rent models proposed have the potential for significant impact on the community housing provider business model in NSW and on the subsidies that would be required to meet the objectives of affordability (for tenants) and sustainability (for providers and the system). In essence many of the potential models are possible with the right amount of subsidy. The appetite of the Commonwealth and State Governments to the scale of reform of subsidy models will also need to be tested to inform the practical consideration of various models.

The impact of the proposed models on administrative efficiency (in particular for housing providers operating across multiple jurisdictions), different tenant cohorts, and in different locational settings) needs to be better understood. There has not been sufficient time for Evolve Housing or the Community Housing Sector more broadly to model these potential impacts.

In terms of housing supply, considerable work has been undertaken by the Australian and State Governments through the Council on Federal Financial Relations¹ in looking at financing models to increase the supply of affordable housing. Any consideration of eligibility or rent setting models that also look to grow social/affordable housing supply should be considered in the context of this work.

With respect to eligibility, access to social housing is already tightly targeted with around 90 percent of social housing tenants on statutory incomes and a housing access system that prioritises applicants who are homeless, at risk of homelessness and/or have additional support needs. Under current policy settings social housing is likely to become further targeted meaning that as more people enter the system

¹ Innovative Financing Models to improve the supply of Affordable Housing, Council on Federal Financial Relations, Affordable Housing Working Group, Report to Heads of Treasuries, Oct 2016

who not only meet the income eligibility criteria but have complex support needs defining and finding the 'opportunity cohort' may become increasingly difficult.

Arguably affordable housing is also targeted to an 'opportunity cohort' but one with slightly greater capacity to pay. The policy settings and systems established for the 'opportunity cohort' (whether in social or affordable housing) need to be commensurate with the scale of the group to be assisted and their housing tenure.

Given the complexity of the potential impacts and the relatively short period of time for consideration Evolve Housing's approach has been not to rule in or out any rent models but to make initial comments on issues arising from the potential models for further consideration and some commentary on eligibility, as part of the ongoing consultation and development of the draft Report proposed by IPART.

Evolve Housing welcomes the opportunity to continue to work with IPART to provide more considered input as this work is undertaken, including reviewing modelling of cost benefit impacts of the various options.

1 Section 1: Establishing a rent setting approach in the context of the wider housing and social assistance systems

Competing objectives

Evolve Housing recognises the complexity of determining appropriate rent setting policies due to the multiple and often conflicting objectives that are often sought to be achieved through rental policies. These include:

- tenant affordability,
- equity (horizontal and vertical, for household income, household type and cost relative to amenity);
- a desire to reduce or remove workforce disincentives;
- delivering administrative efficiency; and
- financial viability of the housing provider and the broader social housing housing system.

Workforce disincentives

In considering the impact of various rent setting models on workforce disincentives, social housing rent settings are only one of a number of factors impacting on workforce participation. Other factors include the availability of suitable employment, casualisation and underemployment in the workforce, high rates of youth unemployment, impacts of location and transport costs to access employment, access to appropriate educational opportunities and the combined significant disincentive implications of loss of benefit and tax settings which result in very high effective marginal tax rates for low income households.

The ability of rent setting policies to remove workforce disincentives needs to be seen in the context of a range of barriers and the need for wider reform.

Using eligibility and rent setting policies to support transition to greater independence

The effectiveness of housing assistance policies designed to target assistance to those most in need and facilitate progressive transition from social housing to greater levels of economic independence (at lower subsidy levels) for those with greater capacity [“the opportunity cohort”] relies on a broad range of inter-dependent policy settings to resource and give effect to the ability to transition including:

- An adequate supply of private market rental housing both at the affordable end of the market (full market rate) and explicitly targeted affordable housing (discount to market) delivered in the private market by NFP entities to income eligible households.
- Ongoing policy settings that deliver either adequate subsidies to low income households (either as income top up such as Commonwealth Rent Assistance) or direct housing subsidies to housing providers to enable the financially sustainable delivery of housing services and replacement of housing stock.
- The ability to provide sufficient security of tenure to address barriers to transition. The short term nature of tenancies in the private rental market offering limited security for households who elect to leave social housing, and different policy settings for security of tenure in affordable housing (see Q16), currently act as barriers. Security of tenure enables households to develop community

connections, ensures children have stable schooling and provides continuity of support services where relevant.

- Resources available to deliver support services to address underlying issues that may prevent people from being able to obtain or maintain employment.
- Policy settings and resources which facilitate access to education, skills training and employment delivered through training organisations and via wage and apprenticeship subsidies for employees.

Tightening of eligibility

With respect to eligibility there has been a focus nationally on greater targeting since the 1980s under former successive Commonwealth State Housing Agreements and, subsequently, the National Affordable Housing Agreement. While income eligibility is the first hurdle increasingly social housing has been prioritised for those applicants who are homeless, at risk of homelessness and/or have a range of complex support needs. This has included people with very high support needs who are (currently or may have been in the past) clients of other mainstream agencies and have been prioritised into social housing. This includes people with a disability (for example many Community Housing Providers manage specialist disability accommodation in partnership with specialist disability services) and with mental health issues (for example the Housing Accommodation Support Initiative [HASI]).

The consequence of this targeting in what has become a highly rationed system is that those households with fewer needs wait longer to secure a social housing tenancy and potentially once they do, may be less willing to leave the security of that accommodation. This is compounded by the short term nature of tenancies in the private rental market which, apart from affordable housing, is the most likely stepping stone for those households exiting from social housing. Current policy settings also result in those social housing households who take up a vacancy in affordable housing (or in private rental) having to forego their position on the social housing waitlist even when:

- the employment that may be required to meet the discount to market rent is not certain; and/or
- there is not an option to move to market rent if income exceeds the maximum eligibility threshold over time (see also response to Q16 under other barriers.)

Eligibility policy on its own is typically an instrument used to ration a scarce Government good.

Eligibility policy in conjunction with fixed term tenancies provides a better set of incentives for people to make different decisions about their housing, but again is not showing a demonstrable change in the decisions people are making about their housing options.

For example the NSW Reshaping Public Housing reforms, announced in 2005, were an early attempt to more actively segment the social housing waiting list and combine eligibility policy with fixed term leases of 2, 5 and 10 years to new entrants depending on an assessment of their need. The early results from this reform suggested that fixed term tenancies on their own were insufficient to change the individual circumstances of tenants on these tenancy arrangements, with many tenants remaining in social housing at the end of the first tenancy period. Moreover these fixed term tenancies have only applied to people entering public housing since 2005, meaning the majority of social housing tenants (including those in

community housing) remain on a continuous lease. The differential policy settings across the social housing system need to be a consideration in any reform proposal.

The NSW Government has trialled time limited subsidies for priority cohorts renting in the private market, with the subsidy tapering over time. There has also been a small trial of a rent model called Transitional Housing Plus. Targeted to young people who are carefully selected and commit to enter training and employment, the young person lives in a capital property managed by a specialist youth housing provider and the rent steps up automatically over five years, commensurate with the length of the tenancy. These models show early promise but are resource intensive to administer and have only be trialled with a small number of participants.

Clarity around the objective of the rent setting review

The scope of IPART's rent setting review is very broad, and there needs to be greater clarity on its primary purpose but also how any rent policy proposed will meet the following objectives which are needed to ensure a sustainable social housing system with capacity for growth. Ideally any social housing rent policy must:

- cover operating costs;
- meet capital replacement costs; and
- grow housing supply.

(The same aspirations apply to affordable housing, which is typically partly funded through community housing providers and debt financing).

While rent policy determines social housing rents, it operates as part of a broader social housing system with interrelationships between rent, subsidies, operating costs and capital arrangements. The social housing system in turn operates as part of a broader housing market and a broader social services sector, for example the disability sector. It is worth noting that the NDIA has recently formalised its approach to subsidising National Disability Insurance Scheme (NDIS) participants needing integrated housing and support with an accommodation subsidy, specialist disability accommodation (SDA). One of the Scheme's primary objectives is to support people with a disability to pursue their goals and maximise their independence and social and economic participation, not dissimilar to the reforms outlined in *Future Directions*.

In the NDIA's SDA Decision Paper on Pricing and Payments (June 2016) they outline their approach to SDA as being *"to enable a smooth transition of existing SDA stock into the Scheme, while also encouraging new builds from a broad range of investors to improve the long term supply of SDA and to stimulate innovation in SDA housing solutions"*. The SDA price is different depending on whether the accommodation is existing or new, in recognition of the need to cover the lifecycle costs of the property and to ensure it is replaced and supply increases over time. For SDA rent is set at 25 percent of income plus CRA and the subsidy is additional, to reflect the true operating cost of accommodation for this cohort. Given the typically low incomes of the cohort eligible for SDA and the fact that many CHPs are already managing this type of accommodation it may be a pricing model worth examining.

Similar to the NDIA's SDA the recent Social and Affordable Housing Fund (SAHF) project also recognised the need for a long term secure income stream to incentivise supply, committing payments on top of tenant rent and CRA to successful proponents for 25 years.

Tension between rental affordability and viability

AHURI research² has noted that the unique aspect of Australia's social housing finance system is that household rents have to service two functions: providing housing at an affordable price, and ensuring the ongoing viability of social housing. In other countries, these two aspects of rental policy are dealt with as separate decisions (although they may be linked); the first through a housing subsidy from central government so the tenant can pay the property rent; the second through the setting of property rents based on the ongoing costs of providing social housing.

In most European countries tenants are charged a property rent based upon the ongoing costs of providing social housing but can access subsidies to compensate for the higher rents. In other countries social housing organisations are paid a housing subsidy that meets the difference between the household rent (income based rent) and the property rent which may be capped at cost benchmarks. (Canada, New Zealand, USA). This addresses the tension between tenant affordability and housing provider / system viability. The NSW Community Housing Leasehold Program goes part way there, with community housing providers funded at a benchmark price that meets the gap between what a tenant paying an income based rent would pay, and the cost of private rentals in a particular LGA.

All of the various rent models proposed in the Issues paper have the potential to address the tension between providing housing at an affordable price, and ensuring the ongoing viability of social housing effectively **if** the amount of subsidy was sufficient to meet the cost gap. However any rent setting decisions also need to take into account the broader context in which housing assistance is delivered, including the welfare system, government funding and taxation incentives, as well as the interplay of rent setting policy on housing assistance at a state and national level.

Any proposed departure from the current rent setting approach, which operates across all States and Territories largely unchanged, also needs to recognise that the community housing sector in Australia operates in a national context, under a National Regulatory System. The push over a number of years has been to create a national market and to encourage investment at scale to deliver good housing outcomes. A significant departure from current rent setting policy, unless mirrored across other jurisdictions, risks diluting the focus of the sector and its ability to operate nationally and, importantly, at scale.

² Social housing rental policy in Australia and overseas, McNelis and Bourke, AHURI Research Bulletin Issue 75 June 2006

Section 2 – Responses to questions in the Issues Paper

1. How should the safety net and opportunity tenant cohorts be defined? Are there additional cohorts or sub-cohorts with distinct characteristics and needs?

The broad definitions and criteria given in the Issues Paper between the ‘*safety net*’ and ‘*opportunity cohorts*’ are generally broadly appropriate, however it is likely to be significantly more complex in practice. For example people’s needs may change over time and they may move between various cohorts. Determining when you transit between the two broad cohorts may require more detailed assessment and some subjective assessment. There will also be circumstances with, for example, some youth not ever being suitable for the opportunity cohort and conversely some people with a disability pension being able to undertake work with the right support.

Capacity to transition to more independent housing models at a lower subsidy (opportunity cohort) will depend on capacity to secure additional income through employment. Hence the capacity to work, the support required to enable that and the stability of the employment once obtained are all relevant. Adjustments may need to be made for households with specific circumstances or additional needs.

For the safety net cohort the point of difference between people entering the social housing system and those entering other accommodation services provided by different tiers of Government (specialist disability accommodation, mental health programs such as HASI, aged care) is not well defined, reflecting how complex eligibility policy and determining the future capacity of individuals can be. Any consideration of equity arising from different eligibility and rent setting policies should also reference other human services systems that provide accommodation support for vulnerable low income people, predominantly people with a disability, a mental health issue or the frail aged.

In addition to the acknowledged deterrent of high effective marginal tax rates and loss of benefits for low income people entering the workforce there remain a number of significant other barriers which, unless addressed, will continue to inhibit the opportunity cohort from securing employment. Resourcing to address these issues will need to be delivered concurrently with any changes to rent setting or eligibility.

All opportunity working age cohorts - youth, single couple, parents - require access to appropriate training to enter or re-enter the workforce. All cohorts may require support to be linked to training or skill development matched to their individual circumstances. Many of the opportunity cohort may require assistance to link them to either pre-employment programs which provide training in literacy, numeracy, work force settings and behaviours, resume writing skills or vocational or other skills based training to provide them with the requisite skills for identified growth industries.

While there are a wide range of government subsidised programs at both a Federal and State Level and a number of not for profit social enterprises delivering these services, navigating the system to find the appropriate organisations is complex. Resourcing housing providers or specialists working with housing providers to undertake initial assessments and set education, employment or training goals with clients (and to then facilitate referrals to appropriate services) may increase the success rate significantly. In return for support clients would be required to agree to attend and complete courses. Research also shows that the provision of mentors particularly for the youth cohort, or support while undertaking training or work place experience to address any issues that may arise can increase rates of retention and

completion. Others may require access to specialised support to address underlying issues such as mental health, trauma or drug and alcohol abuse which may prevent them from securing employment.

Specialist sub cohorts

Aboriginal households

The age at which Aboriginal cohorts are considered elderly and fall into the “safety net cohort” will need to be lower commensurate with their current poorer health outcomes and life expectancy. Currently clients who have met the standard eligibility criteria for social housing may be approved for housing assistance as an elderly client if they are an Aboriginal person or Torres Strait Islander and aged 55 years and over.

Couples and single parents of working age with young children

This cohort often require access to subsidised quality childcare. For those with pre-school and primary aged children the ability to access affordable childcare is a significant barrier to obtaining employment. This is well researched and documented as a significant problem for those parents in the private market with significantly greater personal and financial resources seeking to return to the workforce.

Some jobs may enable part time hours which for parents of primary age children can provide flexibility. However often social housing is located in areas significant distances from employment centres entailing long commutes that may impact on a person’s capacity to meet standard part time hours without some access to after school care.

Provision of adequate funding/ resourcing to enable access to subsidised childcare is will be required for this sub group of the opportunity cohort.

2. Are there any other issues with the current social and affordable housing system in NSW that are relevant to designing the eligibility criteria and rent setting framework?

Ease of operating nationally

Consideration needs to be given to the intersection between rent setting policies and some of the broader objectives for the housing system in delivering affordable housing outcomes. Currently the CHP sector operates under a National Regulatory system. One of the objectives of moving to a national regulatory system (as opposed to various state based arrangements) was to facilitate institutional investment in affordable housing at scale. Institutional investors wish to operate across state jurisdictions to enable them to benefit from economies of scale and spread risk across diverse markets. Complementarity of policy settings also lowers the cost of business and compliance. Establishing rent setting approaches for NSW should consider any significant implications of those settings on the ease of housing providers to operate nationally, attract investment and minimise the costs of doing business.

Related industries

Consideration of rent setting and eligibility should extend to approaches in related sectors. For example the specialist disability sector, through the NDIS, is moving to a nationally consistent person centred subsidy for those needing specialist disability accommodation –SDA. The accommodation supplement is adjusted for locational/ housing market costs, will cover full lifecycle costs and is expected to stimulate

supply in the in the delivery of housing by the private and not for profit sector (including community housing providers). This approach strives to address the issue of adequate subsidies to balance affordability and financial sustainability and subsidies that stimulate growth in housing supply.

This and other social services sectors that provide accommodation should be examined to ensure that people with comparable needs but being serviced through different sectors receive similar (and appropriate) levels of support.

3. Do you agree with our proposed assessment criteria for the review?

4. Are some criteria more important than others, and why?

The criteria set out are reasonable however have not been weighted. There are three key criteria (which the more detailed criteria relate to):- *equity (horizontal and vertical)*, *affordability and financial viability/sustainability*. Essentially there are inherent conflicts between these three criteria and the objective must be to reach an acceptable balance between them. Financial sustainability should not be at the expense of affordability for those most vulnerable and vice versa.

5. Is it appropriate to more narrowly define the eligibility criteria for social housing to target people with the greatest need for this form of housing assistance? If so, how should the target group be defined?

From an equity perspective it is appropriate to target those with greatest need to receive a scarce resource, noting that the social housing system is already tightly targeted to those most in need. This however needs to be balanced against the availability and suitability of existing housing, including its location.

As research has demonstrated and the IPART Issues Paper notes on *page 37*, where the dwellings owned by social housing providers are concentrated in a particular location, eligibility criteria which tightly target housing to very low income households can entrench disadvantage. When that location is also distant from good transport and employment opportunities the disadvantage is compounded. Mixed income models are more conducive to community integration, expose tenants to models of successful education and employment and improve financial sustainability.

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.

6. What alternative assistance would be most effective for those applicants for social housing who meet the income threshold but do not have a priority need for housing?

It may be appropriate to divert those with the capacity to sustain an independent tenancy into the private rental market (including targeted affordable housing delivered by CHPs) with appropriate rental assistance. Priority housing is currently very tightly targeted. This means that there is a mix of household types on the wait turn list including those with economic needs who simply cannot afford or have difficulty accessing decent housing and relatively high need households who meet the income eligibility threshold but still require support to access and or sustain a tenancy.

To be successful and prevent people moving into or cycling back into homelessness this approach relies on:

- A sufficient supply of affordable rental housing.
- Affordable housing located in areas close to employment and services.
- Capacity to compete for that affordable housing in the private rental market.
- CRA assistance being sufficient to avoid lower income tenants paying unreasonable housing costs which leave them with insufficient income to meet reasonable living costs.
- Long term certainty around CRA (or some other accommodation subsidy).
- Sufficient security of tenure to access and maintain employment.
- Sufficient assistance to break barriers to entering the private rental market (such as rental brokerage services, loans for rental bonds and advance rent payments) and access to support to maintain tenancies (for example through resourcing of support services) to address underlying disadvantage.
- Provision of medium term rental assistance – tapered subsidy models with individualised support as a stepping stone to the private rental market (*see also answer to Q16*).

Affordable housing supply and demand

Currently there is a much higher demand for than supply of social and affordable housing, with low and moderate income households facing high levels of rental stress in NSW metropolitan and some regional markets. While recent State Government initiatives (eg SAHF and Communities Plus) are focussed on increasing supply these are insufficient to meet current and projected demand. Further provision is required. One way to do this could be through facilitating institutional investment in affordable housing (such as a bond aggregation model), lowering the cost of debt financing for community housing providers and generating an increased supply using policy levers available through the planning system (such as inclusionary zoning) to generate an affordable housing supply that can be effectively targeted and quarantined for low and moderate income earners.

Provision of a greater supply of subsidised and targeted affordable rental housing delivered in the NFP sector (with a charter to house low and moderate income eligible households and access to taxation concessions and CRA) overcomes the problems for low income households of competing in the private rental market for affordable housing described below. *[Note that to the extent that community housing providers are required to meet some of the cost of provision of an increased supply through debt or equity financing, the rental revenue required to service borrowings will determine the mix of low and moderate income households able to be housed. Models which seek to increase the proportions of lower income households housed in affordable housing must be cognisant of the impact on the capacity to service debt].*

Ability to compete for affordable housing in the private rental market

Housing research has identified that higher income earning households with the capacity to pay higher rents, who have been displaced from purchasing due to high housing costs, are occupying lower cost rental stock while they save for home ownership. Low income households, large families and Aboriginal and refugee households may face discrimination in an increasingly competitive market.

This can be mitigated in part through the augmentation of State funded private rental assistance such as:

- private rental brokerage services who develop a relationship with estate agents and which assist tenants to understand rights and responsibilities as a private renter, prepare applications, locate and secure rental stock, and connect with support services; and
- access to rental bond loans and rent assistance, plus tenancy guarantees (where the state will meet any legitimate damage costs over and above those not covered by bond) to overcome discrimination.

However, it should be recognised that these actions do not address supply side issues but assist low income households to compete for an increasingly limited pool of affordable housing stock.

Need for ongoing subsidy -Commonwealth Rent Assistance (CRA)

Provision of affordable housing through the private market will still require subsidies to make up the difference between capacity to pay and market rent. Current maximum rates for CRA payments are established at the national level. Analysis of housing affordability and CRA undertaken by AHURI³ demonstrates that regional differences in rents, household incomes and household sizes interacting with Australia wide settings for CRA result in considerable regional variances on affordability. In addition, growth in Centrelink payments are indexed to CPI and increases in CPI have not kept pace with increases in market rents. In Sydney this means that the rent levels at which the maximum CRA is payable are low for Sydney. While CRA is important in assisting in improved affordability in the private rental market for low income households, in the Sydney Metropolitan Area, even after the receipt of CRA, many households are paying >50% of their income in rent.⁴

CRA reform is required to address the issue of regional variations in market rent. Modelling undertaken by the AHURI RMIT-NATSEM Research Centre⁵ suggests that these concerns can be addressed to some degree by adjusting nation-wide rules of CRA rather than developing complex regional formulae. For example, an increase in the maximum rate of CRA would tend to improve housing affordability for those in metropolitan areas. An increase in the maximum amount of CRA payable and a concurrent decrease in the taper rate would result in some households in regional areas paying lower rents receiving less CRA and in metropolitan and some regional areas (where there are more people paying rents higher than the maximum entitlement) receiving more CRA. The interplay between CRA, rent setting and reform to CRA needs to be considered.

In thinking about the level of subsidy for each rent setting approach, options could involve income top up either through an increase in Centrelink payments for low income households, reforming CRA to reflect regional difference in housing costs, expanding access to CRA to public housing tenants, or providing an explicit subsidy to the tenant to meet the difference between market rents and a household rent based on income (capacity to pay) or a subsidy to the housing provider to meet the difference between ongoing

³ Housing Affordability and Commonwealth Rent Assistance , AHURI Research and Policy Bulletin, Melhuish, King &Taylor , Issue 59 August 2005

⁴ According to the Anglicare Snapshot Report of Housing Affordability in 2014, 18% of Sydney low income households remained in severe housing stress (paying more than half of their income in rent after receiving CRA.) Shelter NSW, Around the House no. 97, June 2014.

⁵ Housing Affordability and Commonwealth Rent Assistance , AHURI Research and Policy Bulletin, Melhuish, King &Taylor, Issue 59 August 2005

costs of providing social housing and households rents based on capacity to pay. *See further comments at Section 2 Questions 18 & 19 rent models.*

Private State Funded Rental Assistance for Medium Term Rental models

See also Q16

Medium term rental models (with a subsidy taper) target working age cohorts with the capacity to return to the workforce and maintain an independent tenancy over time. This type of model is currently rationed in NSW to Youth in pilot areas and Start Safely clients escaping domestic and family violence. They provide rental subsidies to meet the gap between a person's capacity to pay and market rent (for a private market rental product) with the amount of subsidy decreasing/tapering over a 3-5 year period to full market rent at the end of the period. Concurrent access to tailored support services and to support to assist tenants to access employment and training is provided.

These models are predicated on securing employment during the period of assistance to enable the tenant to progress to full market rent. Tenants agree on entry to a fixed term rent, to look for employment and to the requirement for agreed rental increases/ subsidy decreases. Rental increases provide for the tenant to retain some of the additional earnings to remove workforce disincentives.

These models, alongside Transitional Housing Plus) need to be formally evaluated to understand how effective they have been and any areas for improvement, such as consideration of extension of these models either as a stepping stone to discount to market rent (affordable housing) or private market housing, and the potential to broaden eligibility groups such as people who have lost income due to illness or trauma and those returning to the workforce after raising children.

These types of stepped models may be delivered through CHPs in long term leased or owned properties or the private market but will require additional subsidy where the gap between capacity to pay at maximised CRA rent and market rent cannot initially be met. Significantly these models have the potential to divert some people from entering social housing or assist them to exit social housing and are best suited to the opportunity cohort. Ongoing issues include the policy certainty of ongoing CRA and the cost of either providing funding upfront for a capital property or ongoing funding to cover the private rental subsidy for the duration of the term of assistance.

7. Should people receiving housing assistance have their eligibility for assistance reviewed as their circumstances change? What criteria should be used?

It is reasonable to expect levels of assistance to change relative to need. Criteria should include ability to return to workforce, age of children, ability to access childcare, carer responsibilities, medical requirements, stability of employment and additional income earned, mental and physical health. While it may seem appropriate to locate people of working age in locations with good access to employment often these locations will also be the ones with access to other services, such as health, that may also be required by those outside of the working age cohort.

8. What are appropriate transfer policy settings that take into account the principles of equity, and costs of transfers as well as the benefits?

9. Is the current income threshold for eligibility for public housing lease renewal set at the appropriate level? What are the pros and cons of reducing this threshold?

Two policy settings impact on the ability to exceed entry incomes at fixed lease renewal:

1. The eligibility policy guidelines which enable household income to increase by 60 percent before a household is deemed income ineligible for social housing; and
2. The Start Work Bonus which provides a grace period of up to 26 weeks (or 6 months) before additional income will be taken into account and rents increased.

The settings need to be viewed in the context of supporting capacity for people to be able to transition through the housing system to greater levels of housing independence with lower or no subsidy as circumstances improve. Modelling is required to determine what income it would be necessary to reach to be able to bridge the gap between a social housing rent and a discount to market affordable housing rent and/or private market median rent. This would need the setting of the income threshold for lease review to take into account:

- appropriate size dwelling for the particular household type;
- reasonable allowance for living costs (affordability benchmark what proportion of income can reasonably be devoted to housing costs (30%,35%,40%) relative to income and household size;
- impact of the ability to access a CRA payment in affordable or private market rental housing;
- the interaction of the welfare payment and taxation systems;
- providing sufficient incentive to take up employment and earn additional income;
- the housing market and median market rents and ability to continue to access employment from a location with affordable median market rent;
- ensuring employment obtained which has enabled the income increase is sustainable over a period of time ie not casual work or if casual sufficient certainty for regular access to this work (eg average income increase over a period of time).

Lowering the threshold before households are ineligible may both act as a disincentive to seek to gain employment and may result in households failing in the private rental market and cycling back into the social housing system through homelessness thereby incurring higher housing assistance costs.

It is not clear whether there has been any evaluation of the impact of the Start Work Bonus on the take up of employment. However, a 6 month period may not be unreasonable if tenants entering the workforce are:

- on probationary periods before securing employment; and
- need an opportunity to save to help meet higher rental costs in the private rental market; or to provide a buffer if once in the private market they experience rent increases or job loss and need savings to avoid re-entry to the housing assistance system.

Modelling should be undertaken to ascertain the size of the gap between the social housing lease renewal threshold and the capacity to pay a discount to market rent (affordable housing) or a median market rent to assist in informing policy settings.

10. Is the order in which clients are currently housed appropriate?

11. Is the prioritisation policy the most efficient given the current supply/demand imbalance?

Assistance should generally go to those with highest priority first but rely on an adequate supply of housing and appropriate subsidies that keep the cost of that housing affordable for tenants and reflect the true cost to housing providers of providing the housing. It may be more efficient in the longer term for some clients to live independently in the private rental market and bypass social housing altogether but only if the rental subsidies are sufficient, access is facilitated and tenure is more certain. The cost of medium term targeted assistance may be less than the long term cycling in and out of homelessness and related demands on the wider social services system.

12. Are the current assistance measures sufficient or are there additional assistance programs that could be offered? How can the assistance measures be targeted appropriately?

Demand side assistance needs to be complemented with greater supply side measures to grow the supply of social and affordable housing. Considerable work has been undertaken in the area of financing more Affordable Housing by the Council on Federal Financial Relations Affordable Housing Working Group⁶ and in various AHURI reports. Any implications/impact of proposed changes to eligibility and rent setting models on revenue streams and the ability of the sector to attract institutional investment should be understood in the context of this work. This report also notes, as have other reports cited in the IPART's Issues paper, the need for complementary taxation reform and of planning and zoning regulations to support the effective increase in affordable housing.

13. Could the current suite of assistance measures be simplified?

Yes Private rental assistance could be simplified by allowing assistance to be tailored to need. This would allow assistance to be packaged to reflect an individual's circumstances rather than programmatic. See also Q6 extension of medium term assistance above.

14. Are there any other options for changes to eligibility, prioritisation and wait list policies that could be considered for this review?

15. Is a segmented rental framework appropriate for social housing? Could it also be applied to Affordable Housing?

A segmented rental framework could be appropriate for social housing with income based rents being paid by those safety net households who are unlikely to increase earnings and discount to property based rents applied to the opportunity cohort above a certain rent threshold. However, to be effective it may rely on access to CRA for all social housing tenants in order for the opportunity cohort to be

⁶ Innovative Financing Models to improve the supply of Affordable Housing, Council on Federal Financial Relations, Affordable Housing working group Oct 2016

able to pay property based rents without unacceptable impacts on affordability, as the vast majority of social housing tenants are on statutory incomes. See also response to Q1. The cost and complexity of administering two systems would also need to be considered, as well as the complexity of determining who fits in which segment.

A segmented rental framework already applies to Affordable Housing. A mix of households with tenant incomes from very low to moderate income are housed within affordable housing. The Affordable Housing Ministerial Guidelines provide flexibility in the rent models used but require that consideration is given to affordability with households on very low and low incomes not paying more than 25-30% of their gross income in rent. A mix of property based and income based rents are used.

For the community housing sector which source debt financing to help fund the delivery of supply an important consideration is the flexibility to manage the mix/proportion of income groups to ensure that the overall income received is capable of servicing debt obligations over time.

16. Should a tapered subsidy model be considered for social housing and affordable housing in NSW? If so, should it only apply to a segment of the tenant cohort?

Further exploration of models, such as a tapered subsidy model that assist households to transition to greater independence, are supported. A tapered model is most suitable for the social housing 'opportunity cohort' who have the capacity to increase earnings over time. The period over which the rental subsidy is tapered to prepare people for the private rental market needs to realistically reflect the capacity to move from no or limited income to sufficient income to secure and maintain payment of at least median private market rental or in the case of transition to affordable housing a discount to market rent. It may also need to be varied to reflect wide and varied market rents. For example, a discount to market rent in an affordable housing unit in Penrith would be significantly different to the same discount applied to a unit in Ryde. .

There is some evidence to show that with the right support young people, women fleeing Domestic Violence and single parents returning to the work force can benefit from this approach and be assisted to secure housing in the private rental market. The Transitional Housing Plus program is yet to be formally evaluated and lessons learned from this model should also inform any consideration. Other cohorts such as people recovering from an illness that has prevented them from working or those in mid to late career made redundant and returning to the workforce may also benefit from this type of approach.

Concurrent person centred support

Any tapering program for rental subsidies (or stepping up in rent charged) must be delivered concurrently with adequate support to access services required to stabilise tenancies and build capacity (health and wellbeing support services) and to secure training and/or employment. Often initial employment able to be secured may be casual or temporary in nature and therefore any decision to taper a person's housing subsidy should not occur until there is evidence the employment is reasonably secure.

Ability to retain part of income increase to remove disincentives

People participating in this type of program should also be able to retain part of the increase in income before the reduction in subsidy occurs. This removes work disincentives and allows people to accumulate some additional funds which may be required to meet initial additional costs associated with working, such as purchase of work clothing, childcare and transport costs.

Mutual Obligation agreements

Tenants will need to be fully informed and sign agreements acknowledging they understand the intention to increase rents or reduce subsidies over time; agreeing to pursue training and employment opportunities and that in return they will receive support to access these opportunities.

Other barriers

Fixed term leases - Before community housing providers could employ a tapered model to social housing tenants they would need access to fixed term leases.

Affordability gap - For many social housing tenants in lower paid employment or impacted by casualisation of the workforce and underemployment, the gap between income earned and the cost of housing in the private rental market will mean that many clients may not be in a position to exit social housing without an ongoing subsidy. These households may be able to transition to affordable housing at a discount to market rent but potentially only in certain housing markets.

Loss of place on the social housing waitlist - Tenants in social housing (or on the social housing waiting list) who accept an affordable housing offer lose their ability to hold their place and/or maintain on the social housing waiting list, even though the affordable tenancy they are taking up may not be an enduring arrangement. The short term gain of receiving affordable housing may be unattractive compared to the long-term security of a social tenancy, despite potentially being housed sooner in a newly built property.

A client who occupies an affordable housing property at a discount to market rent which requires employment to generate sufficient income to meet that rent and who experiences financial hardship may lose their affordable tenancy and need to open a new application for social housing at the bottom of the waiting list. In addition in an affordable housing property once the maximum eligible threshold is met clients are not able to pay market rents currently but must exit. These policy settings should be reviewed.

Any further exploration of tapered models should be informed by an evaluation of current models, as well as modelling to look at the impacts on social housing revenue and business models.

17. Should social housing properties be able to transition to affordable housing?

Yes in principle as this would provide flexibility to transition for the opportunity cohort without losing ties to neighbourhood, schools, employment etc and could result in more mixed income communities in some locations. However flexibility must also be allowed for providers delivering assistance to return their portfolios to the requisite balance of social and affordable housing over a period of time. Currently this would be difficult given the funding agreements that sit around particular programs requiring properties to be used for specific purposes. There are also constraints due to the different

ownership arrangements of the social and affordable housing properties managed by individual providers. Greater flexibility would be required across portfolios and across different programs. To avoid loss of social housing this would also require financing, rental and subsidy models that generated sufficient revenue to meet replacement costs and generate new supply of social and affordable housing.

18. Which specific rent model options do you prefer and why? Does a specific option work for all types of tenant or only a specific cohort? How do the different options contribute to the financial sustainability of the system? What further work is required on elements of the rent calculation, including subsidies, for each option?

19. Do you think any of the rent model options are not worth assessing, and why?

The possible rent models proposed have the potential for significant impact on the community housing business model and on the subsidies that would be required to meet the objectives of affordability and sustainability. In essence many of the potential models are possible with the right amount of subsidy. The appetite of the Commonwealth and State Governments to the scale of reform of subsidy models will need to be tested to inform the practical consideration of various models. The impact of the proposed models on administrative efficiency, different cohorts, and in different locational settings also needs to be better understood. There has not been sufficient time for Evolve or the Community Housing Sector more broadly to model these potential impacts.

Given the complexity of the potential impacts and the relatively short period of time for consideration Evolve's approach has been not to rule in or out any rent models but to make initial comments on issues arising from the potential models (below) for further consideration, as part of the ongoing consultation and development of the draft Report proposed by IPART.

Evolve supports the key principles identified for any rent model established by the NSW Community Housing Federation following consultation with its members, including that any rent model must ensure:

- That the sector remains viable while providing essential landlord and tenant services including improving property condition, maintaining and creating mixed communities and delivering on improved outcomes for social housing tenants.
- Rents are affordable for tenants relative to need and the duration of that need.
- The model delivers stability, predictability in rental revenue and subsidy sources for providers.
- Administrative ease for providers and tenants.
- That it enables growth in the supply of social and affordable housing.

Residual Income Based Model⁹

This approach establishes a rent based on residual income after a notional budget for 'reasonable' living costs related to household size have been established. Notional low income and a moderate income budgets were established for AHURI research which modelled the application of residual rents. The final AHURI report which looked at this option concluded that if rents were set after taking into account budget

costs identified for lower income households they would need to be significantly lower for many public housing tenants. While this would increase affordability for those tenants it would lead to a further decline in incomes for housing providers compounding current viability problems. It also identified some inequities between household types in obtaining affordable rental in different tenures.

It is complex to set rents under this model as it requires determining appropriate living costs for all ranges of household types including the interplay with CRA and is likely to be administratively costly. Residual rents would need to adjust as household changes were made. This would mean difficulty in predicting rental revenue over time for providers. Under this approach there would still be the same workforce disincentives as it is an income based rent.

This approach is useful for illustrating current inequity amongst various household types and tenures using a more nuanced definition of affordability and demonstrating the need for income supplementation and/ or CRA for public housing tenants and the inability for social housing provider financial viability (given current relationship of income to housing costs) but is unlikely to be practical as a rent setting mechanism.

Unless there is change:

- in public housing targeting and eligibility to enable higher rents to be charged to other households to offset further loss of rental income (opposite to current tighter targeting);
- to achieve an increase in statutory incomes or CRA from the Commonwealth government (without a concurrent reduction in capital funding); or
- via an explicit subsidy paid direct to the provider from the state government (central agency) to make up the difference between property rents and household rents;

this option would result in increased affordability but further pressures being placed on provider viability.

It is also administratively complex; does not address workforce disincentives or increase choice for tenants or result in a change in equity relative to the amenity of dwellings occupied.

Cost Rent Model

This model is not related to income but the ongoing and replacement costs of housing with a focus on the financial sustainability of the system. It removes workforce disincentives as the rent is related to a fixed rent charge based on the costs of providing housing (replacement and ongoing costs over time.). Depending on how the cost is distributed across the pool of properties it may partially deal with the equity issue of properties with variable amenity, for example if the cost rent is calculated across a pool of dwellings and is pro-rata'd and takes into account quality, locational amenity and size of dwelling. In other models the overall cost may be distributed across the pool of dwellings and does not address directly address individual amenity issues. However, as Centrelink beneficiaries make up more than 90 percent of social housing tenants across the various social housing providers they are unlikely to be able to afford these additional costs without an explicit subsidy. Even with rent settings set to capture 100 percent of CRA in the community housing sector for social housing tenants this is insufficient to cover replacement costs.

In the UK where cost rent is applied an explicit subsidy, the housing benefit, is paid to the tenant to assist in making up the difference between cost rent and capacity to pay based on income and household size and capped benchmark rents.

This option does address workforce disincentive (as rent cost is separated from income and *does not change with tenant income*). It may or may not address amenity depending on how applied. An explicit subsidy from Government to ensure affordability as well as viability issues are able to be addressed is required.

Hybrid household-property rental options

Industry Commission Fixed subsidy model

This model attempts to provide greater choice to tenants and to deliver horizontal equity by segmenting households of similar size with similar incomes to receive a fixed subsidy.

It assigns a market rent based on all the average market rents for all suitable dwellings in a portfolio or location .e.g. 2 bedroom dwellings for couples. The fixed subsidy is set at the difference between the average market rent for a deemed appropriate dwelling size in a location minus 25% of income. If households chose a better house that is priced above the average rent they can elect to pay more if they choose a below average priced house they may be compensated financially with a cheaper rent as the subsidy remains fixed.

In theory this sounds equitable and takes account of differences in property amenity. However it assumes equal access to a pool of average priced and similar amenity housing. In practice it is likely that in certain housing markets there is a greater or lesser pool of high quality social housing dwellings so that there may not be an effective amenity choice. In addition, a full pool of housing types may not be available at the same time to select from to allow people to make an effective choice. For example very large families may effectively have a limited choice or, as has been demonstrated with the bedroom charge in NSW, there may be limited alternate smaller housing stock to move to. It is also likely that for each household type 'allocated bedroom size' a range of incomes may be able to be earned.

The model would result in an increased rent with increased income. Administration also needs to take into account vertical equity as it is likely that for those on very low incomes the capacity to make trade offs is substantially less than those on higher incomes who can effectively compete for the same dwellings, unless the allocation system also takes into account need. This is what currently happens in the private rental market with higher income earning households who should theoretically be occupying higher rental properties occupying lower cost rental housing while they save for homes.

In the English system of choice based letting - bids made by tenants for available properties -the applicant with the highest need capable of paying for the property is given first right of refusal⁷ There may also need to be segmentation of available dwellings, for example adapted housing only available to disabled clients or disabled clients first.

⁷ Shelter England and Scotland website [england.shelter.org.uk/choice based letting schemes](http://england.shelter.org.uk/choice-based-letting-schemes)

While rent models which provide greater choice for tenants and which reflect amenity are supported in principle for social housing and affordable housing this would require further consideration to ensure:

- adequate safe guards to achieve vertical equity;
- pool of available dwellings provides real choice;
- modelling of the likely impact on household types and income groups (including the subsidy is sufficient to ensure affordability);
- modelling to ensure costs to establish and administer doesn't outweigh benefits;
- centralised and consistent system to segment households and establish and index market rents; and
- sufficient resourcing to implement systems which make administration of implementing choice of dwelling easily accessible for clients and able to be efficiently administered by housing providers.

Fixed property based amenity charges

This may be a simpler system to administer than the example above. For example the current vacant bedroom charge is simpler to administer because it only deals with one aspect of amenity and applies a fixed rule about entitlement to bedroom numbers applicable to a household size (including age and sex of children) which is applied consistently across all housing and households. As noted in the issues paper this has still had some difficulties in application due to a limited number of smaller dwellings. Other amenity aspects such as number of bathrooms may also be more easily 'valued' and allocated e.g. for household above a certain size more than one bathroom is deemed appropriate. However, any amenity issues will need to take account of community wide changing amenity expectations. There may also be conflicting priorities or perverse outcomes, for example encouraging households to improve circumstances such as seek housing with sufficient space to enable children to study effectively and improve educational outcomes where additional space may attract an amenity cost.

While differentiation according to amenity is supported in principle practical application needs to be further explored. Consideration needs to be given to the stock of housing available where an amenity charge is proposed to ensure there is real capacity for choice. Further modelling on the cost of establishing and administering amenity charges versus the additional income that may be earned and the capacity to better allocate housing to meet a higher proportion of households in housing need is required.

20.If an income-based rent model is retained, should percentage of household income used to calculate social housing rent be changed?

Any approach to increasing income based rents would need to segment the client group to understand the impact of this change on individual households. As noted in this report, a number of studies have indicated that for those on very low incomes (lowest 20%) even rentals set at a rate of 25% of income may lead to hardship after other essential costs are taken into account.⁸

This consideration should also apply to *Questions 21 and 22*.

For households nearing the top of the income eligibility threshold for social housing it may be appropriate for them to be charged more than those at the bottom, however the administrative complexity and cost of

⁸ AHURI , The Residual Income Method : a new lens on housing affordability and market behaviours Oct 2011

such a system must also be considered. From a system wide equity perspective there are many households in equal need in the private rental market currently paying 40-60% of their incomes in household rent after CRA. The work undertaken by AHURI as part of examining a residual income method for social housing rent setting⁹ tested in the Victorian public housing system is illustrative. It found that there may be some particular household types at the top of the income eligibility bands that have greater disposable income than others after paying a flat rent. However that the number where a rent increase may be acceptable on affordability terms, and could contribute to revenue, would be negated by those lower income households requiring a reduction under the same approach.

Further it may send a mixed message and create welfare traps if households are being encouraged to increase their earning to assist them to transition over time to more independent housing but sharper rent tapers are applied.

The report notes that the affordability problem is as much about low income and income support programs as it is about rents. The principle should be that sustainability of the system should not come at the expense of affordability for vulnerable households.

21.If an income-based rent model is retained should payments such as Family Tax Benefits Part A and B be assessed at the same rate as income from other sources?

See more detailed comments at Q22 below.

22.If an income-based rent model is retained, should currently exempt income supplements be included in assessable household income?

The work undertaken as part of the exploration of the impact of a residual income method to determine affordability undertaken by AHURI¹⁰ concluded that for very low income households even 25% of rent in the public housing system meant that these households still had an affordability problem as this left them with insufficient income to meet other essential costs. This suggests that increasing the proportion of rent paid by assessing income to include benefits currently assessed at a concessional rate (Family Benefit Tax A and B) and removing exemptions to include some other currently excluded payments (war service, foster care and disability allowances), even where it notionally does not compromise the 30% affordability benchmark (30:40 rule), may increase the financial sustainability of the housing system but at the expense of affordability for those households already experiencing significant disadvantage.

Segmentation of some households so that this approach was applied to those with greater incomes may be more equitable but as Centrelink beneficiaries make up a very high proportion of social housing tenants the costs of implementing and administering this for a small proportion of higher income earners would need to be considered against the amount of increased rental revenue able to be obtained.

Further modelling would be required for NSW circumstances and an evaluation of the success and costs of this approach in Queensland and Western Australia.

The findings of the AHURI work also illustrated that the degree to which housing affordability is a problem is as much about low income and income distribution as it is about housing costs.

⁹ Ibid pg 5 & pg,57-60

¹⁰ ibid

23.If an income-based rent model is retained, should income from work be assessed on an after-tax basis?

Assessing rent on an after tax basis may assist in removing workforce disincentives. Evidence of the impact of this option should be sought from Queensland where this has been implemented to assess the impact of this in removing any disincentives relative to the costs of its introduction.

24.If an income-based rent model is retained, what other possible improvements to the current rental model should we assess?

A proposed additional charge to reflect security of tenure for those remaining in social housing but earning over the maximum threshold and electing to pay a market rent over a long period of time could be explored. The positive outcomes may be an increase in rental revenue to assist with sustainability and/or a freeing up of some stock however, there are a relatively small number of households paying market rent of less than 10%, and the administrative costs of implementation would need to be weighed up against benefits.

One consequence of such a change may be that those households which are currently improving the financial viability of the system and of providers (via payment of market rent) exit. The reasons for the choice to remain needs to be better understood (eg house modified for disability, close to specialist health care) and may mean there is not real choice in the market to provide consideration for exemptions or that there is limited supply of the same type of housing in the location. The other undesirable outcome would be an increased concentration of disadvantaged households with their inherent wider costs on the social services system. Policy settings such as the tightening of eligibility criteria to target those most disadvantaged will drive this outcome unless households are housed in mixed communities or in mixed income blocks.

25.What are your views on automatic deduction of rent? Are there other options to make rent collection more efficient?

Automatic deduction of rent from welfare entitlements is currently an 'opt in' option for tenants. Evolve has noted in previous submissions that this option may reduce the likelihood of tenants falling into rental arrears and the costs to providers of pursuing rental arrears. Evolve has also noted in previous submissions that tenants choosing this option may currently, at any time, elect to cancel the rent entitlements being deducted from Centrelink benefits. Some tenants do this to address cash flow problems and cancelling rent payments in a personal financial crisis is rarely in either the tenant's or social housing system's interest with tenants often falling into unmanageable arrears and debt that may threaten their tenancy and can ultimately lead to tenancies being terminated.

An option to address this would be to require notification by Centrelink of the tenant's intention to cancel deductions prior to implementing cancellation. This would provide the opportunity for the housing provider to work with the tenant to ensure that they are aware of the range of programs available to help them sustain their tenancy It would also provide an opportunity for the provider to address any underlying issues (mental health etc) that may be impacting on their ability to meet rental payments.



Evolve also notes the importance of access to programs for tenants on money management and budgeting that enable them to avoid or stabilise and reduce rent arrears over time.