



Independent Pricing and Regulatory Tribunal
New South Wales

Review of rent models for social and affordable housing

Final Report
Special Reviews

July 2017



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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

Inquiries regarding this document should be directed to a staff member:

Jennifer Vincent (02) 9290 8418

Heather Dear (02) 9290 8481

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1 Executive summary

Social housing¹ is a vital service underpinning the social good of NSW. But, as widely recognised, the social housing system is beset by challenges that limit 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 social housing providers, including the NSW Government. This means 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, private housing costs have climbed much faster than household incomes over the past decade. This has contributed to a growing problem with private housing affordability in the broader community. This problem has also increased the demand for social housing. There are now almost 60,000 households on the waiting list for social housing in NSW. The emergence of government-subsidised affordable housing² has done little to address this problem.

To help address the 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 Government's 10-year strategy for social housing, *Future Directions for Social Housing in NSW* ('*Future Directions*'), released in January 2016.³ It focuses on the framework for setting rents for social and affordable housing, and the policies and processes for allocating housing assistance in NSW.

The broader issue of private housing affordability⁴ is outside the scope of our review. The NSW Government recently announced a package of measures designed to improve housing affordability across NSW.⁵

This report explains the findings and recommendations of our review, and identifies where and why they differ from those proposed in our Draft Report.

¹ **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.

² **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.

³ NSW Government, *Future Directions for Social Housing in NSW*, January 2016.

⁴ Many factors influence private housing affordability. These factors include 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).

⁵ NSW Government, A fair go for first home buyers, <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/first-home-buyers/>, accessed 8 June 2017.

1.1 Objectives for this review

Our aim for this review is to recommend changes to the framework for setting rents for social and affordable housing that support a housing assistance 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.

1.2 Overview of our findings and recommendations

In line with our Draft Report, we 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.⁶ 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.

To assist those most in need, we consider that government should focus available funding on social housing and alternative assistance for households in the lowest income groups.

⁶ Housing providers already calculate market rent for their social housing properties (and a small percentage of tenants currently pay market rent).

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 these have the potential to be implemented more widely to assist more households in the short to medium term, and to avoid some of the need for longer term social housing.

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.

However, we recognise that the social housing system cannot be fixed overnight. Developing the right housing stock in the right places may take many years, and some of our recommendations have been modified since the Draft Report to assist the transition.

1.2.1 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 very low incomes,⁷ so to be affordable, the rent (once paid) must leave sufficient income to cover their other essential costs. There is 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.

However, on average, tenants currently pay around 23% of their household income rather than the nominal rate of 25%, due to exempt or concessionally treated sources of income. We are recommending two of these sources – the Pension Supplement and Family Tax Benefit Parts A and B – be included in the rent contribution calculation at the rate of 25%⁸ to improve equity between tenants. We have modified this recommendation in response to stakeholder feedback, to improve its clarity and simplicity.

To manage the impact on tenants, we are recommending that the rate at which the Pension Supplement and Family Tax Benefits are included in rent be phased in over five years. We have also modified this recommendation in response to stakeholder feedback, to provide for a simpler, more equitable transition. Once fully implemented, the inclusion of these income sources should increase the total tenant rent contribution by approximately \$80 million per annum.⁹

⁷ 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.

⁸ The Pension Supplement is currently not included in the rent calculation; Family Tax Benefits are included but at the concessional rate of 15%.

⁹ We have revised our estimate from the Draft Report (\$70m pa) as we have further information on recipients of the pension supplement.

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.

1.2.2 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. These are funded by the Commonwealth Government via national housing agreement funding, by Commonwealth Rent Assistance payments to tenants (which are passed through to CHPs) and by the NSW Government.

However, these subsidies do not cover the difference between tenants' rent contribution and the efficient costs of providing social housing. There is a significant funding gap, which has widened over the past two decades due to declining rent revenue and increasing market rents. In addition, the gap has been exacerbated for the NSW Government by declining Commonwealth grant funding. This gap is paid for 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. It has resulted in the supply of social housing not keeping pace with demand, and has not allowed 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 for placing social housing on a financially sustainable footing is for government to fund the full difference between the tenants' rent 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 provides 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 current difference between tenant rent contributions and market rent is \$945 million¹⁰ 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

¹⁰ Our Draft Report estimated the gap as in the order of \$950 million. The difference results from an updated estimate of additional tenant contribution from including the pension supplement as assessable income for rent calculation purposes.

- ▼ the total tenant rent contribution increases slightly in response to the inclusion of the Pensioner Supplement and Family Tax Benefits at the non-concessional rate 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.

1.2.3 Appropriate governance framework is 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:

- ▼ The Government establish a purchaser-provider framework with clear separation between policy and housing delivery:
 - Family and Community Services (FACS) would undertake policy, planning and purchasing functions for social housing, and
 - housing providers would undertake tenancy and/or asset management functions under contracts with FACS.

Contracting out housing delivery should aim to deliver better outcomes for tenants and taxpayers by encouraging innovative arrangements that deliver services more efficiently. For example, some contracts could bundle tenant support services with asset and tenancy management.

- ▼ FACS develop a Social Housing Strategy, and update it 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. In doing so, the Strategy would focus in the short term on housing priority applicants and developing sufficient stock to rehouse existing tenants who are identified as being in unsuitable housing. Through the Strategy, the Government would have a mechanism to consider and update eligibility criteria over time, and to allocate differential subsidies to encourage socio-economic diversity.

Under our recommendations, housing providers could include both Government providers and non-Government providers. Currently, the Government providers include the Land and Housing Corporation (LAHC) as an asset manager, and FACS as a tenancy manager, while the non-Government providers include not-for-profit CHPs, which may be tenancy managers or asset and tenancy managers. Under our proposal, the Government housing providers could manage tenancies and/or assets, but would be independent of the Government agency responsible for developing policies, undertaking planning and purchasing of social housing.

The new purchaser-provider framework would put governance and funding arrangements in place that allow Government and community housing providers to operate on an equal

footing. In our Draft Report, we recommended that LAHC be placed on a commercial footing as a first step, and the remaining housing providers be transitioned to the sustainable funding model over a 4-year period, but we have removed this recommendation in response to stakeholder concerns that it would put CHPs at a disadvantage.

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.

1.2.4 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 the main disincentives for employment are the fear of losing access to social housing and the higher rent contributions when a tenant's income increases as a result of employment.

The current fixed-term lease agreements in public housing are a particular issue because tenants fear their lease will not be renewed if their income increases. To address this, we are recommending all social housing tenants have continued access to housing but that their lease arrangements:

- ▼ be based on a formal FACS policy that establishes that a tenant's eligibility for social housing means they have continued access to a suitable dwelling that meets their household's needs and characteristics, rather than a specific dwelling.
- ▼ be reviewed at least every three years to assess whether the dwelling continues to be suitable for the tenant's needs and characteristics.
- ▼ provide that if their income exceeds the subsidy threshold they will pay market rent plus 5% to reflect the additional security social housing provides.

To further strengthen incentives for workforce participation and discourage dependence on social housing, we are also recommending:

- ▼ 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 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, and
- ▼ the extended use of private rental subsidies to divert people from social housing and transition people out of social housing, where appropriate.

These recommendations are substantially the same as those in our Draft Report. In response to that report, the NSW Government questioned whether continuous access to social

housing is in fact likely to increase employment. It also expressed concern that this recommendation (and the 'right of return' recommendation) would unfairly impact people waiting for social housing. Other stakeholders did not support the recommendation that tenants who are not eligible for a rental subsidy pay a premium of 5% on top of market rent to reflect the added security of social housing.

We consider that the overall potential to increase employment rates among existing social housing tenants is low, given that a large proportion of this cohort is on aged, carer or disability pensions. However, for tenants with the capacity to work, there is evidence that the risk of losing housing security acts as a disincentive for workforce participation and increasing income. Allowing tenants to remain in social housing when they are no longer eligible for a rental subsidy removes this risk, and so strengthens their incentives to take up work opportunities. This in turn increases the potential for tenants to be able to transition to the private rental market.

By charging a small premium above market rent (5%), tenants above the subsidy threshold have a modest incentive to move out of social housing. To the extent this occurs, it is consistent with the NSW Government's commitment to ensuring that those who can achieve independent housing do so. However, under our recommendation they are not being forced out once their income exceeds the threshold.

We note that the proportion of tenants affected by our recommended premium over market rent is small. We estimate that less than 5% of social housing tenants currently pay market rent as their income is above the eligible level for receiving a subsidy.

We also consider that the evidence is clear that secure and stable social housing has a positive effect on employment outcomes,¹¹ and is therefore more likely to provide a pathway for those who can achieve independent private housing to do so, allowing social housing places to be allocated to tenants in need of more support.

1.2.5 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 suitable properties, 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.

¹¹ For example, Productivity Commission, *Housing Assistance and Employment in Australia – research paper*, April 2015, p 35.

We are recommending that this 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.

In our Draft Report, we proposed that as part of this system, existing tenants identified as being in unsuitable housing be prioritised first, and applicants in urgent need of housing second. Stakeholders strongly opposed this, arguing that it would result in applicants in urgent need spending longer times on the waiting list or in unsuitable temporary accommodation.

We consider that in a housing system where the housing stock largely reflects the needs of its tenants, prioritising existing tenants in unsuitable housing first would optimise the use of the social housing stock without substantially increasing waiting times for the priority applicants. However, NSW's current social housing stock does not reflect tenants' needs. In particular, the demand for one-bedroom properties is significantly higher than the supply. Our analysis indicated that with this mismatch in supply and demand, our proposal would mean priority applicants eligible for a one-bedroom property could remain on the waiting list indefinitely.

For this reason, we are recommending that, in the short term, the system continue to prioritise applicants in urgent need of housing first. However, in the longer term, when the stock of social housing stock more closely matches tenant needs, we are recommending the system aim to both optimise use of social housing stock and minimise waiting times for priority applicants.

Stakeholders also argued that, within the system, tenancy managers should be able to play an active role in allocating their properties. We are recommending this role be negotiated with the NSW Government, and be limited (for Government-subsidised tenancies) to tenancy managers advertising their properties to selected applicants from the shortlist provided by the centralised matching and allocation process.

1.2.6 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.

1.2.7 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.

Many stakeholders objected to this recommendation,¹² arguing that the private housing market is unaffordable for a much larger group of people than those who would be eligible for social housing. On this basis, they argued that subsidised affordable housing is required to serve this cohort, as well as to provide a transition path out of social housing. However, we consider the affordability of the private housing market is a much broader issue than can be addressed by social housing, or Government subsidies. Rather, housing affordability can and should be addressed by a range of measures - including government tax, regulation and policy settings - which are outside the scope of this review. As noted above, the NSW Government recently announced a package of measures designed to improve housing affordability across NSW.

1.3 Consultation during our review

In undertaking this review, we conducted public consultation as well as detailed analysis. We:

- ▼ Held preliminary discussions at the commencement of our review with some stakeholders.
- ▼ Released an Issues Paper on 7 November 2016 outlining our proposed approach to the review and invited comment; considered all submissions to our Issues Paper and undertook analysis to develop our draft recommendations.
- ▼ Released a Draft Report on 11 April 2017 detailing our draft recommendations and invited comment.
- ▼ Held public forums in Dubbo on 2 May and Sydney on 9 May 2017.
- ▼ Undertook a survey of public housing and AHO tenants. Invitations to take part in the survey were sent to 25,000 tenants. A total of 2,209 usable replies were received.

In finalising our recommendations, we considered survey responses, comments at public forums and submissions to our Draft Report.

¹² For example, NCOSS submission to IPART Draft Report, pp 5-6; Yfoundations submission to IPART Draft Report, pp 22-23; Homelessness NSW submission to IPART Draft Report, p 3.

1.4 Structure of this report

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

- ▼ Chapter 2 discusses the context for our review
- ▼ Chapter 3 discusses our recommendations and findings on affordable and equitable tenant rent contributions
- ▼ Chapter 4 discusses our recommendations on ensuring the social housing system is financially sustainable
- ▼ Chapter 5 discusses our recommendations on incentives for workforce participation
- ▼ Chapter 6 discusses our recommendations on improving the allocation system so that tenants' needs are better matched to housing
- ▼ Chapter 7 discusses our recommendations on rent models for Aboriginal Housing
- ▼ Chapter 8 discusses our recommendations on affordable housing, and
- ▼ Appendices A-E set out:
 - Terms of reference
 - A list of submissions received on our Draft Report
 - 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.

1.5 List of findings and recommendations

Findings

- | | | |
|---|--|----|
| 1 | An income-based tenant rent contribution is the best option to ensure affordability for tenants. | 26 |
| 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. | 28 |
| 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. | 39 |
| 4 | That if Commonwealth Rent Assistance (CRA) were increased by 15% and extended to public housing tenants as well as community housing tenants, as recommended by the Productivity Commission's Draft Report, the total CRA contribution to current social housing tenants in NSW in 2015-16 would have been around \$550 million, up from \$94 million. | 49 |

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- 5 The weekly household income thresholds for entry to social housing which target households with very low income are appropriate; the same cohort should continue to be eligible for social housing under our recommendations. 58
 - 6 The gap in affordability between social housing and private rental housing cannot be solved through a subsidy mechanism, such as those used to fund subsidised affordable housing schemes. 94

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 housing provided by social housing compared to private rental. 33
- 2 To ensure that social housing is provided to those most in need, that the subsidy eligibility thresholds be frozen at current levels until an independent evaluation of the Social Housing Strategy is carried out, after the first five years of the Strategy's implementation. 33
- 3 To improve equity between social housing tenants, that FACS revise its *Tenancy Charges and Account Management Policy Supplement* to: 38
 - assess Family Tax Benefits Parts A and B at 25% in the calculation of rent payable for social housing (instead of 15%), and 38
 - include the Pension Supplement in the calculation of rent payable for social housing. 38
- 4 To phase in the impact of Recommendation 3, that the Pension Supplement and Family Tax Benefits Parts A and B be assessed in the calculation of rent payable for social housing at: 38
 - Year 1: 15% 38
 - Year 2: 17.5% 38
 - Year 3: 20% 38
 - Year 4: 22.5% 38
 - Year 5: 25%. 38
- 5 To support a financially sustainable social housing system, the NSW Government provide an annual explicit subsidy equivalent to the difference between: 43
 - market rent for the social housing system, and 43
 - the total tenant rent contribution (including Commonwealth Rent Assistance if applicable). 43
- 6 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. 43
- 7 That a purchaser-provider framework be implemented for social housing in NSW, with FACS responsible for policy, planning and purchasing social housing services with

	housing providers. The contracting out framework should deliver better outcomes for tenants and taxpayers by encouraging innovative arrangements that deliver services more efficiently.	50
8	That the policy, planning and purchasing for social housing be independent of all delivery of asset management and tenancy management services. This would require both LAHC and FACS' tenancy management services to move out of FACS' organisational structure and be accountable to a different Minister from FACS.	50
9	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 social housing services to be delivered across NSW over the next three to five years by location, size and type. In doing so, the Strategy would focus in the short term on housing priority applicants and developing sufficient stock to rehouse existing tenants who are identified as being in unsuitable housing. Through the Strategy, the Government would have a mechanism to consider and update eligibility criteria over time, and to allocate differential subsidies to encourage socio-economic diversity.	50
10	That FACS develop performance indicators for the Social Housing Strategy and report on these annually as part of its Annual Report.	50
11	That an independent evaluation be carried out and reported publicly every five years on the effectiveness of the Social Housing Strategy.	50
12	That FACS enter into long-term contracts with housing providers (both government and CHPs) to deliver government-subsidised social housing services as set out in the Social Housing Strategy.	54
13	That the contracts between FACS and housing providers for government-subsidised social housing services be competitively tendered.	54
14	That FACS include the Pension Supplement as income for determining eligibility for social housing at entry, and add the maximum Pension Supplement for a single person to the income threshold for each adult to ensure this does not impact the eligibility of household types that would currently be eligible.	58
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.	62
16	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.	65
17	That all social housing tenancy agreements be reviewed periodically (at least every three years) to assess whether the dwelling continues to be suitable for the tenant's needs and characteristics.	65

18	That FACS develop lease arrangements that facilitate tenants' continued access to suitable housing rather than to a specific dwelling.	65
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.	67
20	That, following the six-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:	67
	– 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	67
	– Stay in the social housing property and pay the full property rent without subsidy (market rent) plus 5% to reflect the security of housing provided by social housing.	67
21	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.	69
22	That FACS redesign the waiting list allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities.	72
23	That the priority order for allocating properties to those on the waiting list change over time so:	76
a)	in the short term, while the supply of appropriately sized properties is constrained, it is:	76
	– applicants in the priority category first	76
	– existing tenants identified in unsuitable social housing second, and	76
	– applicants and existing tenants in the general category third.	76
b)	in the longer term, as the social housing stock more closely matches tenant needs, this order is adjusted so existing tenants identified as in unsuitable housing are allocated earlier, with the aim of concurrently optimising the use of the social housing stock and managing waiting times for priority applicants.	76
24	That the role of a community housing provider in the allocation process should be negotiated with the NSW Government when entering into a contract to provide government-subsidised housing services, and should be limited to advertising their properties to selected applicants, from the shortlist provided by the centralised matching process and the subsequent allocation of properties to households.	77
25	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.	88
26	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.	88
27	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 22).	89
28	That the NSW Government focus housing assistance on providing social housing and other housing assistance products to people on very low to low incomes.	92
29	That the NSW Government not impose any new requirements on existing affordable housing schemes.	93

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 used 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.¹³ 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 (AHO) 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.¹⁴ The time households spend on the waiting list varies greatly, depending on location and whether an applicant is assessed as in the priority

¹³ FACS website, <http://www.housing.nsw.gov.au/social-housing>, accessed 30 March 2017.

¹⁴ FACS website, *Expected Waiting Times for Social Housing June 2016 - Overview*, accessed 30 March 2017.

or general 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.¹⁵ However, general category applicants can expect to wait up to 10 years or more in some areas.¹⁶

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.¹⁷

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 (Box 2.2). 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.

¹⁵ FACS, *Annual Report 2015-16*, p 31 (priority applicants); Internal FACS data (general applicants).

¹⁶ FACS website, [Expected Waiting Times for Social Housing June 2016 - Overview](#), accessed 30 March 2017.

¹⁷ IPART, *Review of rent models for social and affordable housing – Issues Paper*, November 2016, Chapters 2 and 3.

Box 2.2 Previous and current reviews of housing assistance

Recent reviews and reform proposals that are relevant to our review include:

- ▼ *Australia's Future Tax System* (the 'Henry Review' - Final Report, 2010), which investigated housing assistance provided by the Commonwealth to individuals and States as part of its remit.
- ▼ *Making the best use of public housing* (NSW Auditor-General's Report – 2013), which identified a large and increasing shortfall between rental income and costs of providing public housing.
- ▼ *Towards Responsible Government* (National Commission of Audit Report – 2014), which recommended that the Commonwealth limit its involvement in housing to providing rent assistance payments.
- ▼ *A New System for Better Employment and Social Outcomes* (the 'McClure Review' – Final Report 2015), which made similar recommendations to the Henry Review in terms of making housing assistance more equitable and needs-based.
- ▼ *Housing Assistance and Employment in Australia* (Productivity Commission Research Paper – 2015) undertook an empirical study of housing assistance and its impact on employment.
- ▼ The Productivity Commission's current inquiry into the increased application of competition, contestability and informed user choice into human services, including social housing. In its Draft Report released on 2 June 2017, the Commission proposed a single model of financial assistance applied across social and private housing, based on an increase and extension to Commonwealth Rent Assistance. The Commission also proposed a move to market rents for tenants in social housing, with State and Territory Governments providing an additional payment for private or social tenants with a demonstrated need.

Many other papers published by research groups such as the Australian Housing and Urban Research Institute (AHURI) and stakeholders such as the Federation of Housing Associations and National Shelter have also dealt with issues of rent affordability and work disincentives associated with income-based rent models.

2.2.1 Perception that income-based rents may be a workforce disincentive

Many previous studies have argued that housing assistance, in particular rent models based on income, is a disincentive to employment.¹⁸ 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.¹⁹

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.

¹⁸ 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.

¹⁹ 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

Tenants' main source of income has changed since the 1960s, when wages were the primary income source for 85% of public housing tenants. Today, around 95% of subsidised public housing tenants rely on Centrelink benefits, and wages are the main source of income for only around 5%.²⁰ This change has resulted in declining revenue from income-based rent.

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 Commonwealth grant funding.²¹

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, an increase of almost 15,000 since June 2007.²² This growth in demand is due partly to population growth, and partly to cost increases in the private housing market in urban areas, which are making private rental increasingly unaffordable for low-income households.

In addition, people are staying longer in social housing. More than half of public housing tenants have been tenants for longer than 10 years.²³ 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, 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 5,000.²⁴

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 couples with children. However, in 2016, 55% of tenants were single person households, and couples with children comprised only 4%.²⁵ This mismatch between the current housing stock and tenant requirements has developed over decades and is resulting in underutilisation of properties, fewer people being housed, declining rent revenues, and a widening funding gap.

²⁰ FACS, *Social Housing in NSW: a discussion paper for input and comment*, November 2014, p 60.

²¹ NSW Auditor-General, *Performance Audit: Making the best use of public housing*, July 2013, pp 18-22.

²² Internal FACS data.

²³ Internal FACS data.

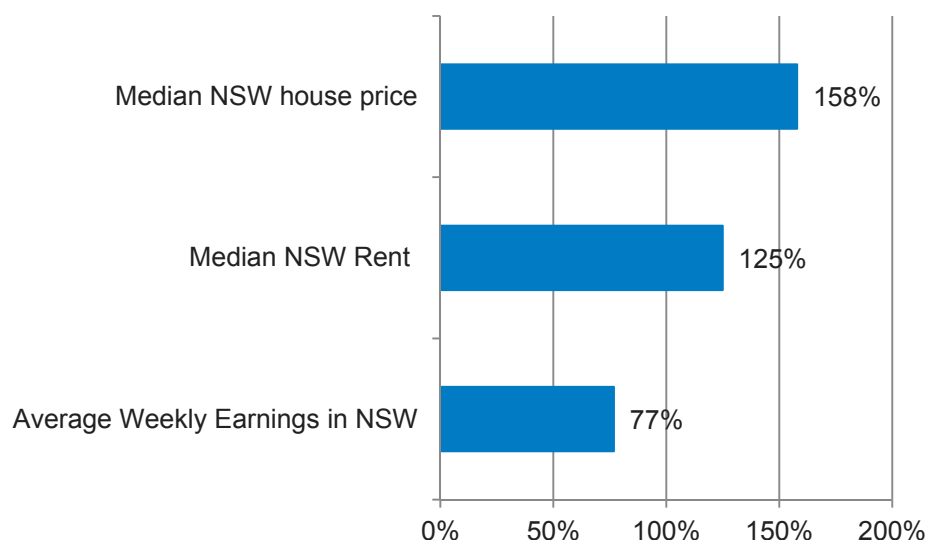
²⁴ Internal FACS data.

²⁵ Internal FACS data.

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 growing faster than wages over the past decade, and this is reducing housing affordability.²⁶ 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, 2000-16)



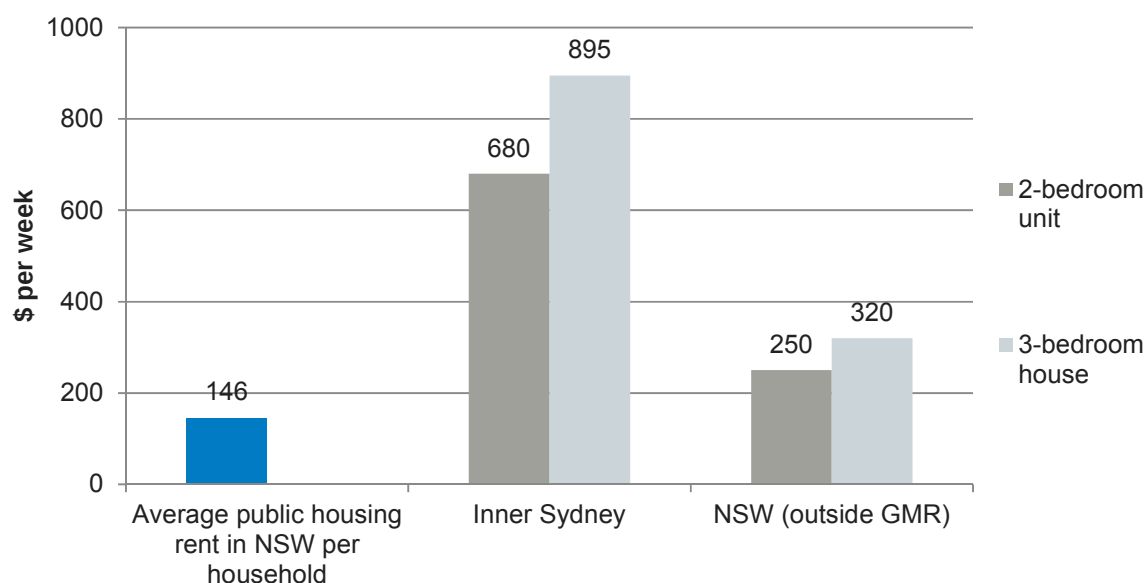
Note: Average Weekly Earnings are total earnings for males and females.

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.

²⁶ 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.²⁷ IPART made similar observations and recommendations regarding stamp duty and land tax in a review of State Taxation we completed in 2008.²⁸

State and local government planning policies and procedures can also affect the responsiveness and cost of new housing supply.

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:

²⁷ Australian Government, *Australia's future tax system, Report to the Treasurer*, December 2009; Part 2 – Detailed analysis, Vol. 2, section E4.

²⁸ IPART, *Review of State Taxation – Report to the Treasurer – Final Report*, October 2008, Chapter 1.

-
- ▼ 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 was our approach for reaching 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 the “deficit” connotation of ‘safety net’ and ‘opportunity’ groups.²⁹ Evolve Housing submitted that tenants’ needs change over time and tenants may move between cohorts over time.³⁰ 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 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.

²⁹ NCOSS submission to Issues Paper, p 9.

³⁰ Evolve Housing submission to Issues Paper, p 8.

One of the first steps in developing our recommendations for this review was to establish the objectives, as listed above. We developed these objectives in consultation with stakeholders, and agree with their broad consensus the most important objectives are tenant affordability and financial sustainability for housing providers.

Based on these objectives, we decided that:

- ▼ All available public funds should be focused on social housing, rather than affordable housing. Given the large imbalance between supply and demand for social housing, this is necessary to meet the objective of assisting those who are **most** in need. For this reason, we have not recommended a separate rent model for affordable housing.
- ▼ 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.

We used the objectives as criteria for assessing options for change in the remaining steps of our approach. These steps included:

- ▼ Assessing different social housing rent models and decide which model is most appropriate for setting rent contributions that are affordable and equitable for tenants, and considering the financial impacts of this model on tenants compared to the existing arrangements.
- ▼ Estimating the additional government subsidy required to ensure social housing providers are financially sustainable – taking account of the tenant rent model chosen in the above step and existing sources of government funding for social housing.
- ▼ Considering the appropriate governance arrangements to help ensure government subsidies provide social housing tenants and taxpayers better outcomes and value for money, and how to deliver the government subsidy (as a demand or supply side measure).
- ▼ Considering the most appropriate incentives – whether eligibility, tenure or rent-related – to encourage workforce participation where appropriate.
- ▼ Assessing 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.
- ▼ Considering stakeholder feedback on our draft recommendations in submissions and at our public hearings, and from our survey of tenants. In response to this feedback, we modified some of these recommendations and maintained others unchanged to form our final recommendations.

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.³¹ 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 findings and recommendations are summarised below, and then discussed in more detail.

3.1 Summary of findings and recommendations on an affordable and equitable tenant rent contribution

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.³² 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.

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

³¹ 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.

³² For over 90% of 'subsidised' social housing tenants, their main source of income is Centrelink benefits. Source: Internal FACS data.

- ▼ the small number of tenants whose income exceeds the rent subsidy eligibility threshold pay market rent plus 5% to reflect the value of higher security of housing provided by social housing compared to private rental, and
- ▼ the Pension Supplement and Family Tax Benefits Parts A and B be included in the calculation of rent payable at 25% to increase equity between tenants, and that this be phased in over five years to minimise impacts on tenants.

Our findings and recommendations on the rent model are largely the same as those in our Draft Report, apart from two modifications in response to stakeholder comments. We have limited the inclusion of additional non-concessional sources of income to two (ie, the Pension Supplement and Family Tax Benefits Parts A and B), with other concessions and exemptions to be maintained. We have also specified the phasing in of their inclusion in percentage terms rather than dollar amounts (ie, from 15% to 25% over five years) to improve clarity.

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

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**³³ 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.”³⁴

Further, an **income-based with fixed subsidy model**³⁵ 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.³⁶

Although potentially simpler to administer than the **income based fixed subsidy model**, no submission expressed support for a **fixed property based amenity charges model**.³⁷ 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.³⁸

Some stakeholders supported a **cost rent model**,³⁹ 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.⁴⁰

³³ 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.

³⁴ City of Sydney Council submission to Issues Paper, pp 4-5.

³⁵ 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.

³⁶ Evolve Housing submission to Issues Paper, p 20.

³⁷ 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.

³⁸ Evolve Housing submission to Issues Paper, p 21; and Shelter NSW submission to Issues Paper, p 29.

³⁹ 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.

⁴⁰ Shelter NSW submission to Issues Paper, pp 29-30; and City Futures Research Centre UNSW submission to Issues Paper, p 21.

Submissions to our Draft Report strongly supported our finding that an income-based tenant rent contribution is the best option to ensure affordability for tenants.⁴¹ We have maintained the finding unchanged.

IPART 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. These thresholds are higher than those for entry to social housing,⁴² which closely align with the very low income quintile.

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.

If the income-based rent payable is calculated as being more than market rent, then rent payable is the market rent for the property.

⁴¹ For example, see NSW Federation of Housing Associations submission to IPART Draft Report, p 1; Shelter NSW submission to IPART Draft Report, p 6; The Benevolent Society submission to IPART Draft Report, p 2; Homelessness NSW submission to IPART Draft Report, p 1; NCOSS submission to IPART Draft Report, p 3; and Yfoundations submission to IPART Draft Report, p 5.

⁴² The weekly household income thresholds for entry to social housing are currently \$595 for a single adult, \$225 for each additional adult, \$290 for the first child and \$95 for each additional child. <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#aiaa> accessed 29 June 2017.

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 2016-17 (\$)

	Very low	Low	Moderate
Sydney			
Adult	479	767	1,149
Additional adult	240	384	575
Child	144	230	345
Additional child	144	230	345
Rest of NSW			
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. The weekly household income threshold for entry to social housing is \$595 for a single adult, \$225 for each additional adult, \$290 for the first child and \$95 for each additional child.

<http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#aiaa> accessed 29 June 2017.

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 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. Stakeholders also supported this finding and considered that tenant rent contributions of 25% to 30% of income appropriate to ensure affordability for tenants.⁴³

IPART 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 housing it offers.

In line with our Draft Report, we are recommending that tenants who are not eligible for a subsidy should be required to pay the market rent plus a small premium to reflect the value of the additional security of housing.⁴⁴ We are recommending the value of the premium be 5% of the market rent. This reflects the value of avoided moving costs, as a proxy for the value of the security of being in social housing (see Box 3.1). Tenants who are paying

⁴³ For example, see Waterloo Public Housing Action Group submission to IPART Draft Report, p 1; Tenancy Support and Education Project Partnership submission to IPART Draft Report, p 2; Inner Sydney Voice submission to IPART Draft Report, p 1; Homelessness NSW submission to IPART Draft Report, p 1; Hands Off Glebe Inc submission to IPART Draft Report, p 1; and Action for Public Housing submission to IPART Draft Report, p 1.

⁴⁴ 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.

market rent because it is below their calculated income-based rent would continue to pay market-based rent.⁴⁵

Although stakeholders did not support charging tenants who are not eligible for a rental subsidy market rent plus a premium of 5%, we maintain our view that this is appropriate and consistent with the objectives of our review. In response to their three main concerns, we consider:

- ▼ charging tenants a premium would not be a workforce disincentive when coupled with our recommendations for security of housing
- ▼ charging a small premium for security of housing is consistent with the view that a tenant's continued eligibility for social housing means they are eligible for a suitable property that meets their needs, not a specific property, and
- ▼ a 5% premium is appropriate to reflect the value of security of housing and is likely to have minimal affordability impacts for tenants.

We are also making a new recommendation that the subsidy eligibility thresholds be frozen at current levels until an independent evaluation of the Social Housing Strategy is carried out. In our view, this is necessary to ensure that social housing is provided to those most in need.

⁴⁵ 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 housing

Social housing tenants benefit from the security of housing 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.^a 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 recommendation to include a 5% premium on market rent to reflect the security of housing.

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^b
- ▼ incidental costs, such as breakages and reconnecting services,^c 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.^d

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 housing 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

3.4.1 Charging a premium would not be a workforce disincentive when coupled with our recommendations for security of housing

In response to our Draft Report, NCOSS raised concerns that requiring tenants with household incomes above the threshold for subsidised rent to pay market rent plus a 5% premium would be a workforce disincentive, especially when work is casual or time-

limited.⁴⁶ The NSW Government expressed interest in further analysis of workforce disincentives in connection with this recommendation.⁴⁷

However, as discussed in section 3.6, the evidence we have examined for this review indicates that higher rent payments resulting from additional employment-related income is not the major disincentive for workforce participation among social housing tenants. For example, stakeholders have convincingly argued that fear of losing access to social housing is a more influential factor.

Currently, tenants with a fixed term lease who are not eligible for a subsidy would not have their lease renewed and would be required to leave social housing upon expiry of their lease.⁴⁸ As discussed in Chapter 5, we are recommending that all social housing tenants have continuous access to social housing, regardless of changes in their income (recommendation 18). (Although tenants who are no longer eligible for subsidised rent would pay market rent plus 5%). This would provide greater security than currently exists for tenants with fixed-term leases and so strengthen incentives for workforce participation.

An alternative policy could be to require tenants to move out of social housing once their income exceeds the threshold for a rent subsidy. However, this is likely to act as workforce disincentive. As stated earlier, if a household reaches the subsidy eligibility threshold while in social housing it is likely to be because of workforce participation. This is an outcome we are aiming to encourage, and the threat of being required to move out of social housing could undermine this.

3.4.2 A premium for security of housing is consistent with the view that eligibility for social housing means for a suitable property not a specific property

Shelter NSW and the Combined Pensioner and Superannuants Association of NSW considered the requirement to pay a premium of 5% for security of tenure was inconsistent with another of our recommendations – that continued eligibility means eligibility for a suitable property, not a specific property. They argued that this recommendation would mean tenants had no security of tenure (as they could be made to move dwellings), and so it was inconsistent to charge them a premium for security.⁴⁹ Other stakeholders submitted that tenants paying the 5% premium should be exempt from periodic review and the requirement to move if they were in an unsuitable dwelling.⁵⁰

However, we consider that tenants who have continuous access to social housing suitable for their needs still have significantly higher housing security than those in the private rental market. Given the current mismatch between the demand for and supply of social housing stock, we consider tenants paying the 5% premium should still periodically have the suitability of their housing reviewed. However, as the supply of social housing increases and as stock utilisation improves, the Government could consider exempting these tenants from periodic review.

⁴⁶ NCOSS submission to IPART Draft Report, pp 8-9.

⁴⁷ NSW Government, Response to IPART's draft recommendations.

⁴⁸ Note that the weekly income threshold for renewal of a public housing lease is lower than the subsidy eligibility threshold at \$944 for the first adult.

⁴⁹ See Shelter NSW submission to IPART Draft Report, p 15; Combined Pensioners & Superannuants Association of NSW Inc submission to IPART Draft Report, p 3.

⁵⁰ See Talie Star IPART Draft Report, p 2; Illawarra Forum Inc submission to IPART Draft Report, p 2.

3.4.3 A 5% premium is appropriate and affordable for tenants

Other submissions argued that our recommendation was based on an assumption that insecurity in the private rental market was the norm, and that social housing tenants were being punished for this when they do not have real options to exit social housing.⁵¹ In addition, many tenants often face non-financial barriers to exiting social housing such as discrimination from landlords, disability or health concerns.⁵² The NSW Government also sought additional analysis of the impact of this recommendation on affordability and ability to transition out of social housing.⁵³

We do not consider that the small premium is a punishment for social housing residents, but an appropriate payment for the value of security of housing. Our modelling indicates that the affordability impacts will be minimal. Currently we estimate that less than 5% of social housing tenants are paying market rent because their income is above the threshold for subsidised rent. In terms of affordability, the value of market rent plus 5% is likely to represent less than 30% of these tenants' incomes in the vast majority of cases.⁵⁴

As discussed above, the risk of losing secure housing can act as a disincentive for workforce participation and increasing income. Allowing tenants to remain in social housing when they are no longer eligible for a rental subsidy removes this risk, strengthening the incentives for workforce participation. This in turn increases the potential for tenants to be able to transition to the private rental market. By charging a premium above market rent, tenants above the subsidy threshold have a modest incentive to move out of social housing. To the extent this occurs, it is consistent with the NSW Government's commitment to ensuring that those who can achieve independent housing do so. However, under our recommendation they are not being forced out once their income exceeds the threshold.

3.4.4 Current subsidy eligibility thresholds should be frozen

Under the current subsidy eligibility thresholds, some tenants within the moderate income quintile are eligible for a rental subsidy. We estimate that less than 5% of current tenants would be in this category.

While the Social Housing Strategy is being developed, and until its first five-year review, we are recommending the subsidy eligibility thresholds be frozen at current levels. This will help ensure social housing is provided to those most in need.

Overall, we consider these changes are consistent with the objectives of a housing assistance system that:

⁵¹ See NSW Federation of Housing Associations submission to IPART Draft Report, p 2; Shelter NSW submission to IPART Draft Report, pp 14-16; The Benevolent Society submission to IPART Draft Report, pp 2-3; Tenants Union of New South Wales submission to IPART Draft Report, pp 1-2; NCOSS submission to IPART Draft Report, pp 8-9.

⁵² See Homelessness NSW submission to IPART Draft Report, pp 1-2; Combined Pensioners & Superannuants Association of NSW Inc submission to IPART Draft Report, pp 3-4.

⁵³ NSW Government, Response to IPART's draft recommendations.

⁵⁴ For example, the subsidy threshold is \$1,405 for the first adult, \$375 for the second adult. 30% of this household's income is \$534 per week. Average LAHC rents in Sydney and South Eastern Sydney (the FACS districts with the highest average market rents) are \$333 and \$386 for one bedroom, and \$447 and \$500 for two bedroom properties respectively. Including the 5% premium, these rents would still be less than 30% of income at the subsidy eligibility threshold.

- ▼ 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.

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 housing provided by social housing compared to private rental.
- 2 To ensure that social housing is provided to those most in need, that the subsidy eligibility thresholds be frozen at current levels until an independent evaluation of the Social Housing Strategy is carried out, after the first five years of the Strategy's implementation.

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

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 Parts 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%.
- ▼ The Pension Supplement should be included as assessable income in the rent calculation.

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 to our Issues Paper 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.⁵⁵ We are not proposing a change to the current assessment of gross income.

In response to our Draft Report, the NSW Federation of Housing Associations submitted that there should be a nationally consistent approach to income based rent setting for Australians living in social housing.⁵⁶ Similarly, National Shelter suggested that the interaction between income support payments, rents and operating subsidies for a viable social housing system be negotiated and a clear agreement about principle reached between the States and the Commonwealth.⁵⁷ However, as State Governments are responsible for

⁵⁵ 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.

⁵⁶ NSW Federation of Housing Associations submission to IPART Draft Report, p 2.

⁵⁷ Shelter NSW submission to IPART Draft Report, p 18.

the delivery of social housing, harmonisation of rent setting frameworks nationally would have to be negotiated as part of Commonwealth funding arrangements and the National Affordable Housing Agreement.

3.5.1 Family Tax Benefits Parts 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 Parts 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.

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.⁵⁸

A number of submissions to our Draft Report opposed increasing the rate of assessment to 25% for Family Tax Benefits Parts A and B. For example, NCOSS argued that removing the current concession risked further disadvantaging vulnerable families.⁵⁹ Similarly, Inner Sydney Voice submitted that it would greatly disadvantage children as families rely on this payment to raise them appropriately.⁶⁰ The Tenancy Support and Education Project Partnership agreed in principle with removing the concession on Family Tax Benefits Parts A and B.⁶¹

Several submissions argued that our Draft Recommendation privileged horizontal equity over vertical equity, and that our approach described equality, not equity.^{62,63} The different needs of households are reflected by the different benefits and allowances that they receive, whether it is assistance with raising children, living with a disability, as an aged pensioner, as a carer, or looking for work. These different payments address vertical equity. For example, applicable families receive Family Tax Benefits in recognition of the increased costs of raising children, which includes housing them. We consider it is appropriate to assess Family Tax Benefits Parts A and B at 25% in the rent calculation, in line with other tenants receiving benefits assessed at 25% (for example, the Age Pension, Carer Payment, Disability Support Pension, Newstart Allowance, and Parenting Payment).

⁵⁸ NCOSS submission to Issues Paper, p 20.

⁵⁹ NCOSS submission to IPART Draft Report, pp 9-10.

⁶⁰ Inner Sydney Voice submission to IPART Draft Report, p 1.

⁶¹ Tenancy Support and Education Project Partnership submission to IPART Draft Report, p 2.

⁶² Horizontal equity refers to people with similar income and circumstances being treated equally. Vertical equity refers to the levels of assistance varying with need.

⁶³ See Shelter NSW submission to IPART Draft Report, p 17; Waterloo Public Housing Action Group submission to IPART Draft Report, pp 1-2; Inner Sydney Voice submission to IPART Draft Report, p 2.

We have modelled the impact of increasing the rate from 15% to 25% for Family Tax Benefits Parts 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 ^c
Single parent	FTB A and B	17	15	17
Couple with single income	FTB A and B ^a	17	15	12
Couple with dual income	FTB A ^b	9	9	12

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

b 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).

c 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.

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 ^a
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

a 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

In our Draft Report, to transition the impact on current tenants, particularly those with several children, we proposed capping the maximum increase in weekly rent contributions payable as a result of the new calculation method at \$10 per week per year until the household transitioned to the full rent contribution amount. While not supporting the inclusion of additional income sources in the rent calculation, stakeholders generally agreed that if it was included it should be phased in.⁶⁴

However, there was some confusion about the proposed \$10 per week per year cap, with some stakeholders assuming it meant an increase of \$10 each year regardless of the

⁶⁴ See NSW Federation of Housing Associations submission to IPART Draft Report, p 3; The Benevolent Society submission to IPART Draft Report, pp 4- 5; Illawarra Forum Inc submission to IPART Draft Report, p 2.

percentage of income being paid in rent.⁶⁵ To address this confusion we have modified our recommendation to phase-in additional rent contributions as a percentage, rather than a dollar cap. This would also simplify administration as the same percentage would apply to all tenants receiving an applicable income source, removing the complication of keeping track of how many annual increases of \$10 each household required to transition to a rent contribution of 25%.

In the first year, we are recommending currently exempt sources of income be included at a rate of 15%, increasing each year by 2.5% until 25% is included in the rent calculation. For Family Tax Benefits, which is already assessed at 15%, the increase would not apply until year 2.⁶⁶ New tenants would pay the same percentage as current tenants.

- ▼ Year 1: 15%
- ▼ Year 2: 17.5%
- ▼ Year 3: 20%
- ▼ Year 4: 22.5%
- ▼ Year 5: 25%

The impact of increasing the rate of assessment by 2.5% each year for Family Tax Benefits is shown in Table 3.6.

Table 3.6 Family Tax Benefits Parts A and B rate of assessment increasing by 2.5% per annum - additional rent per child per week (\$)

		Per child aged years		
		0-5	6-12	13-18 ^c
Single parent	FTB A and B	4	4	4
Couple with single income	FTB A and B ^a	4	4	3
Couple with dual income	FTB A ^b	2	2	3

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

^b 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).

^c 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

Table 3.7 shows the impact on various family compositions. We note that for families with more than two children, the annual impact is greater than our draft recommendation cap of \$10. However for most families (those with one or two children) the impact will be less than \$10 per year.⁶⁷ In addition, the increases would not apply until year 2, whereas under our draft recommendation by year 2 larger families would be paying an additional \$20 per week.

⁶⁵ Mr Chris Hartley, Homelessness NSW, Transcript of Public Hearing, Sydney, 9 May 2017, pp 13-14.

⁶⁶ This avoids introducing another rate, out of sync with the Pension Supplement.

⁶⁷ Of the households in social housing that qualify for Family Tax Benefits, 75% have one or two children.

Table 3.7 Family Tax Benefits Parts A and B rate of assessment increasing by 2.5% per annum – additional rent per week for various family compositions (\$)

Children	Single parent	Couple with single income	Couple with dual income ^a
1 child < 6 years	4	4	2
1 child < 6 years and 2 children 6-12 years	12	12	7
1 child 6-12 years	4	4	2
1 child 6-12 years and 2 children 13-18 years	12	10	8

^a 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

3.5.2 The Pension Supplement should be included as assessable income

In our Draft Report we made a draft recommendation that the Pension Supplement be assessable for the purpose of calculating the tenant's contribution to rent. Our draft recommendation also included a principle that any income which is regular, ongoing and for general living expenses should also be assessable.

The inclusion of the principle caused some uncertainty and anxiety among stakeholders about what types of benefits and allowances this would apply to.⁶⁸ After further consideration of the currently exempt benefits and allowances,⁶⁹ we have modified our recommendation to exclude this principle.

As with Family Tax Benefits Parts A and B, stakeholders did not support the inclusion of the Pension Supplement as assessable income. Their main concerns were that it is an amalgamation of allowances (Pharmaceutical Allowance, Utilities Allowance, GST Supplement and Telephone Allowance) and that it is not for general living costs.⁷⁰ The Council on the Ageing New South Wales (COTA NSW) argued that including the Pension Supplement would further erode the standard of living of older tenants.⁷¹

However, the Pension Supplement is defined as 'an automatic payment to help you with the costs of daily household and living expenses'.⁷² Therefore, we consider 25% should go towards the cost of housing, in line with other benefits and allowances.

As for Family Benefits Part A and B, we are recommending the rate at which the Pensioner Supplement is included in rent contributions be phased-in over five years, starting from 15%. As the maximum Pension Supplement is currently \$32.95 per week for singles, and \$49.70 per week for couples,⁷³ the increase in the first year (to 15%) would be \$4.94 and \$7.46

⁶⁸ Carers NSW submission to IPART Draft Report, pp 3-4; NCOSS submission to IPART Draft Report, p 10.

⁶⁹ FACS Tenancy Charges and Account Management Policy Supplement, last amended 11 August 2016.

⁷⁰ See Combined Pensioners & Superannuants Association of NSW Inc submission to IPART Draft Report, pp 4-5; NCOSS submission to IPART Draft Report, p 10; COTA submission to IPART Draft Report, p 4.

⁷¹ COTA NSW submission to IPART Draft Report, p 4.

⁷² Australian Government, Department of Human Services, Pension Supplement <https://www.humanservices.gov.au/customer/services/centrelink/pension-supplement> accessed 16 June 2017.

⁷³ The maximum supplement per fortnight is \$65.90 for singles and \$99.40 for couples. Australian Government, Department of Human Services, Pension Supplement <https://www.humanservices.gov.au/customer/services/centrelink/pension-supplement> accessed 16 June 2017.

per week respectively. Increases in the following years (of 2.5% each year until 25% is reached) would be 82 cents and \$1.24 per week respectively. These adjustments could occur when FACS' updates tenant rent contributions in line with Commonwealth indexing of benefits and allowances.

Once assessed at 25%, we estimate that including the Pension Supplement as part of the rent assessment could increase annual revenue from tenant rent contributions by around \$50 million,⁷⁴ and would cost tenants receiving the maximum Pension Supplement \$8.24 per week for singles and \$12.43 per week for couples.

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 included in the assessment of eligibility, and we recommend adjusting the weekly eligibility thresholds to accommodate the Pension Supplement.

Recommendations

- 3 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%), and
 - include the Pension Supplement in the calculation of rent payable for social housing.
- 4 To phase in the impact of Recommendation 3, that the Pension Supplement and Family Tax Benefits Parts A and B be assessed in the calculation of rent payable for social housing at:
 - Year 1: 15%
 - Year 2: 17.5%
 - Year 3: 20%
 - Year 4: 22.5%
 - Year 5: 25%.

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,

⁷⁴ In our Draft Report we estimated the increased annual rent revenue from the inclusion of the Pension Supplement at \$40 million (rounded down from \$44.3 million) once fully implemented. This did not include all recipients of the Pension Supplement such as: single parents on a parenting payment; some Austudy and ABSTUDY recipients; and households where someone other than the household head receives the Pension Supplement. Including these households increases our estimate to \$48.0 million, rounded to \$50 million annually.

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 housing 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.

Submissions to our Draft Report supported our finding that measures other than the rent model are likely to be more effective in strengthening workforce participation incentives.⁷⁵ We have maintained the finding unchanged.

IPART 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.

⁷⁵ See NSW Federation of Housing Associations submission to IPART Draft Report, p 1; Shelter NSW submission to IPART Draft Report, p 6; Homelessness NSW submission to IPART Draft Report, p 1; Yfoundations submission to IPART Draft Report, p 5.

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 NSW 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 that we are not recommending major changes to this rent model, we 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.

In our Draft Report, we recommended 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. We also recommended a governance framework that included a split between purchaser and provider roles for social housing, part of which was giving priority to establishing LAHC on a commercial basis.

Most submissions were supportive of our funding and governance arrangements in principle. However, submissions expressed concerns and questions about aspects of the arrangements we were proposing. For our Final Report, we have retained the principles of our draft recommendations, but revised and clarified them in response to stakeholder feedback.

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

4.1 Summary of findings and recommendations on a housing system that is financially sustainable for housing providers

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. We also found that, if CRA were increased and extended to public housing tenants as recently recommended by the Productivity Commission,⁷⁶ the total CRA contribution to current NSW social housing tenants would increase approximately six-fold.

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

- ▼ The NSW Government adopt a purchaser-provider framework with clear separation between FACS, which would remain responsible for policy, planning, and purchasing social housing services and the organisations responsible for housing delivery (asset management and tenancy management). This would require LAHC to move out of FACS' organisational structure and FACS' tenancy management services to move out of FACS' organisational structure. Asset management and tenancy management could remain separate or be provided by a single merged organisation, but it would be required to report to a different Minister from FACS.
- ▼ FACS develop and publish a Social Housing Strategy, updated annually, detailing the social housing dwellings to be delivered across NSW over the next three to five years by location, size and type. In doing so, the Strategy would focus in the short term on housing priority applicants and developing sufficient stock to rehouse existing tenants who are identified as being in unsuitable housing. Through the Strategy, the Government would have a mechanism to consider and update eligibility criteria over time, and to allocate differential subsidies to encourage socio-economic diversity.
- ▼ FACS enter into long-term contracts with social housing providers, both public and CHPs, to deliver the dwellings as set out in the Social Housing Strategy. The contracting out framework should deliver better outcomes for tenants and taxpayers by encouraging innovative arrangements. For example, tenant support services could be bundled with asset and tenancy management, or the subsidy could be tendered out rather than the specific dwellings (as per the SAHF model). The contracts should be competitively tendered.

Our 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

⁷⁶ Productivity Commission, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services – Draft Report*, June 2017, p 2.

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 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 dwelling (see section 4.3.2 below). Such a funding model is currently used in New Zealand to achieve both affordable and financially sustainable social housing (see Box 4.1).

Box 4.1 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.

As 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.

To estimate the size of the gap between tenant rent contributions and market rent, 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 tenant contribution and government funding available to cover these costs.

In estimating the efficient costs of providing social housing, we have included only the costs of tenancy and asset management. Housing providers also provide additional services to social housing tenants, including connecting them to support services and opportunities for employment, education and training. The costs of providing these additional services would need to be funded through arrangements outside our recommended funding model.

We estimate that \$945 million⁷⁷ 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 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.

Recommendations

- 5 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).
- 6 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.

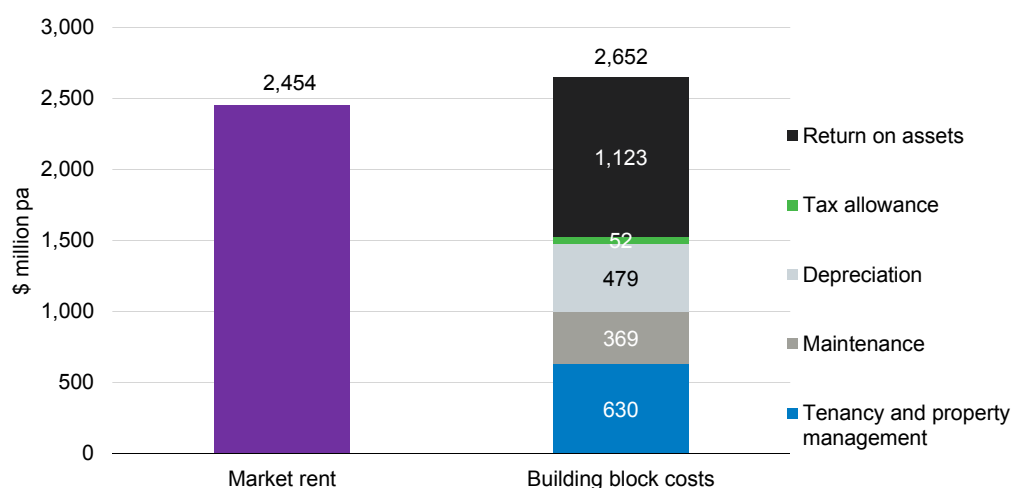
4.2.1 Estimated total efficient costs of providing the current housing stock

We estimated the total efficient costs of providing the current stock of social housing using a 'building block' approach (see Box 4.1). As noted above, these costs do not include any additional support services housing providers provide for their tenants. We also estimated the annual value of the market rent for this stock (see Box 4.2). We found that the building

⁷⁷ Our Draft Report estimated the gap as in the order of \$950 million. The difference results from an updated estimate of additional tenant contribution from including the pension supplement as assessable income for rent calculation purposes.

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 4.1). We included a small additional tenant contribution in line with Recommendation 3 (see section 3.5.2).

Box 4.2 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 4.3 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.

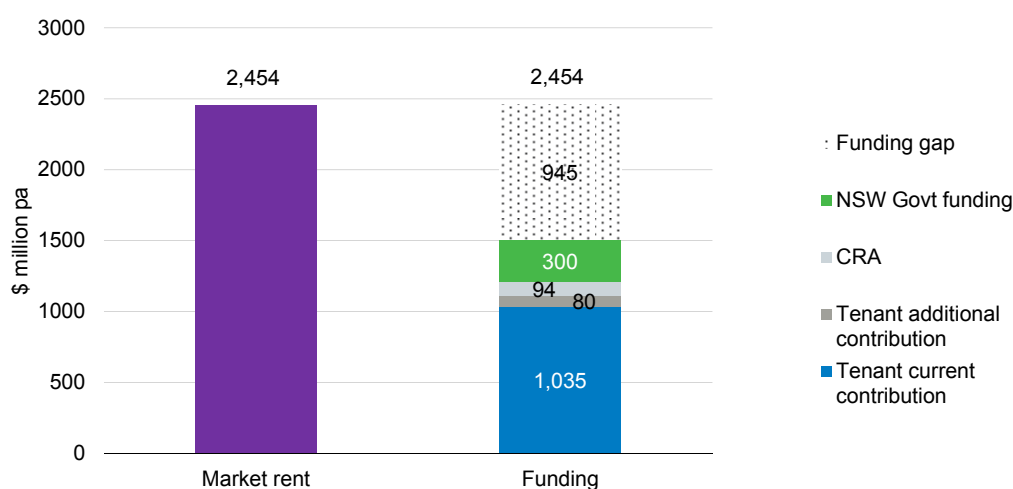
FACS does not individually value every public housing property. Instead, it values a subset of properties to benchmark the market rent for all other properties. Suburbs are grouped into a smaller number of benchmark localities, or markets, to ensure that rent variances within a suburb are minimised.

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. An additional tenant contribution in line with Recommendation 2 would contribute another 3% of market rent. Contributions from the NSW Government and CRA currently fund 16%, leaving a funding gap of around 40% or \$945 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.

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.⁷⁸

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.

4.2.3 Stakeholders generally support an explicit subsidy

Most submissions in response to our Draft Report supported the NSW Government providing an explicit subsidy to support a financially sustainable social housing system.⁷⁹ However, some expressed concerns about certain aspects of our analysis and suggested different arrangements for such a subsidy. We discuss these and our responses in this section.

Stakeholders had concerns about using aggregate market rent to estimate efficient cost of providing social housing

Some stakeholders, including BlueCHP and Homelessness NSW, supported an explicit subsidy based on market rent.⁸⁰ However, others had concerns that basing the subsidy on aggregate market rent potentially underestimated the cost of providing social housing:

- ▼ Shelter NSW submitted that even our efficient cost estimate based on our building block analysis (which is higher than aggregate market rent) understated the real cost associated with tenancy management, maintenance cost backlogs and the return on investment. It noted social housing providers are constrained in their ability to realise asset value and tax benefits.⁸¹
- ▼ The NSW Federation of Housing Associations and the Illawarra Forum submitted that aggregate market rent does not recognise the additional activities that CHPs undertake to support their tenants. The Illawarra Forum also submitted that basing the subsidy on market rent may create an incentive for the Government to force tenants to lower cost, poorly serviced areas.⁸²

⁷⁸ <https://www.facs.nsw.gov.au/reforms/social-housing/SAHF>, accessed 24 March 2017.

⁷⁹ For example, NSW Federation of Housing Associations Inc submission to Draft Report, p 3; BlueCHP submission to Draft Report, p 1; COTA submission to Draft Report, p 5.

⁸⁰ BlueCHP submission to Draft Report, p 1; Homelessness NSW submission to Draft Report, p 3.

⁸¹ Shelter NSW submission to Draft Report, pp 4-5.

⁸² NSW Federation of Housing Associations Inc submission to Draft Report, p 3; Illawarra Forum submission to Draft Report, p 3.

- ▼ The Tenancy Support and Education Project put the view that linking the subsidy to market rent disadvantages housing providers in low market rent areas. It argued that as operating costs are similar if not more expensive in these areas (relative to higher market rent areas), this would result in limited capital development in low market rent areas.⁸³

We maintain our view that aggregate market rent is a reasonable estimate of the efficient cost

We maintain the view that the aggregate market rent for social housing properties is a reasonable estimate of the efficient cost of providing social housing. Therefore, we have not changed our draft recommendation linking the explicit subsidy to market rent. As discussed above, our previous analysis showed the annual value of market rents for the current housing stock was similar to our building block estimate of the total efficient costs of providing this stock. Given this, and the potential for estimation errors, we are satisfied that aggregate market rent is a reasonable estimate.

However, this estimate does not cover the additional costs associated with support services for social housing tenants. We consider that these costs are best assessed and funding allocated separately from asset and tenant management costs. However, these services could be rolled into a single competitive tender for social housing services, as they were for the Social and Affordable Housing Fund Phase 1.⁸⁴

Similarly, our estimate does not include cost of addressing the maintenance backlog, as this cost is separate from ongoing operating costs and should not be included in a rent model. As Shelter NSW submitted, additional funding would be required to address this backlog.

The benchmark rate of return we used in our building block analysis represents our assessment of what typical investors would require to invest in social housing, and encourage investment in the future. We remain of the view that our approach, based on historical returns in the residential property market, provides a reasonable benchmark rate of return for investment in residential property. We note that CHPs receive some advantages in the provision of new housing including tax exemptions on GST, land tax and stamp duty.⁸⁵

We do not consider that our recommendation would mean that housing providers in relatively low market rent areas would not recover their costs. A large proportion of the building block costs (and by extension the market rent) relates to a return on assets. This return would be lower in areas where the value of housing is relatively low, driven mainly by lower land values. Receiving a market rent payment (explicit subsidy + tenant contribution) would help housing providers grow the housing stock.

The risk that market rent could be used as means of minimising the explicit subsidy (ie, by moving more social housing to low rent areas) could be addressed by requiring that FACS be explicit in the Social Housing Strategy about how they are allocating differential subsidies to encourage socio-economic diversity.

⁸³ Tenancy Support and Education Project Partnership submission to IPART Draft Report, p 3.

⁸⁴ <https://www.facs.nsw.gov.au/reforms/social-housing/SAHF>, accessed 26 June 2017.

⁸⁵ http://www.communityhousing.org.au/icp/Industry%20Capability%20Statement_Expanded.pdf, accessed 26 June 2017.

Subsidy funds could come from the Commonwealth as well as the NSW Government

Around \$94 million of subsidy funding is currently paid by the Commonwealth Government as CRA to tenants in community housing in NSW. Public housing tenants are not currently eligible for CRA payments.

The Productivity Commission released a Draft Report for its review of Introducing Competition and Informed User Choice into Human Services on 2 June 2017. In this report, it recommended introduction of a single model of financial assistance to tenants across private and social housing through an increase to the CRA and its extension to public housing tenants.⁸⁶ The Productivity Commission noted that this would go some way towards addressing inequities between private and social housing tenants, but would lead to affordability concerns for some social housing tenants. The Productivity Commission suggested that State Governments could provide additional funding to tenants with a demonstrated need (with eligibility for and levels of the additional funding to be determined by State Governments).⁸⁷

Stakeholder submissions to our review noted that one way of attracting additional CRA payments would be to transfer more properties from the NSW Government to CHPs. To date, the NSW Government has committed to transferring the management of 18,000 properties to community housing providers.⁸⁸ This transfer could result in an additional \$62 million in CRA payments, which would reduce the current funding gap.

IPART finding

- 4 That if Commonwealth Rent Assistance (CRA) were increased by 15% and extended to public housing tenants as well as community housing tenants, as recommended by the Productivity Commission's Draft Report, the total CRA contribution to current social housing tenants in NSW in 2015-16 would have been around \$550 million, up from \$94 million.

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 be in place. The following sections discuss our recommendations for a purchaser-provider framework.

4.3.1 Policy and planning

Under our proposed model, FACS would undertake the policy and planning functions for social housing, as it currently does. The proposed model would require FACS' tenancy management functions to be separated from policy and planning, and transferred to an

⁸⁶ Productivity Commission, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services – Draft Report*, June 2017, p 2.

⁸⁷ Productivity Commission, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services – Draft Report*, June 2017, p 16.

⁸⁸ https://www.facs.nsw.gov.au/about_us/media_releases/media_release_archive/better-outcomes-for-social-housing-tenants, accessed 10 March 2017.

organisation that is not associated with FACS. LAHC, as a social housing asset manager, would also need to be organisationally separate from FACS.

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 assess those most in need of social housing and adjust eligibility criteria accordingly, taking into account priority factors such as homelessness, age or at-risk situations. It would also 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, invest in more social housing and improve social outcomes. These programs include the redevelopment of Land and Housing Corporation sites (being undertaken through the Communities Plus program) to deliver a mix of social, affordable and private dwellings throughout metropolitan Sydney and regional NSW using private and non-government partnerships, as well as the Social and Affordable Housing Fund discussed in section 4.2.2. These types of partnerships are good examples of the way in which innovative contracting arrangements can deliver better outcomes for both tenants and taxpayers.

Recommendations

- 7 That a purchaser-provider framework be implemented for social housing in NSW, with FACS responsible for policy, planning and purchasing social housing services with housing providers. The contracting out framework should deliver better outcomes for tenants and taxpayers by encouraging innovative arrangements that deliver services more efficiently.
- 8 That the policy, planning and purchasing for social housing be independent of all delivery of asset management and tenancy management services. This would require both LAHC and FACS' tenancy management services to move out of FACS' organisational structure and be accountable to a different Minister from FACS.
- 9 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 social housing services to be delivered across NSW over the next three to five years by location, size and type. In doing so, the Strategy would focus in the short term on housing priority applicants and developing sufficient stock to rehouse existing tenants who are identified as being in unsuitable housing. Through the Strategy, the Government would have a mechanism to consider and update eligibility criteria over time, and to allocate differential subsidies to encourage socio-economic diversity.
- 10 That FACS develop performance indicators for the Social Housing Strategy and report on these annually as part of its Annual Report.
- 11 That an independent evaluation be carried out and reported publicly every five years on the effectiveness of the Social Housing Strategy.

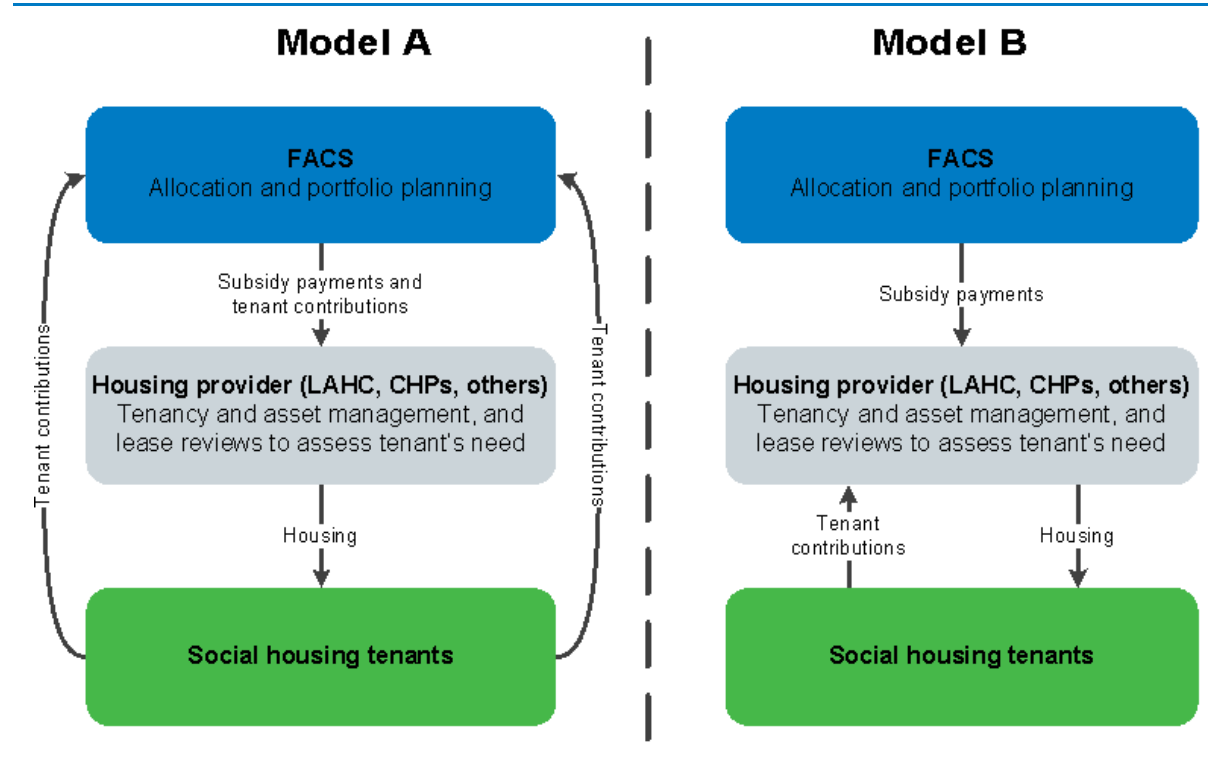
4.3.2 Contracting with housing providers

Under the purchaser-provider framework, FACS would contract with housing providers to deliver the required dwellings (and any other bundled tenant services) 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.

There are two options for contracting with housing providers:

- ▼ the tenant pays the rent contribution to FACS which 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, and a further 18,000 properties are

to be transferred to CHPs (see section 4.2.3 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.

Some stakeholders consider that the subsidy should be provided to the tenant

Several stakeholders suggested it may be more appropriate to pay the subsidy to the tenant, rather than the housing provider. For example, Shelter NSW submitted that the main argument for paying the provider is that it protects it from the risk of loss of income when tenants are in arrears. However, there are also additional administrative costs associated with this arrangement that reduce its efficiency. It also put the view that subsidising the tenant makes it clear that the tenant is purchasing the services, not FACS or the Government.⁸⁹

An individual, Mr Sanchez, submitted that there are clear advantages of providing a demand driven subsidy, including:

- ▼ avoiding the need to centrally plan the preferred distribution of social housing properties
- ▼ mitigating the risk that the goal of adding to the social housing stock is outweighed by a need to meet social housing targets in key constituencies or for key interests, and
- ▼ ensuring that support is not provided at locations where market conditions provide low cost housing as a result of supply additions.⁹⁰

As our Draft Report discussed, we did consider a demand-side subsidy. But on balance, we concluded there were more benefits in providing the subsidy to housing providers. We noted that 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.

Some stakeholders had concerns about our proposal that the Government contract with housing providers

The Federation of Housing Associations considered that a preferable model would be to transfer public housing assets to CHPs, rather than longer term leasing or service agreements. The Federation submitted that this approach would give CHPs the balance sheet to support more and cheaper borrowing, and better position them to redevelop the assets so as to deliver additional housing supply and a better housing product for their communities.⁹¹ The NSW Government also sought further consideration of the impact of the purchaser-provider split on housing providers' autonomy.

⁸⁹ Shelter NSW submission to Draft Report, p 5 and pp 22-23.

⁹⁰ Mr Sanchez submission to Draft Report.

⁹¹ NSW Federation of Housing Associations submission to Draft Report, p 4.

The Federation and other stakeholders also expressed concern about the administrative costs of our draft recommendation that subsidy payments be made fortnightly, and the cost of obtaining annual market valuations.

We consider that a contracting regime is an appropriate way to manage a significant government subsidy. Contracting is a central component of the purchaser-provider framework. In return for receiving an explicit subsidy, housing providers would be managed through an outcome-focused contract that specifies the required housing services to be delivered, and requires regular reporting to demonstrate that all contractual requirements are being met. From an efficiency perspective, the selection of a housing provider(s) should be preceded by a competitive tender process that encourages innovation to drive improved outcomes for tenants and the community.

We consider that contracts should be of long-term duration, to provide certainty to housing providers and could take a standardised form. As we outlined in the Draft Report, the finer detail of the contracts are most appropriately determined via the competitive tendering process or through consultation between government and industry. This could include frequency of payments. We are therefore not making a recommendation on payment frequency.

We maintain the view that housing providers should obtain an annual independent assessment of market rent for the basis of their subsidy claims to FACS. This would be important to ensure the integrity of claims to FACS. However, this would not necessarily mean that every social housing property is assessed by an independent valuer. For example, other independent sources of information/property reports could be used and properties in a particular area grouped and benchmarked, as is current practice for LAHC. Specifications regarding the methodology for annual market valuations could also be included in the contracts.

Some stakeholders had concerns about our proposal to put LAHC on a commercial basis as a priority

The NSW Federation of Housing Associations did not support our draft recommendation that LAHC be moved to the sustainable funding model as a priority, and instead submitted that the transition be the same for all housing providers to create a level playing field.⁹²

The Waterloo Public Housing Action Group submitted that putting LAHC on a commercial basis would likely run counter to the purpose of social housing as a social good. Similar comments were made in the submissions from Hands off Glebe Inc and Action for Public Housing.⁹³ Shelter NSW requested that IPART clarify what we mean by “a commercial basis”.⁹⁴

Our focus with this draft recommendation was to put LAHC (as the Government housing asset manager) into a position where it was funded to cover all the costs of its housing activities – which would have a positive impact on outcomes for tenants (adequate, suitable, well-maintained housing stock). LAHC is currently at a disadvantage compared to CHPs as

⁹² NSW Federation of Housing Associations Inc submission to Draft Report, pp 3-4.

⁹³ Waterloo Public Housing Action Group submission to Draft Report, p 4; Hands off Glebe submission to Draft Report, p 2; Action for Public Housing submission to Draft Report, p 2.

⁹⁴ Shelter NSW submission to the Draft Report, pp 9-10.

it has different costs (eg, LAHC pays rates for its properties, while CHPs currently have an exemption) and revenues (eg, CHP tenants receive CRA, while FACS tenants do not).

Governance changes would have to be put into place before funding could flow to any housing providers under the proposed model, including transferring tenancy management functions from FACS to LAHC (or a separate tenancy management agency if preferred), and negotiating contracts with LAHC and the CHPs. We do not recommend any particular legal/business structure for LAHC, but it must be independent of FACS and operate as a business.

LAHC would have the same business purpose and incentives as any other housing provider, and LAHC's activities would be subject to a contract in the same way as other housing providers.⁹⁵ It should also be regulated in the same way as CHPs, which might involve extending the National Regulatory System for Community Housing to encompass public housing providers.

Noting stakeholder concerns that a staged approach might disadvantage CHPs, we are no longer recommending this.

Recommendations

- 12 That FACS enter into long-term contracts with housing providers (both government and CHPs) to deliver government-subsidised social housing services as set out in the Social Housing Strategy.
- 13 That the contracts between FACS and housing providers for government-subsidised social housing services be competitively tendered.

⁹⁵ This is similar to the contracting arrangements for the State Transit Authority and private bus companies for different Sydney bus regions.

5 Eligibility criteria and workforce participation incentives

The different forms of housing assistance available and the policy settings for security of housing influence 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 are supported to transition to private rental where they wish to, and
- ▼ people living in social housing longer term have access to suitable 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 recommendations are summarised below and then discussed in more detail.

5.1 Summary of findings and recommendations on eligibility criteria and workforce participation incentives

We found that the current eligibility criteria for entry into social housing which target households with very low income are appropriate, but the income thresholds need to be adjusted to align with the variations to sources of income we have recommended for inclusion in rent payable calculations.

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

In addition, we consider that fixed-term tenancy agreements in public housing reduce incentives for workforce participation. To strengthen these incentives, we are recommending all social housing tenants have continuous access to housing but that their lease arrangements:

- ▼ be based on a formal FACS policy that establishes that a tenant's eligibility for social housing means they have continued access to a suitable dwelling that meets their household's needs and characteristics, rather than a specific dwelling, and

- ▼ be reviewed at least every three years to assess whether the dwelling continues to be suitable for the tenant's needs and characteristics.

To further strengthen incentives for workforce participation and discourage dependence on social housing, we are recommending that any 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. At the end of this period, if their income exceeds the subsidised rent threshold, we are recommending tenants be offered the option to either:

- ▼ receive one-off private rental assistance to help them transition to private rental, or
- ▼ remain in social housing and pay market rent plus 5% to reflect the additional security social housing provides.

Finally, we consider that the risk of losing secure housing 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.

5.2 Current eligibility criteria for entry into social housing are appropriate

Currently, to be eligible to enter the social housing system, applicants must satisfy a set of general criteria, including the relevant income threshold for their household characteristics (Table 5.1). These income thresholds target very low income households.

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 ^a
Singe 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
Disability allowance, if applicable	
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.

As our Draft Report discussed, we consider these income thresholds are appropriate.⁹⁶ However, for consistency, the sources of income used to determine an applicant's assessable income should be the same as those used to determine a tenant's rent. As Chapter 3 discussed, we have recommended that the Pension Supplement and Family Tax Benefits

⁹⁶ IPART, *Review of rent models for social and affordable housing*, Draft Report, April 2017, pp 41- 42.

Parts A and B be included in determining tenants' rents. Therefore, we are recommending that these are also included in determining applicants' assessable income.⁹⁷

Since the Draft Report, we have further modelled the impact of including Pension Supplement in assessable income. We found that some currently eligible households would exceed the income threshold if the Pension Supplement were included in their assessable income. For example, this happens where households comprise:

- ▼ **Case 1:** Two (non-couple) adults on the age/carer/disability pension (eg, carer + age or disability pensioner; age pensioner + disability pensioner).
- ▼ **Case 2:** Two (couple) adults on the age/carer/disability pension and one adult on a single age/carer/disability pension (eg, disability pensioner couple + carer).

In Case 1, the household income would exceed the current entry threshold by around \$68 per week when both adults receive the single pension rate plus the single rate of the Pension Supplement (see Table 5.2). In Case 2, the household income would exceed the entry threshold by around \$69 per week when the couple receives the couple pension rate plus the couple rate of Pension Supplement and the additional adult receives the single pension rate plus the single rate of Pension Supplement (see Table 5.3).

Our recommendation to include the Pension Supplement in income for determining rent payable should not impact the eligibility of household types that are currently eligible for social housing.

Therefore, we are also recommending that FACS adjust the income threshold for adults to account for the Pension Supplement, by the maximum amount for single pensioners. This would address eligibility issues for multiple adult household types that are currently eligible.

Table 5.2 Case 1: Current weekly income thresholds vs eligibility excluding and including Pension Supplement (eg, a non-couple household with no children)

	FACS Social housing entry threshold	Centrelink age pension, disability pension or carer allowance	
	(\$)/week	Exc PS (\$)/week	Inc PS (\$)/week
First adult	595	411	444
Additional adult	225	411	444
Household total	820	822	888
Over/Under threshold		2	68

Note: This is based on FACS' entry thresholds as at April 2017 and may not have been adjusted for the most recent Centrelink payment indexations. Totals may not add due to rounding.

⁹⁷ Family Tax Benefits Parts A and B are already included in assessable income <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#hi>, accessed 23 June 2017.

Table 5.3 Case 2: Current weekly income thresholds vs eligibility excluding and including Pension Supplement (eg, a pensioner couple and 1 additional (non-couple) pensioner adult household)

	Social housing entry threshold	Centrelink Age pension, disability pension or carer allowance	
	(\$)/week	Exc PS (\$)/week	Inc PS (\$)/week
Adult (single)	595	411	444
Additional adult (one of a couple)	225	310	335
Additional adult (one of a couple)	225	310	335
HH total	1,045	1,031	1,114
Over/under threshold		-14	69

Note: This is based on FACS' entry thresholds as at April 2017 and may not have been adjusted for the most recent Centrelink payment indexations. Totals may not add due to rounding.

IPART finding

- 5 The weekly household income thresholds for entry to social housing which target households with very low income are appropriate; the same cohort should continue to be eligible for social housing under our recommendations.

Recommendation

- 14 That FACS include the Pension Supplement as income for determining eligibility for social housing at entry, and add the maximum Pension Supplement for a single person to the income threshold for each adult to ensure this does not impact the eligibility of household types that would currently be eligible.

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. 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 approved priority applicants, 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.⁹⁸ 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. In the past, this was 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. More recently, FACS has expanded its use of private rental subsidies to divert people from or transition them out of social housing where appropriate (see Box 5.1). In the 2016-17 state budget, the NSW Government committed additional funding for private rental subsidies to ‘empower people to break the cycle of disadvantage in social housing’.⁹⁹

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.

⁹⁸ Email correspondence with FACS, March and April 2017.

⁹⁹ NSW Government, *Budget Paper No. 3 Budget Estimates 2016-17*, p 3-4.
<http://www.smh.com.au/action/printArticle?id=1010231479>, accessed 16 June 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^a 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.**

^a 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 recognise that this form of time-limited private rental assistance would incur additional government expenditure in the short term. However, as Box 5.2 discusses, our preliminary modelling indicates there are potential savings for the social housing sector over the long term, even if only 10% of households are diverted from social housing (assuming market rents are between 10% and 15% higher than social housing rents).

Box 5.2 Potential savings due to time-limited rental assistance

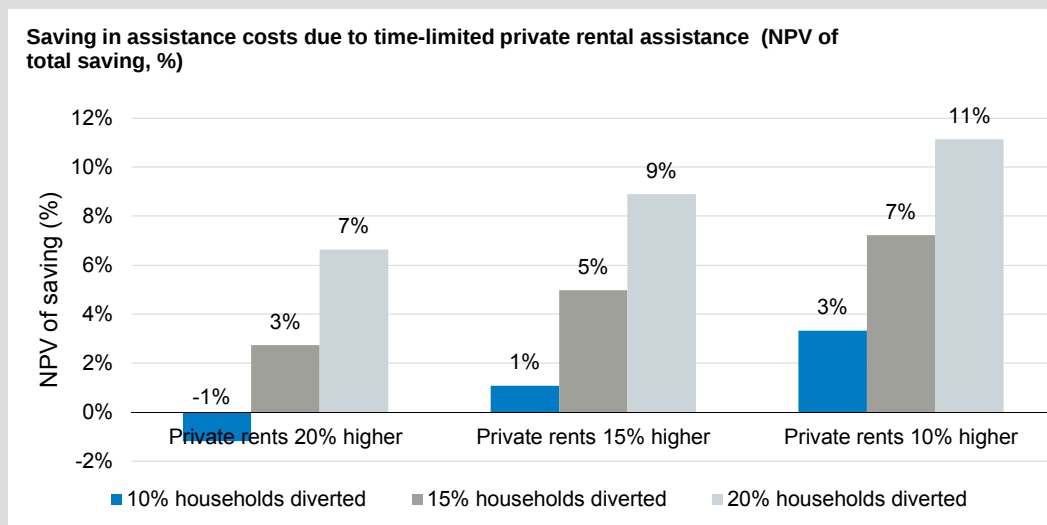
To estimate potential savings associated with time-limited rental assistance for the social housing sector, we compared the net costs^a of two different ways of providing housing assistance to a representative group of households.^b We assumed that these households:

- ▼ are either accommodated in social housing from the first year, or given private rental assistance for three years, after which those that still require assistance are accommodated in social housing for as long as required, and
- ▼ pay a rental contribution equal to the lesser of market rent or 25% of their household income.

We estimated the potential savings when:

1. between 10% and 20% of the households are permanently diverted from social housing
2. the remaining households enter social housing in the fourth year and a high proportion of these households never re-enter the private rental market, and
3. private market rents are between 10% and 20% higher than the market rents for social housing.

We found that, when market rents are between 10% and 15% higher than social housing rents, private rental assistance may be cost effective even if only 10% of households were diverted from social housing. When market rents are 20% higher than social housing rents, more than 10% of households would need to be diverted to make the program cost-effective (see chart).^c



a Net cost are (private or social housing) market rents minus the tenant rental contribution, expressed in \$2015-16. Net costs are discounted to 2015-16 using a (real) discount rate of 6.9%.

b We used the profile of households on the waiting list to identify our representative group.

c Our tenant survey found that around 15% of households currently in public housing indicated that one or more types of the assistance that is currently available could help them move into the private rental market if they wanted to. (Taverner Research, Survey of Public Housing Tenants, Research Report, pp 45-46.)

Source: IPART calculations

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.¹⁰⁰ If this evaluation demonstrates that the new private rental subsidies (eg, Rent Choice) are cost-effective and efficient, the Government should extend them to a wider range of clients. Most stakeholders, including 53% of respondents to our

¹⁰⁰ Discussion with FACS, 16 February 2017.

tenant survey, supported the use of private rental subsidies to assist a broader group of clients into the private rental market.¹⁰¹

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 access to housing would strengthen incentives for workforce participation

In public housing, tenants are currently offered fixed-term tenancy agreements of two, five or 10 years.¹⁰² Before the fixed-term ends, their eligibility for renewing their lease is assessed against income thresholds that are higher than those for social housing entry (Table 5.4). If assessed as eligible, tenants' leases can be renewed for another two, five or 10 years, depending on the household's circumstances. If their income exceeds the renewal threshold and their lease is not renewed, they may only stay in public housing until the end of their fixed-term agreement.¹⁰³

In contrast, most community housing tenants are on continuous or 'periodic' tenancy agreements.¹⁰⁴ They are also subject to an eligibility review, but if their income exceeds the renewal threshold they may remain in social housing and pay market rent.

¹⁰¹ For example, see Homelessness NSW submission to IPART Draft Report p 3; Carers NSW submission to IPART Draft Report, p 5; Illawarra Forum Inc submission to IPART Draft Report, p 4; Talie Star submission to IPART Draft Report, p 1; and Taverner Research, Survey of Public Housing Tenants, Research Report, p 5.

¹⁰² Prior to 2005 all public housing tenants were on continuous tenancy agreements. As grandfathering provisions apply, the proportion of tenants still on continuous tenancy agreements remains relatively high at 57%.

¹⁰³ 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.

¹⁰⁴ Under the Residential Tenancies Act 2010 (RT Act), a periodic agreement is one where the fixed-term has expired or no fixed-term is specified. A continuous social housing tenancy agreement is a 'periodic' social housing tenancy agreement for the purposes of the RT Act.

Table 5.4 Current weekly income thresholds for social housing entry, renewal and subsidy eligibility

	Social housing entry threshold (\$)/week	Public housing renewal threshold (\$)/week	Subsidy eligibility threshold (\$)/week
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 14 June 2017; <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#ilalr> accessed 14 June 2017 and <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/tenancy-charges-and-account-management-policy-supplement>, accessed 14 June 2017.

We understand that in practice, only a few public housing tenants do not have their leases renewed. The average length of tenure in public housing has increased despite the introduction of fixed-term leases in 2005.¹⁰⁵ However, submissions from a wide range of stakeholders including social researchers argued that fixed-term leases operate as an employment disincentive. This is because tenants fear losing their social housing place at the time of their next renewal assessment, if they take up work opportunities.¹⁰⁶

To counter this disincentive, we are recommending FACS develop appropriate tenancy arrangements that facilitate public housing tenants' continued access to suitable housing.

However, it is also important to address the current mismatches between housing stock and tenant household characteristics, and improve the prioritisation and allocation processes to achieve better outcomes from social housing for tenants and the broader community (discussed in Chapter 6). Therefore, we are recommending:

- ▼ all social housing tenants be subject to periodic reviews (for example, at least every three years) to ensure their dwelling continues to meet their household needs, and
- ▼ FACS adopt a formal policy to establish that a tenant's continued eligibility for social housing means they are eligible for a suitable dwelling that meets their needs rather than a specific dwelling.

Our recommendations are substantially the same as those we proposed in our Draft Report, but we have adjusted the wording to clarify our intent in response to stakeholder feedback.

¹⁰⁵ Internal FACS data.

¹⁰⁶ For example, see City Futures Research Centre UNSW submission to Issues Paper, p 12; Evolve submission to Issues Paper, p 13; and Shelter NSW submission to Issues Paper, p 24.

5.4.1 FACS develop lease arrangements that facilitate public housing tenants' continued access to suitable housing

In general, most submissions supported moving away from fixed-term leases for public housing tenants.¹⁰⁷ Fifty-three per cent of respondents to our tenant survey also considered that when a tenant's income exceeds the renewal eligibility threshold they should be able to stay in social housing, (and pay affordable housing or private market rents).¹⁰⁸

However, the NSW Government questioned whether providing ongoing access to social housing for those who can pay market rent is likely to increase employment. It also noted that the impact on other people waiting for social housing should be considered.¹⁰⁹

We emphasise that moving away from fixed-term leases is intended to overcome tenants' fear that they could lose their social housing place if their income increases. As indicated above, social researchers and other stakeholders consider this fear is a strong disincentive for workforce participation. The Productivity Commission's finding that increased housing stability has a positive effect on employment further supports this view.¹¹⁰

We consider that the improved effect on tenants taking up employment opportunities may further encourage those that can do so, to transition to private renting. This would have a further positive impact in freeing up housing for other people waiting for social housing.

5.4.2 All social housing tenants be subject to periodic reviews

Some stakeholders expressed concern that our recommended periodic reviews could mean that tenants, and in particular vulnerable tenants, face relocation every three years.¹¹¹ We consider such reviews are important to ensure that tenants' dwellings continue to be suitable for their household needs. The expectation is not that tenants would have to move every three years, but that when their circumstances change they continue to be suitably housed.

We note the Federation of Housing Associations submitted that CHPs already regularly review living arrangements for the benefit of tenants. CHPs visit tenants at least annually and carry out income reviews every six months. The Federation considers this enables CHPs to identify the suitability of a dwelling to meet tenant needs, in advance of a three-year cycle.¹¹²

We have not prescribed a format for the periodic review. This would be a matter for the contract between the Government and housing providers. The arrangements described by

¹⁰⁷ For example see J. Gallazi submission to IPART Draft Report, p 2; COTA submission to IPART Draft Report, p 5; Shelter NSW submission to IPART Draft Report, p 8; Southern Sydney Regional Organisation of Councils submission to IPART Draft Report, p 4; NSW Federation of Housing Associations submission to IPART Draft Report, p 5. The Tenants Union of New South Wales noted the potential for tenants to be more susceptible to evictions without grounds under continuous leases; while acknowledging that social housing landlords tend not to make use of these provisions, submission to IPART Draft Report, p 2.

¹⁰⁸ Taverner Research, *Survey of Public Housing Tenants*, Research Report, p 3.

¹⁰⁹ NSW Government submission to IPART Draft Report, p 1.

¹¹⁰ Productivity Commission, *Housing Assistance and Employment in Australia*, Research Paper, Volume 1: Chapters, April 2015, p. 51 and *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, November 2016, p 15.

¹¹¹ For example, see Homelessness NSW submission to IPART Draft Report, p 4; and Combined Pensioners & Superannuants Association of NSW Inc submission to IPART Draft Report, pp 5-6.

¹¹² NSW Federation of Housing Associations submission to IPART Draft Report, p 5.

the Federation are potentially already consistent with our recommended periodic review. Other ways in which housing providers could safeguard vulnerable tenants include:

- ▼ undertaking less intrusive (eg, desktop) reviews or less frequent subsequent reviews after a tenant has moved from an unsuitable dwelling to a suitable one
- ▼ prioritising those most at risk of being in unsuitable accommodation, and
- ▼ providing opportunities for tenants to self-identify the need for a transfer when their circumstances have changed.

5.4.3 FACS adopt a policy that a tenant's continued eligibility means eligibility for a suitable rather than a specific dwelling

Some stakeholders were concerned about our emphasis on eligibility for a 'suitable' rather than a 'specific' dwelling, with some noting that existing tenants and key workers should be exempt from this policy.¹¹³ We consider this emphasis is consistent with the intent of the current legislation. Under S148 – 151 of the *Residential Tenancies Act 2010* (RT Act), social housing providers already have the power to instigate a tenant transfer with the explicit requirement that the new property offered must be suitable. However, both tenants and providers appear to equate a tenant's continued eligibility for social housing with entitlement to continue to occupy a specific dwelling. This has been reinforced by the lack of suitable stock to which to move tenants, and the way in which policy has not made use of these existing powers.

To clarify the current position and make it easier to address the current mismatches between housing stock and tenant household characteristics, we maintain that FACS should adopt a formal policy that a tenant's eligibility to social housing means eligibility for a suitable rather than a specific dwelling. It would be a matter for social housing providers to develop lease arrangements that facilitate continued access to suitable housing for tenants.

Recommendations

- 16 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.
- 17 That all social housing tenancy agreements be reviewed periodically (at least every three years) to assess whether the dwelling continues to be suitable for the tenant's needs and characteristics.
- 18 That FACS develop lease arrangements that facilitate tenants' continued access to suitable housing rather than to a specific dwelling.

5.5 Extending the Start Work Bonus would also 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

¹¹³ For example, see Yfoundations submission to IPART Draft Report, p 14; Shelter NSW submission to IPART Draft Report, pp 18-19; and Southern Sydney Regional Organisation of Councils submission to IPART Draft Report, p 4.

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.¹¹⁴ 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. Box 5.3 provides further details on how the Start Work Bonus operates, including the eligibility requirements.

Box 5.3 How Start Work Bonus currently operates

Start Work Bonus was introduced in June 2016. In the first six months after introduction, around 500 social housing tenancies have received a Start Work Bonus.^a 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, or
- ▼ have already exhausted the 26 weeks Start Work Bonus allocation for the financial year.

^a 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>

Consistent with our Draft Report, we are recommending that any increase in income from additional employment-related income¹¹⁵ be exempt from assessment for tenant rent contribution for the first six months it is received. In addition to the current exemptions, this would include extra income when someone in the household:

- ▼ changes jobs
- ▼ increases casual hours, or
- ▼ moves 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.

¹¹⁴ <http://www.housing.nsw.gov.au/living-in-public-housing/rent-and-other-charges/start-work-bonus>, accessed 8 March 2017.

¹¹⁵ 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.

The other currently ineligible categories (listed in Box 5.3) 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.

In addition, we are recommending that at the end of the six-month rent contribution freeze period, if a tenant's income is above the subsidy eligibility limit, they should have the option to either:

- ▼ receive 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, or
- ▼ remain in social housing, and pay market rent and a premium of 5% to reflect the value of the security of housing provided by social housing, in line with our recommendation in Chapter 3.

Most stakeholders who responded to our Draft Report supported extending the Start Work Bonus for any increase in employment-related income,¹¹⁶ although some considered the six-month 'rent contribution freeze' period is too short.¹¹⁷ Our recommendation takes into consideration that any extension to this period will impose a cost on social housing providers in terms of foregone rent revenue.¹¹⁸

Some respondents did not fully agree with our recommendation that following the six-month rent freeze period, tenants who opt to stay in social housing be required to pay market rent plus a 5% premium.¹¹⁹ As Chapter 3 discussed, an alternative to charging tenants a 5% premium would be to require them to move out of social housing which is likely to act as a workforce disincentive. If a household reaches the subsidy eligibility threshold while in social housing it is likely to be because of workforce participation. This is an outcome we are aiming to encourage, and the threat of being required to move out of social housing could undermine this.

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 six-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 housing provided by social housing.

¹¹⁶ For example, see Shelter NSW submission to IPART Draft Report, p 12; Illawarra Forum Inc submission to IPART Draft Report, p 4; and Yfoundations submission to IPART Draft Report, pp 19-20.

¹¹⁷ The NSW Federation of Housing Association's submission to IPART Draft Report, p 5 noted this period is longer in some jurisdictions, eg twelve months in Housing ACT.

¹¹⁸ Our modelling estimates foregone tenant rent under our proposal is in the range \$0.5 million to \$2.5 million if 50% of households' income from wages increases between 2% to 10% respectively, on average.

¹¹⁹ For example, see Shelter NSW submission to IPART Draft Report, p 12; Illawarra Forum Inc submission to IPART Draft Report, p 4; and Yfoundations submission to IPART Draft Report, pp 19-20.

5.6 A 'right of return' safety net would strengthen incentives to transition from social housing

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 transition to the private rental market.

For example, Mission Australia submitted that the lack of a right of return for a tenant whose circumstances change is a key disincentive for tenants to take up opportunities for employment and transition from social housing. This is particularly the case in metropolitan Sydney where affordable private rental housing is in short supply. For example, when a tenant who has taken up employment opportunities and transitioned from social housing then loses their job or faces reduced working hours, they could find themselves in housing stress or homelessness.¹²⁰

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 are recommending tenants retain their original 'application for social housing' date for up to two years after leaving social housing. This would apply only to positive tenant exits – that is, not to tenants who have been evicted due to breach of lease conditions. These recommendations are the same as those in our Draft Report.

Most stakeholders who responded to the Draft Report supported the two-year 'right of return' recommendation.¹²¹ However, some considered the safety net period could be extended to five years for certain tenant cohorts who face additional employment and housing challenge – for example, those aged 50 or over,¹²² and people with episodic mental health issues or degenerative disabilities.¹²³ On the other hand, the NSW Government considered that the right of return after two years post a social housing positive exit should be judged against the impact on applicants for social housing who are in need of support.¹²⁴

We continue to consider that a two-year right of return period is appropriate. Two years provides reasonable time for a tenant to become established at work and in private rental housing. It provides a safety net so that if clients need to return to social housing they will be assessed against their original application date, giving them higher priority on the (general) waiting list than they otherwise would have. This would not have an impact on applicants in the priority category as they would continue to have a higher priority on the waiting list than 'right of return' applicants. Furthermore, if the right of return acts as an incentive to take up work and/or private rental opportunities, this would open up additional places for priority applicants that would not otherwise exist if the positive exit tenants did not take up opportunities for fear of losing access to secure housing.

¹²⁰ Mission Australia submission to IPART Issues Paper, p 4.

¹²¹ For example, see The Benevolent Society submission to IPART Draft Report, p 3; NSW Federation of Housing Associations submission to IPART Draft Report, p 5; and Carers NSW submission to IPART Draft Report, p 5.

¹²² COTA submission to IPART Draft Report, p 5 and p 7.

¹²³ NCOSS submission to IPART Draft Report, pp 10-11.

¹²⁴ NSW Government submission to IPART Draft Report, p 1.

Recommendation

- 21 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.

6 Matching households to the most suitable property 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. The priority category is for people with a more urgent need for shelter, such as those at risk of homelessness or domestic violence, or who 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 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. As in our Draft Report, we are recommending a more sophisticated system be developed to match households to the best property for their needs. This system should continue to use a centralised waiting list and consider urgency of need, but should also aim to optimise the use of social housing stock and tenant satisfaction by:

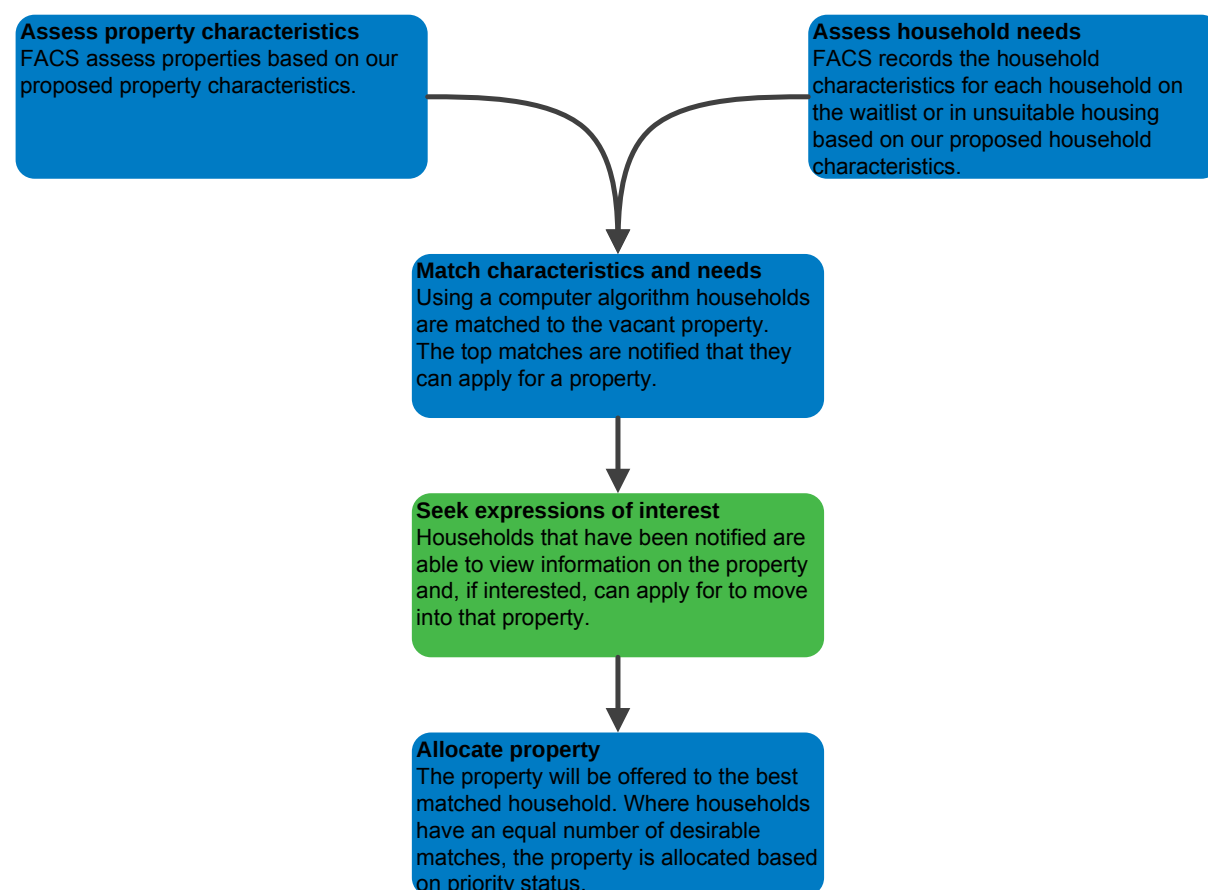
- ▼ placing greater emphasis on allocating applicants properties that give them access to the amenities and opportunities they need and will benefit from
- ▼ reallocating existing tenants identified as being in properties unsuitable to their needs, and
- ▼ including a choice-based letting scheme that allows eligible households to express interest in suitable properties as they become available.

However, we are making additional recommendations that respond to stakeholder feedback on the Draft Report. We agree that in the short term, the priority order for allocating properties to those on the waiting list should be priority applicants first, and existing tenants identified as in unsuitable properties second. In the longer term, as the match between the social housing stock and tenant needs improves, we are recommending the system should aim to both optimise use of social housing stock and minimise waiting times for priority applicants.

We also agree with stakeholders there should be an option for tenancy managers to have an active role in the allocation process. We are recommending this role be negotiated with the NSW Government, and be limited to tenancy managers advertising their properties to selected applicants from the shortlist provided by the centralised matching and allocation process.

We have proposed a prioritisation and allocation process to illustrate how our recommendations might work (see Figure 6.1 and section 6.7).

Figure 6.1 Proposed prioritisation and allocation process



Note: "Seek expressions of interest" would be undertaken by households and other steps by FACS or housing providers.

6.2 Place greater emphasis on allocating applicants to housing with access to the amenities and opportunities they need

Currently, the main focus of the prioritisation and allocation process is to house priority applicants as soon as possible. The extent to which housing providers aim 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)

-
- ▼ property designations (as some properties are designated for aged or female tenants)
 - ▼ Aboriginal heritage (required for AHO properties), and
 - ▼ special needs (eg, accessibility).

Applicants have a tightly restricted opportunity to choose between housing features, location, and expected waiting 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, it has resulted in significant under-occupation, with around 15% of public housing properties having two or more spare bedrooms during 2015-16.¹²⁵ 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.

Stakeholders expressed mixed reactions to this view. For example, Homelessness NSW and Carers NSW were supportive.¹²⁶ Yfoundations raised issues about the potential rigidity of a computerised approach to matching properties and households.¹²⁷ Other stakeholders were very concerned that greater emphasis on matching applicants to properties suitable for their needs would increase the time priority applicants are on the waiting list or in temporary housing.

We maintain our general view that the prioritisation and allocation processes should be redesigned to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities. The redesign should allow public housing applicants to identify multiple allocation zones. However, we also agree it is important to minimise the time priority applicants are on the waiting list. This issue is discussed further in section 6.5 below.

We recognise that Aboriginal people may have specific needs in housing and particularly links to country. We consider 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 to take account of specific and diverse needs of Aboriginal communities including, for example, variable household size and links to country.

Recommendation

- 22 That FACS redesign the waiting list allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities.

¹²⁵ Internal FACS data.

¹²⁶ See Homelessness NSW submission to IPART Draft Report, pp 4-5 and Carers NSW submission to IPART Draft Report, pp 4-5.

¹²⁷ Yfoundations submission to IPART Draft Report, p 14.

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 households live in properties that best meet their changing requirements over time, the social housing prioritisation and allocation processes needs to provide for existing tenants to be moved:

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

To identify such tenants, housing providers would need to conduct periodic reviews to determine if the tenant's existing housing is suitable or if there would be benefits in moving them to more suitable housing. In Chapter 5, we recommended that all social housing leases be reviewed at least every three years to assess whether the property 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 again for a longer period than the standard three years (unless they self-identify).

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 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.

We acknowledge the importance of considering the benefits of stability in achieving good outcomes for tenants. At the same time, tenants should not be entitled to continue to occupy a specific property 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 recommended FACS adopt a formal policy stating that eligibility for social housing means eligibility for a suitable property that meets the tenant household's needs, rather than a specific property (see Chapter 5).

6.4 Adopt a choice-based letting system

Our recommendations for improving the current prioritisation and allocation processes should be combined with a choice-based letting system for social housing in NSW. Choice-

based letting systems are widely used in Europe, and have recently been adopted in Toronto which faces similar social housing issues to NSW.¹²⁸ 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. 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).

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.

In submissions to our Draft Report, stakeholders expressed qualified support for implementing a choice-based letting system.¹²⁹ Generally, they supported the principle of giving tenants greater choice in where they live, but expressed concerns about:

- ▼ the potential for individuals to experience high rejection rates due to significant competition for properties, and
- ▼ the need to ensure all tenants and prospective tenants can access the system.

¹²⁸ Craig C., *Toronto's new social housing waiting list: putting the choice-based rental model into local context*, research paper, 2007, p 1.

¹²⁹ For example, see CIS submission to IPART Draft Report, p 5; Waterloo Public Housing Action Group submission to IPART Draft Report, pp 4- 5; NSW Federation of Housing Associations submission to IPART Draft Report, p 7; Hands Off Glebe Inc submission to IPART Draft Report, p 2; Carers NSW submission to IPART Draft Report, pp 4-5; Yfoundations submission to IPART Draft Report, pp 20-21.

We agree that there is the potential for there to be high rejection rates. We consider that in implementing choice-based letting, tenancy managers will need to monitor the rejection rate and adjust the number of people that properties are advertised to accordingly. The number receiving the advertisement should be designed to balance:

- ▼ minimising the amount of time the property is vacant (ie, avoiding multiple rounds of advertisement), and
- ▼ minimising the number of applicants rejected after expressing interest in the property.

Similarly, we agree that choice-based letting needs to be accessible to all tenants and prospective tenants. As identified in Box 6.1, we consider tenancy managers would need to publish brochures and send out staff to help households who are likely to find it difficult to access the scheme. For example, these include those without access to the internet, low technological skills or language difficulties.

6.5 Aim to both optimise use of social housing stock and minimise waiting times for priority applicants

In our Draft Report, we suggested within our proposed priority and allocation system, that the following order be applied:

- ▼ existing tenants identified to be in unsuitable housing first
- ▼ applicants in the priority category, and
- ▼ applicants and existing tenants in the general category third.

In submissions to the report, stakeholders strongly opposed this suggestion. They argued this would result in applicants in urgent need of housing spending longer times on the waiting list or in unsuitable temporary accommodation.¹³⁰ They also raised concerns that this will place additional strains on the homelessness service system,¹³¹ and that greater use of temporary accommodation is unsustainable.¹³²

We consider that in a housing system where the housing stock largely reflects the needs of its tenants, prioritising existing tenants in unsuitable housing first would optimise the use of the social housing stock without substantially increasing waiting times for the priority applicants. However, we recognise that NSW's current social housing stock does not reflect tenants' needs. In particular, there is a significant shortage of studio and one-bedroom properties, and an oversupply of larger properties.

Therefore, we consider while there are insufficient suitably-sized properties to house existing tenants, priority applicants should be allocated properties first, followed by

¹³⁰ Shelter NSW submission to IPART Draft Report, p 20; NSW Federation of Housing Associations submission to IPART Draft Report, p 6.

¹³¹ Homelessness NSW submission to IPART Draft Report, pp 4-5; NCOSS submission to IPART Draft Report, p 13.

¹³² Domestic Violence NSW submission to IPART Draft Report, p 1; Yfoundations submission to IPART Draft Report, pp 21-22.

households identified as in unsuitable housing. This should not negatively impact the waiting times for priority applicants,¹³³ but it would increase them for general applicants.

Through the social housing strategy, the supply of sufficient stock to rehouse existing tenants who are identified as being in unsuitable housing would increase. As this occurs, the allocation priority should be adjusted to concurrently optimise use of social housing stock and manage waiting times for priority applicants. This would mean increasing the priority of tenants identified as in unsuitable housing.

Moving a household from one social housing property to another would make the original property available for another household. However, we note two important caveats to this:

- ▼ As the NSW Federation of Housing Associations submitted, the original property may not be available immediately.¹³⁴ There may be some time gap between tenants to allow for maintaining, renovating and allocating the property.
- ▼ Most households currently in unsuitable housing are in multi-bedroom properties which are less in demand.

Recommendation

23 That the priority order for allocating properties to those on the waiting list change over time so:

a) in the short term, while the supply of appropriately sized properties is constrained, it is:

- applicants in the priority category first
- existing tenants identified in unsuitable social housing second, and
- applicants and existing tenants in the general category third.

b) in the longer term, as the social housing stock more closely matches tenant needs, this order is adjusted so existing tenants identified as in unsuitable housing are allocated earlier, with the aim of concurrently optimising the use of the social housing stock and managing waiting times for priority applicants.

6.6 Give tenancy managers the option to have an active role in the allocation process for government-subsidised tenancies

In our Draft Report, we did not clearly articulate who would be responsible for the prioritisation and allocation system. Stakeholders raised concerns about a centralised allocation process.¹³⁵ As Chapter 4 discussed, we have recommended the NSW Government adopt a purchaser-provider framework where FACS enters into long-term contracts with housing providers (as a condition of receiving Government subsidies).

As part of these contract negotiations, CHPs (and LAHC) should be able to negotiate the tenancy manager's role in allocating their government-subsidised tenancies. Having

¹³³ As some existing tenants in unsuitable housing are moved to more suitable housing, it may create new vacancies that reduce waiting times for some priority applicants.

¹³⁴ NSW Federation of Housing Associations submission to IPART Draft Report, p 6.

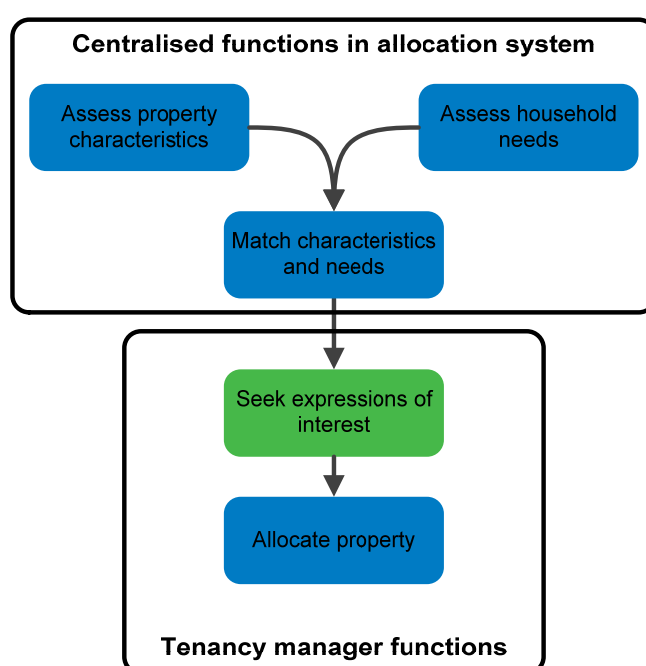
¹³⁵ Shelter NSW submission to IPART Draft Report, pp 12-14; and NSW Federation of Housing Associations submission to IPART Draft Report, p 6.

tenancy managers play an active role in allocating their properties could have several benefits. For example:

- ▼ they may be able to develop their own allocation systems, for example to take account of additional household and property characteristics in the allocation process, which may help identify innovations and improvements to the allocation system overall, and
- ▼ they are likely to have greater knowledge of both their properties and tenants, which mean they are better placed to ensure that allocation is sustainable and optimises the social and economic benefits of the social housing property.

Figure 6.2 illustrates how the functions of the prioritisation and allocation system could be split between FACS and tenancy managers.

Figure 6.2 Centralised and tenancy manager functions in allocation system



Under this approach, we consider the tenancy manager should receive a list of the best 10-100 matches for their property from the centralised waiting list and register of properties. The tenancy manager would then decide which applicants to advertise the property to.

However, all tenancy manager allocation systems would need to be regularly audited for compliance as a requirement of the long-term contract, including an assessment of applicants not selected to receive advertisements.¹³⁶ We consider that all audit findings should be publicly reported.

Recommendation

- 24 That the role of a community housing provider in the allocation process should be negotiated with the NSW Government when entering into a contract to provide government-subsidised housing services, and should be limited to advertising their

¹³⁶ Stakeholders raised concerns that CHPs may have perverse incentives when selecting applicants, see Waterloo Public Housing Action Group submission to IPART Draft Report, p 4.

properties to selected applicants, from the shortlist provided by the centralised matching process and the subsequent allocation of properties to households.

6.7 Our proposed prioritisation and allocation process

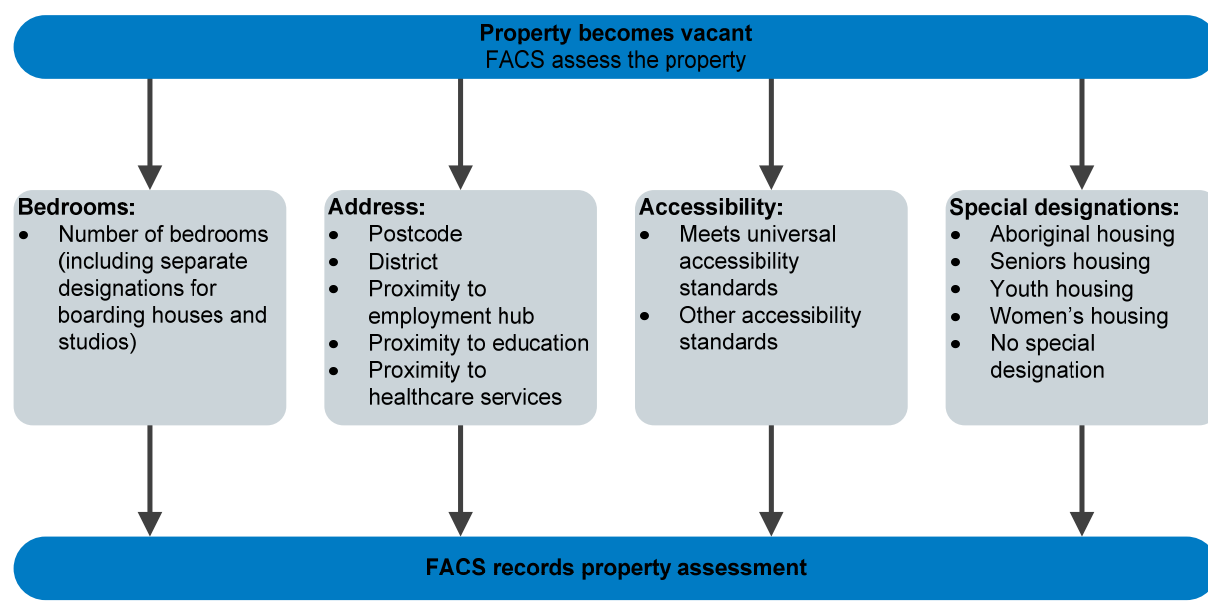
Our proposed prioritisation and allocation process illustrates how our recommendations might work. We consider this kind of process would optimise the allocation of households to properties and improve the customer experience of social housing. As outlined in Figure 6.1 above, our proposed process has five steps:

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

6.7.1 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 6.3). All properties would need to be assessed; however, vacant properties would be prioritised.

Figure 6.3 Proposed property assessment process



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.

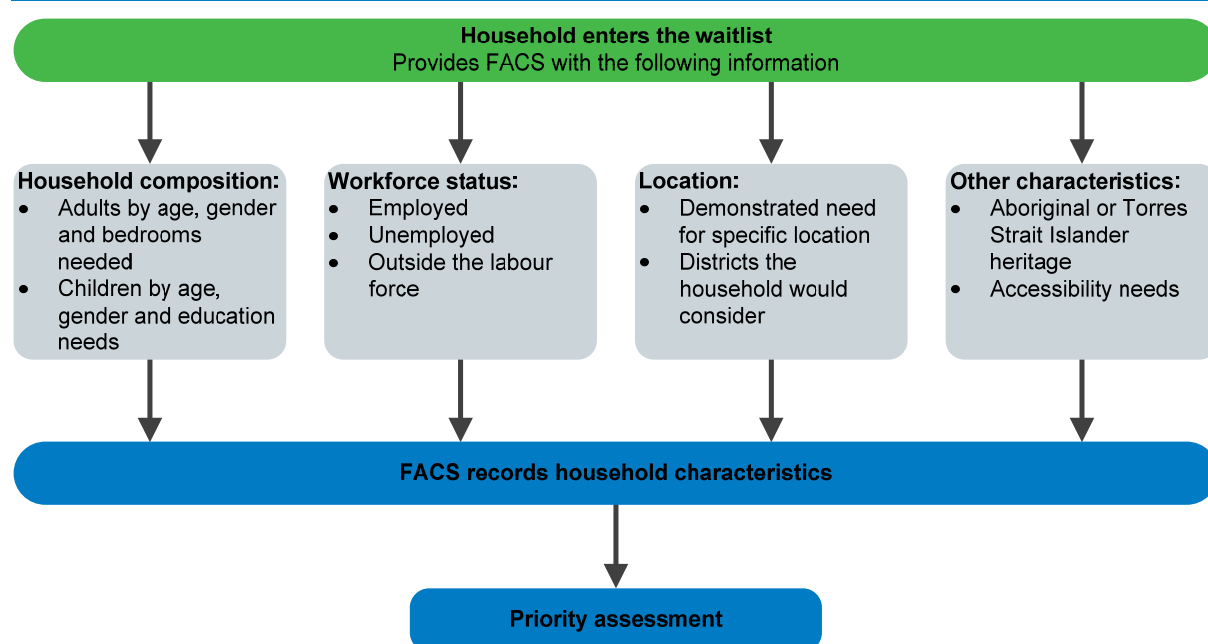
-
- ▼ **Address** – most households will have a preferred district in which they are applying for housing and some households will need to be in a specific location.
 - ▼ **Proximity to employment hubs** – being near an employment hub is important for helping social housing residents find and maintain 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.

FACS would need to consider whether any additional criteria are required to implement this assessment.

6.7.2 Assess household characteristics and needs

The next step is to assess and record the characteristics and needs of each household seeking a social housing property, and their priority status (Figure 6.4).

Figure 6.4 Proposed household characteristics and priority assessment



Note: First step undertaken by households and subsequent 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, to facilitate access specialised education or healthcare services, work opportunities, or aged and disabled tenants' local support systems).
- ▼ **Other characteristics** – there may also be additional characteristics that need to be recorded, including Aboriginality and accessibility needs.

This assessment is not designed to prioritise households in the workforce above households who are unable to work. On implementation, FACS would need to develop a policy that identifies the amount of limited discretion case officers are granted in making these assessments. In submissions to our Draft Report stakeholders suggested that case workers

need some discretion to identify needs not covered in the assessment, such as additional bedrooms for informal carers.¹³⁷

The household's priority would be determined based on existing priority assessment and whether they are an existing tenant identified as in unsuitable housing, in line with Recommendation 23, above.

6.7.3 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 their priority.

6.7.4 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.¹³⁸

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 initially an individual property should be advertised to between 10 and 100 households. The number of households receiving advertising would need to be optimised, to minimise both the number of rounds of advertising and the rejection rate for

¹³⁷ Shelter NSW submission to IPART Draft Report, pp 12-14; Yfoundations submission to IPART Draft Report, pp 14-17.

¹³⁸ Tenancy managers may be able to further filter the shortlist due to additional characteristics of the household or property.

applicants. This number should be refined as tenancy managers better understands the proportion of households that typically applies for properties and property characteristics.

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.

6.7.5 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.

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 and targeted social housing.¹³⁹ The targeted housing is owned and/or managed by the Aboriginal Housing Office (AHO)¹⁴⁰ 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.¹⁴¹

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

7.1 Summary of recommendations on Aboriginal social housing

Our 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 consider 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 but 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 that 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.

¹³⁹ Australian Institute of Health and Welfare, *Housing circumstances of Indigenous households: tenure and overcrowding*, 2014 p 32.

¹⁴⁰ 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.

¹⁴¹ AHO typically refers to the community housing sector. We use the term social housing.

These recommendations are the same as those in our Draft Report, which were supported by stakeholders.¹⁴²

7.2 Continue implementing the Build and Grow strategy

The AHO 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.¹⁴³ 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 housing¹⁴⁴ (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.¹⁴⁵

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 CRA¹⁴⁶ (which is only payable where rents are above a threshold amount).¹⁴⁷ The rent collection rate has generally been low. These practices have contributed to the poor financial viability of the sector and a large

¹⁴² NSW Federation of Housing Associations submission to IPART Draft Report, p 7; and Shelter NSW submission to IPART Draft Report, p 9.

¹⁴³ IPART calculation based on Family and Community Services, *Annual Report 2015-16*, Volume 1 p 41.

¹⁴⁴ 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).

¹⁴⁵ 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>.

¹⁴⁶ NSW Aboriginal Housing Office, Human Services, *The Build and Grow Aboriginal Community Housing Strategy*, pp 6-7.

¹⁴⁷ 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.

maintenance backlog. In 2011, the estimated maintenance backlog was more than \$100 million.¹⁴⁸

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 (increasing by \$10 each rent review) 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).¹⁴⁹ 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).¹⁵⁰

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.¹⁵¹

¹⁴⁸ NSW Aboriginal Housing Office, Human Services, *The Build and Grow Aboriginal Community Housing Strategy*, p 6.

¹⁴⁹ AHO receives final Provider Assessment and Registration System registration and performance review reports, but does not have a database to capture this information.

¹⁵⁰ Data provided by Aboriginal Housing Office, Family and Community Services 14 February 2017.

¹⁵¹ 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^a 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).^b

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.^c

- ▼ 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.^d
- ▼ 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.^e

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.^f

- 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 are recommending the current transition process should continue with the goal of placing Aboriginal housing on the same rent model as social housing.

Stakeholders responding to our Draft Report mainly agreed that ACHPs should transition to the same funding and rent model as other social housing. They considered this would create a more viable Aboriginal Housing sector¹⁵² and that the current mismatch of rents led some to prefer Aboriginal housing and so miss out on housing offered by mainstream social housing.¹⁵³ The Tenancy Support and Education Project Partnership submitted that it would take time to transition to rent alignment and that the Aboriginal housing sector needs to be supported until implementation is complete.

The Western Aboriginal Tenants Advice and Advocacy Service¹⁵⁴ submitted that in some remote regions, setting rents for social housing at 25% of income may be too high given the high cost of living in these areas. But we do not consider it appropriate to reduce rents or change rent models to address high non-housing costs of living in remote areas. We also note that social housing rents are charged as the lower of market rent and income-based rent. In remote areas with very low market rents, that could mean that households have the opportunity to rent social housing properties for less than 25% of their income.

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

We are also recommending that AHO monitor and publicly report on rents charged by ACHPs and that this data on rents and sustainability contribute to an independent review of the implementation of Build and Grow. As our Draft Report identified, further data and analysis on progress with the implementation of the Build and Grow rent model will assist in the transition to ACHPs adopting the same rent model as other social housing. 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.¹⁵⁵ 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

¹⁵² Tenancy Support and Education Project Partnership submission to IPART Draft Report, pp 2-3.

¹⁵³ Mr C Trindall, Transcript of Public Hearing, Dubbo, 2 May 2017, p 19.

¹⁵⁴ Ms R Dundas, Transcript of Public Hearing, Dubbo, 2 May 2017, pp 7 and 15.

¹⁵⁵ Correspondence with FACS, March 2017.

based social housing rents. Stakeholders strongly supported improving reporting and transparency on rents charged by ACHPs.¹⁵⁶

Recommendations

- 25 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.
- 26 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).

ACHPs may also have their own waiting lists that are not linked to the NSW Housing Register. Some applicants may only be on ACHP waiting list(s) 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. (See section 6.5 for more information.)

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 system 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.

Stakeholders strongly supported consulting with Aboriginal providers and tenants on this system, as well as more broadly on housing policies.¹⁵⁷ Tenant Support and Education supported redesign and consultation on the allocation process for government-owned stock specific to Aboriginal tenancies but submitted that this will create an extra level of criteria around cultural sensitivity when allocating stock owned by Aboriginal Corporations and Local Aboriginal Land Councils.¹⁵⁸

¹⁵⁶ Shelter NSW submission to IPART Draft Report, p9; and Tenancy Support and Education Project Partnership submission to IPART Draft Report, p 4.

¹⁵⁷ NSW Federation of Housing Associations submission to IPART Draft Report, p 7; Shelter NSW submission to IPART Draft Report, p 9; and Illawarra Forum Inc submission to IPART Draft Report, p 5.

¹⁵⁸ Tenancy Support and Education Project Partnership submission to IPART Draft Report, p 4.

Recommendation

- 27 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 22).

8 Subsidised affordable housing

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

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 has been considered 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 findings and recommendations on affordable housing are summarised below, and then discussed in more detail.

8.1 Summary of findings and recommendations on affordable housing

We consider that a government-subsidised affordable housing product is not consistent with the objectives of this review. Housing affordability cannot be solved with a subsidy regime: the problem is too large, and subsidising demand for housing serves to increase rents rather than reduce them. Subsidising affordable housing also 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 and other housing assistance products for people on very low to low incomes.

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

Therefore, we are recommending 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. This is consistent with our draft recommendations.

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.¹⁵⁹

8.2 Subsidised housing assistance should target those in the most need

The Government has to allocate a limited budget to subsidised housing. As the budget is limited, it is appropriate that subsidised housing is means tested. In line with the objectives of this review, we consider all housing assistance subsidised by the NSW Government should target those in the greatest need. This is typically the cohort of households on very low and low incomes in need of social housing (and, within that cohort, those with additional needs on top of socio-economic disadvantage, that is, those in the priority category).

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 who are likely to need support for a shorter time, to divert or transition them from social housing to the private housing market (see Chapter 5).

Submissions to our Draft Report were generally opposed to this position:

- ▼ The NSW Government stated that affordable housing can provide a path out of social housing and alleviate housing stress for those above social housing income thresholds¹⁶⁰
- ▼ Ms Talie Star submitted that a lack of affordable housing increases the demand for social housing¹⁶¹
- ▼ Homelessness NSW considered affordable housing to be an essential component in addressing the current housing crisis¹⁶²
- ▼ NCOSS and Yfoundations argued that affordable housing is a pathway to the private market from social housing¹⁶³
- ▼ Southern Sydney Regional Organisation of Councils submitted that affordable housing is a key part of Sydney's economic productivity and competitive advantage,¹⁶⁴ and
- ▼ Shelter NSW and NCOSS put the view that affordable housing is part of a broader housing policy and should be considered alongside social housing.¹⁶⁵

¹⁵⁹ 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 24 March 2017.

¹⁶⁰ NSW Government Response to IPART Draft Recommendations.

¹⁶¹ Talie Star submission to IPART Draft Report, p 2.

¹⁶² Homelessness NSW submission to IPART Draft Report, p 3.

¹⁶³ NCOSS submission to IPART Draft Report, p 5; Yfoundations submission to IPART Draft Report, p 22.

¹⁶⁴ Southern Sydney Regional Organisation of Councils submission to IPART Draft Report, p 2.

On the other hand, the Waterloo Public Housing Action Group supported our position, noting that it is important that social and affordable housing do not become intertwined and divert assistance from the most vulnerable.¹⁶⁶ The Benevolent Society provided qualified support, noting concern that providing housing assistance to people on moderate incomes could come at the expense of housing assistance to those on lower incomes, such as those needing social housing.¹⁶⁷

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 to our Issues Paper:

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.¹⁶⁸

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. Nevertheless, they may still continue to invest in affordable housing.

Affordable housing has also been proposed as a way to create paths out of social housing into the private housing market. However, our recommendations would provide new and improved paths out of social housing. For example, we have recommended households not be required to leave social housing if their income increases to a level that makes them ineligible for a subsidy in social housing, but rather pay market rent plus 5%. This should help prepare them (and provide a modest incentive for them) to transition to the private rental market. In addition, we consider 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.

We maintain our view that NSW Government investment in subsidised housing assistance should focus on those in the greatest need of this assistance. We have not made any substantive change to our draft recommendation.

Recommendation

- 28 That the NSW Government focus housing assistance on providing social housing and other housing assistance products to people on very low to low incomes.

¹⁶⁵ Shelter NSW submission to IPART Draft Report, pp 20-22; and NCOSS submission to IPART Draft Report, pp 5-6.

¹⁶⁶ Waterloo Public Housing Action Group submission to IPART Draft Report, p 1.

¹⁶⁷ The Benevolent Society submission to IPART Draft Report, p 6.

¹⁶⁸ Evolve Housing submission to IPART Issues Paper, p 10.

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.

We received no submissions on this issue and have not made any change to our Draft Recommendation.

Recommendation

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

8.4 Housing affordability cannot be solved with a subsidy regime

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. Housing affordability is a substantial issue in NSW, particularly in Greater Sydney.

The gap in affordability between social housing and private rental housing cannot be solved through a subsidy mechanism, such as those used to fund subsidised affordable housing schemes.¹⁶⁹ The problem is too large, and subsidising demand for housing serves to increase rents rather than reduce them. Instead, we consider that the affordability gap should be closed by dealing with the broader issue of housing affordability. This complex problem is outside the scope of our review.

We note that in June 2017 the NSW Government announced a housing affordability package¹⁷⁰ which included:

- ▼ Increasing the housing supply, through:
 - 15 new priority precincts
 - faster development approvals with a target of 90% approvals determined within 40 days by 2019

¹⁶⁹ We consider inclusionary zoning to be a form of subsidy, where the property owner or developer is taxed (either financially or in kind) to subsidise affordable housing.

¹⁷⁰ NSW Government, *A fair go for first home buyers*, 1 June 2017, <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/first-home-buyers> accessed 20 June 2017.

- expand complying developments to include medium density, under a medium density housing code, and
- assistance and incentives for 10 priority councils to update their Local Environment Plans with appropriate housing targets.
- ▼ Funding infrastructure, with:
 - \$600 million to the Housing Acceleration Fund
 - up to \$500 million for halving the cost of councils’ borrowing for eligible infrastructure, and
 - the introduction of special infrastructure charges for 10 areas and the phasing out of the Local Infrastructure Growth Scheme.
- ▼ Increasing concessions to first home buyers, including:
 - stamp duty exemptions for first home buyers purchasing homes worth up to \$650,000 and concessions up to \$800,000
 - \$10,000 grants to first home buyers building a new property worth up to \$750,000 and first home buyers purchasing a new property worth up to \$600,000, and
 - removing the insurance duty on lenders’ mortgage for first home buyers.

This package is an important step to reduce upward pressure on the cost of housing. We consider that there are more steps local, NSW and Commonwealth Governments could pursue to further reduce distortion of the price of housing (see Box 8.1).

IPART finding

- 6 The gap in affordability between social housing and private rental housing cannot be solved through a subsidy mechanism, such as those used to fund subsidised affordable housing schemes.

Box 8.1 Making housing more affordable

How can Government policy reduce the cost of supplying housing?

Planning policy and building legislation can directly impact the housing supply and its cost by:

1. Increasing certainty – by reducing the costs and uncertainty of obtaining administrative approvals and certification
2. Removing or reducing restrictions – such as density restrictions and zoning
3. Reducing time to obtain approvals – such as time to comply with planning and design requirements.

A recent Australian study found that the supply of housing is not very responsive to increases in prices. It found that a 1% increase in prices would only lead to an increase of 0.05% to 0.09% in the total housing stock.^a Studies from the United States have found that where there are more permissive planning and approval processes, the housing supply is more responsive to increases in price.^b

How can Government policy reduce housing demand?

Fiscal and monetary policy can impact the demand for housing:

- ▼ Most housing purchases are dependent on debt financing; as such, interest rates typically have an inverse relationship with housing demand. The existing relatively low interest rates put upward pressure on housing prices
- ▼ State and Commonwealth tax and welfare policy impacts the demand for housing, for example:
 - NSW Government stamp duty makes it expensive to buy and sell housing creating an incentive for people to hold onto their housing assets for longer.
 - Commonwealth Government negative gearing and capital gains discounts increase individual investor demand for housing
 - Commonwealth Government capital gains and imputed rents exemptions for owner-occupied housing increase demand for owner-occupied housing
 - Excluding the principal place of residence from the pension asset test encourages older households to stay in houses that are too large for their needs.

Government policy that can make supply more responsive to price and reduce the demand for housing may be able to significantly improve housing affordability.

a Ong, R., Dalton, T., Gurrán, N., Phelps, C., Rowley, S. and Wood, G. (2017) *Housing supply responsiveness in Australia: distribution, drivers and institutional settings*, AHURI Final Report No. 281, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/281>, doi:10.18408/ahuri-8107301.i

b Green, R.K., Malpezzi, S. and Mayo, S.K., 2005. Metropolitan-specific estimates of the price elasticity of supply of housing, and their sources. *The American Economic Review*, 95(2), pp.334-339.



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

Table B.1 Submissions to our Issues Paper

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

Table B.2 Submissions to our Draft Report

Submitter	Date Received
<i>Organisations</i>	
Aboriginal Housing Office (Confidential)	12 May 2017
Action for Public Housing	12 May 2017
The Benevolent Society	11 May 2017
Blue CHP	4 May 2017
Carers NSW	15 May 2017
The Centre for Independent Studies	15 May 2017
Combined Pensioners & Superannuants Association	11 May 2017
COTA NSW	10 May 2017
DVNSW	12 May 2017
Hands Off Glebe	12 May 2017
Homelessness NSW	12 May 2017
Illawarra Forum Inc	11 May 2017
Inner Sydney Voice	12 May 2017
NCOSS	12 May 2017
NSW Federation of Housing Associations	11 May 2017
The Property Owners Association of NSW Inc	12 May 2017
Shelter NSW	11 May 2017
Southern Sydney Regional Organisation of Councils	15 May 2017
St George Community Housing	19 May 2017
Tenancy Support and Education Project Partners	12 May 2017
Tenants Union of NSW	12 May 2017
Waterloo Public Housing Action Group	12 May 2017
Yfoundations	19 May 2017
<i>Individuals</i>	
Alexander Sanchez	15 May 2017
Anonymous	26 April 2017
Anonymous (3 submissions)	10 May 2017
Anonymous	11 May 2017
Anonymous (Confidential)	11 May 2017
Anonymous (Confidential) (11 submissions)	12 May 2017
Jeanine Gallazi	9 May 2017
Kel Vincent	8 May 2017
Kelly L	28 April 2017
Melysa Cox (Confidential)	11 May 2017
Noel Mills	11 April 2017
Talie Star	12 May 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.¹⁷¹

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 2015-16 Annual Report, p 31 and IPART calculations.

¹⁷¹ NSW Government, *Future Directions for Social Housing in NSW*, p 7.

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 Housing Corporation (LAHC)¹⁷² and a further 10% are owned by LAHC and assets managed by Community Housing Providers (CHPs). Figure C.1 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 2014.¹⁷³ 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 2015-16.¹⁷⁴

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 2021.¹⁷⁵ 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.

¹⁷² 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.

¹⁷³ 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.

¹⁷⁴ FACS, *Vested Assets Program*.

¹⁷⁵ Internal FACS data.

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. 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.¹⁷⁶ 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).¹⁷⁷ 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.¹⁷⁸

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.¹⁷⁹

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.¹⁸⁰ 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.

¹⁷⁶ FACS, *Statistical report 2014-15*, p 17.

¹⁷⁷ IPART calculation based on FACS, *Annual Report 2015-16*, Volume 1 p 41.

¹⁷⁸ Legislative Assembly of NSW Public Accounts Committee, *Tenancy Management in Social Housing*, November 2014, p 52.

¹⁷⁹ NSW Government, *Budget Paper No.3 Budget Estimates 2016-17*, p 3.4.

¹⁸⁰ 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.

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 Office¹⁸¹ (AHO) and managed by FACS) are made through a single system, *Housing Pathways*.¹⁸² Applicants may nominate an 'allocation 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 NSW¹⁸³ 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).¹⁸⁴ 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.¹⁸⁵

¹⁸¹ 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.

¹⁸² Currently the majority of Aboriginal Community Housing Providers do not access *Housing Pathways*.

¹⁸³ The Registrar of Community Housing is responsible for regulating CHPs in NSW under the National Regulatory System for Community Housing. 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.

¹⁸⁴ Community Housing Federation of Australia, *Allocation, eligibility and rent setting in the Australian community housing sector*, 2014, p 16.

¹⁸⁵ 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 accessed on 19 September 2016.

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 applicants while they wait for suitable social housing to become available.

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.¹⁸⁶ FACS also reported that:

- ▼ as at 30 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).¹⁸⁷

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).¹⁸⁸ 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).¹⁸⁹ 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

¹⁸⁶ Internal FACS data.

¹⁸⁷ 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

¹⁸⁸ 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.

¹⁸⁹ 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.

than the calculated income-based rent or because their income exceeded the threshold for subsidisation (or they did not declare their income to FACS).¹⁹⁰

Table C.2 Social housing households on subsidised rent as at 30 June 2016^a

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

Note: Community housing data is for 2015. 2016 data for community housing is not available. ACHP data is not available.

Source: Internal FACS data

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. 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.¹⁹¹

CHPs have reported that on average they access around \$3,000 per tenant per year in CRA.¹⁹²

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*

¹⁹⁰ 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.

¹⁹¹ FACS, *NSW Community Housing Rent Policy*, July 2014, 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.

¹⁹² 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.

Rent Policy.¹⁹³ 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.¹⁹⁴ 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.¹⁹⁵ 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.¹⁹⁶

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.¹⁹⁷ 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).¹⁹⁸

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.

¹⁹³ 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.

¹⁹⁴ <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/types-and-length-of-lease-policy>

¹⁹⁵ 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.

¹⁹⁶ Internal FACS data.

¹⁹⁷ 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.

¹⁹⁸ Internal FACS data.

Most **community housing** is provided as continuous tenure,¹⁹⁹ except where a program specifies maximum lease terms or eligibility criteria for ongoing occupancy.²⁰⁰ 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).²⁰¹

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.²⁰²

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).²⁰³

¹⁹⁹ FACS, *NSW Community Housing Access Policy*, June 2016, p 7.

²⁰⁰ <http://www.sgch.com.au/wp-content/uploads/2015/09/End-of-Tenancy.pdf>, accessed 19 September 2016.

²⁰¹ <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#relocation1>, accessed 19 September 2016.

²⁰² FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 51.

²⁰³ FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, 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 ^a	Community housing
% Centrelink benefits (%)	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
Wages (%)	5.0	6.5	9.0
Other (%)	1.6	1.4	2.0
Total subsidised tenancies	100,133	3,206	26,218

^a 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.²⁰⁴

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 2016.²⁰⁵ 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.²⁰⁶

²⁰⁴ FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 59.

²⁰⁵ Internal FACS data.

²⁰⁶ 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).²⁰⁷
- ▼ 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.²⁰⁸ (Around 5% of all households living in NSW mainstream public and community housing are overcrowded).²⁰⁹
- ▼ 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).²¹⁰
- ▼ 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).²¹¹
- ▼ 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).²¹²
- ▼ 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).²¹³

²⁰⁷ IPART calculation using internal FACS data.

²⁰⁸ 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.

²⁰⁹ Productivity Commission, *Report on Government Services 2016 G.2* (2015 data).

²¹⁰ Productivity Commission, *Report on Government Services 2017*, Table 18A.28, 18A.27

²¹¹ 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.

²¹² Productivity Commission, *Report on Government Services 2017*, Tables GA.6, Table 18A.36, Table 18A.38.

²¹³ Productivity Commission, *Report on Government Services 2017*, Table 18A.36.

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.²¹⁴
- ▼ 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%).²¹⁵

²¹⁴ IPART calculation using internal FACS data.

²¹⁵ 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 and 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 ^a	110,066	26,864 ^b	136,930

^a We have assumed a vacancy rate of around 1.5%.

^b LAHC owns around 60% of the dwellings that CHPs manage.

Note: Totals may not add due to rounding.

Source: 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.²¹⁶

²¹⁶ FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, Note 3, p 217 and Note 21, p 239.

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.²¹⁷ 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).²¹⁸

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 costs²¹⁹ (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

²¹⁷ FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, p 216.

²¹⁸ <https://www.thebalance.com/home-maintenance-budget-453820>, accessed February 2017.

²¹⁹ 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 ^a	Property agent fees
	Public and Community housing	Sample of CHPs	
Tenancy management	1,488 ^c	1,554 ^d	
Property management	1,106	681 ^d	
Total tenancy and property management	2,594	2,235	1,500- 3,000 ^e
Water rates	915	na	na
Council rates ^b	1,148	na	na
Total including water rates and charges	4,657	na	na

^a 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.

^b 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.

^c 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.

^d Inflated from 2013-14 to 2015-16 costs.

^e 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 charged by property agents in the residential rental market. Using information from the Office of Fair Trading,²²⁰ 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.²²¹ 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 Institute²²² (see Table D.2).

²²⁰ 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 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, accessed March 2017.

²²¹ 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/>).

²²² 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.²²³

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.²²⁴ 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%.²²⁵ 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.

²²³ 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, accessed March 2017.

²²⁴ FACS, *Family and Community Services Annual Report 2015–16, Volume 2 Audited Consolidated Financial Statements for the year ending 30 June 2016*, p 218.

²²⁵ Australian Prudential Regulation Authority, *Quarterly ADI Property Exposures*, September 2016, p 6.

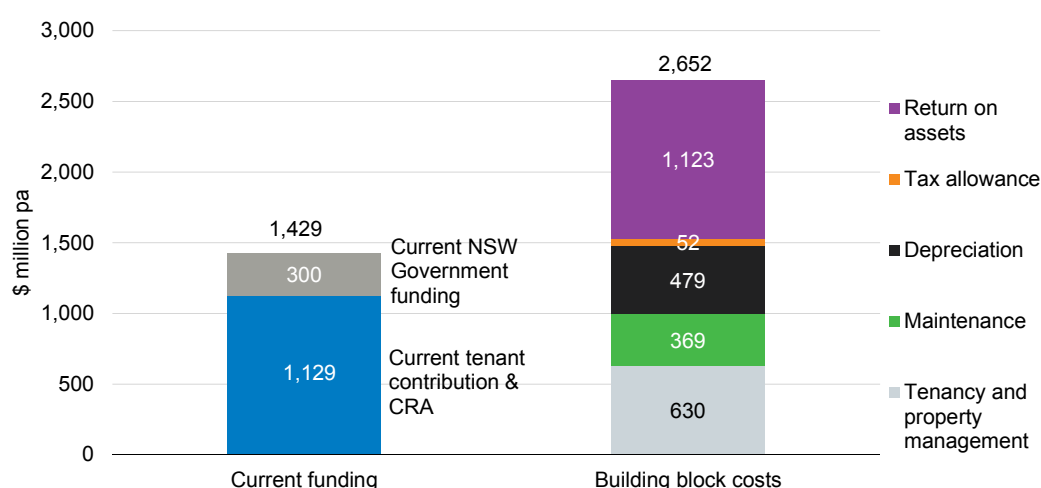
- ▼ **Effective tax rate of 23%:** The effective tax rate is obtained from the Russell/ASX Long-term Investing Report, which we use as the basis for calculating an appropriate benchmark rate of return for social housing (see Appendix E). The Russell/ASX Long-term Investing Report presents effective tax 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 2015.²²⁶
- ▼ **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.²²⁷

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 recommendation 3) 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)



²²⁶ <http://www.asx.com.au/documents/research/russell-asx-long-term-investing-report-2016.pdf> accessed 24 February 2017, p 12.

²²⁷ 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.

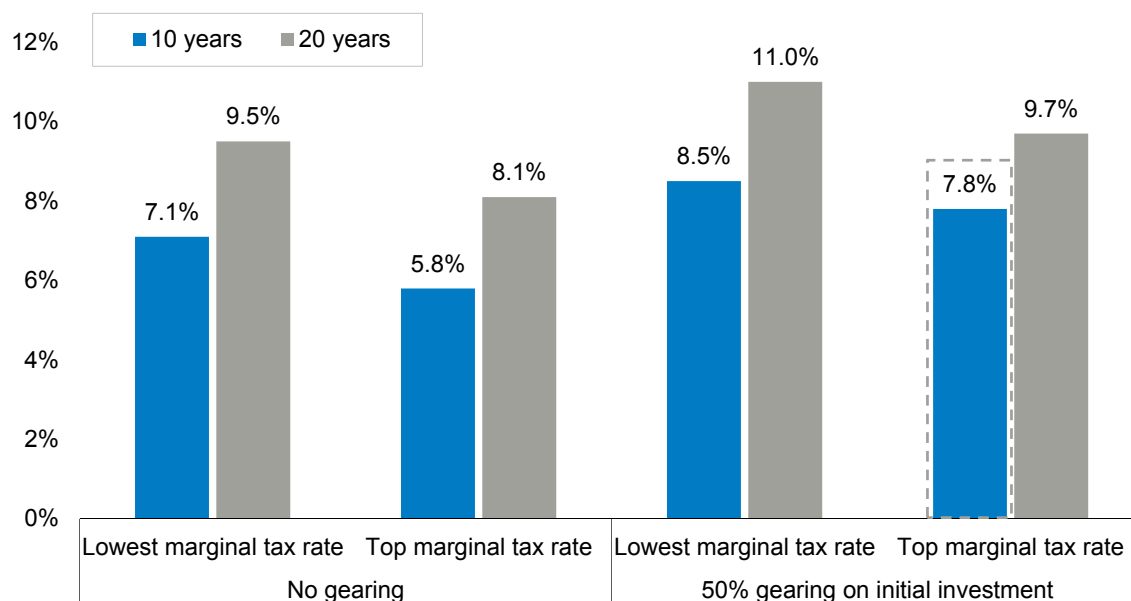
E.2 Estimating the rate of return for residential investment

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 found 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:

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

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 2016.²²⁸ For the cost of conveyancing as of June 2016, 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.

²²⁸ <http://www.realestate.com.au/advice/how-much-does-it-cost-to-sell-a-house/> accessed 24 February 2017.

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	Asset management includes: ▼ Advising the Government on how best to utilise its land and housing assets for the delivery of agreed social housing outcomes ▼ Managing and developing land and housing assets ▼ Maintaining and upgrading existing dwellings ▼ Acquiring, planning and developing land and dwellings ▼ Disposing of land and dwellings Asset management does not include tenancy management.

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 Governments, 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.
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)	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: ▼ Tier 1 have the highest level of performance requirements and regulatory engagement and operate at and have ongoing development activities at a large scale ▼ Tier 2 have an intermediate level of performance requirements and regulatory engagement and operate at a moderate scale, and have small scale development activities ▼ Tier 3 have a lower level of performance requirements and regulatory engagement and operate at a smaller scale and do not have development activities.
Crisis or emergency accommodation	Short term accommodation (generally three months or less) for people who are experiencing homelessness or at risk of homelessness and must require immediate housing and support.

Equity (Chapter 3)

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:

- ▼ Horizontal equity- Those in similar circumstances should be treated similarly.
- ▼ Vertical equity – Those in the worst circumstances should be assisted more than, and in some cases before, those not as badly off.
- ▼ 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.

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.

General applicant

A general applicant is someone who has been assessed as eligible for social housing (based on income) and placed on the NSW Housing Register.

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, initiating a whole-of-government approach to tackling the problem of housing affordability.
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.
NSW Housing Register	The state-wide waiting list of eligible applicants for social housing in NSW managed by FACS. Applicants apply through Housing Pathways to be listed on the Register.

Priority applicant	A priority applicant is someone who has been assessed as eligible for social housing (based on income) and is also in urgent need of housing due to homelessness, risk of domestic violence or other risk factor.
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.
Short-term or emergency accommodation	Living situations where people who would otherwise be homeless, receive temporary accommodation, including refuges, crisis shelter, 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.
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.

Tenancy management	Tenancy management services include allocating a property to a tenant, establishing a lease, collecting rent, property inspections, coordinating repairs and maintenance, managing rent arrears, managing lease breaches, disputes and complaints.
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.
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.