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Independent Pricing & Regulatory Tribunal
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Dear IPART

Re: Review of rent models for social and affordable housing

It is with pleasure that I lodge the following submission to IPART on the Draft Report *Review of rent models for social and affordable housing (Draft Report)*. In summary, the submission focuses on the following aspects in the *Draft Report*:

- The absence of underlying principles that underpin the proposed reforms to social housing rents and arrangements in the *Draft Report*.
- The potential implementation risks from the funder provider model outlined in the *Draft Report*, including having due regard for market dominance from incumbent providers and providing funding support for legacy assets acquired from Commonwealth grants.
- Commentary on the "building block" method of determining social housing costs including the absence of allowance for the cost of insurance and the extent to which tenancy management costs include the provision of "wrap around" services.
- The adequacy of IPART consideration given to alternative market based funding models for the provision of social housing, including replacing provider assistance or block funding with direct assistance to the household.
- The scope for alternate models of social housing delivery including transferring the responsibility for social housing provision to local government authorities.

Underlying principles for social housing rent reform

The *Draft Report* would benefit from a clearer articulation of the underlying principles being sought in the reform of the social housing sector and in particular, through reform of rental models and funding arrangements. Although aspects of these principles are evident in the report, it is not clear from the report what the underlying goal(s) of the proposed reforms are expected to provide.

A number of underlying principles/goals can be envisaged and would assist in setting the framework for the future. These include:

- The introduction of greater transparency in the funding of the social housing system by allocating to social housing providers a subsidy for the community service obligation attached to the provision of housing at less than market rent;
- Facilitating greater contestability and diversity in the system to encourage greater levels of innovation in service needs delivery and in housing design;

- Improving the distribution and geographic dispersal of social housing properties in NSW, including de-commissioning of the super lot housing estates that concentrate disadvantage ;
- The provision of additional capital into the social housing system to add to supply and the allocation of the scarce social housing resource to those households most in need

The omission of a clear set of principles for social housing rent reform in the Issues Paper has circumscribed the capacity of IPART to pursue a more detailed reform path outlined in the Issues Paper leaving the recommended path in the *Draft Report* to one of adjusting social housing rents for pension supplements and the addition of a surcharge on rent for security and explicit funding. Although these reforms are a step in the right direction it is possible to envisage a reform pathway that embraces the above set of principles in a more coherent and bolder fashion.

The risks in implementation from the proposed funder/provider model.

The IPART recommendation to introduce an explicit community service obligation to social housing providers through a funder/provider approach is appropriate and considered. As the report indicates, the current funding "gap" cost between market rent and social housing rents is being experienced through asset sales and reduced maintenance – a position that is fundamentally unsustainable.

Notwithstanding this however, it is appropriate that IPART have regard to key considerations during the implementation phase of this recommendation, should it be adopted by government. In particular, the IPART report would be improved if some of the risks associated with the recommendation were disclosed to the extent that are able to be mitigated during implementation. For example, some of the key risks attached to this recommendation include:

- Entrenching the current unique position of the State Owned social housing provider, including providing return on asset funding support for legacy assets acquired as a result of previous grants and/or Commonwealth State Housing Agreements.
- The risk that management transfers programs become misaligned due to funding support being allocated to social housing providers who may not be asset owners.
- The risk that further entrenching the position of the State Owned Housing Authority will deplete incentives to engage in the renewal of concentrated housing estates.
- In the absence of governance and a capital structure/framework, the risk that the State Owned Housing Authority will misapply the additional funding support or undermine cost controls.
- The impact on future Commonwealth funding arrangements including access to Commonwealth Rent Assistance

Although IPART recommend that the NSW Land and Housing Corporation (LAHC) be placed on a commercial footing as part of the funder/provider arrangements, the IPART *Draft Report* would be improved if it also had regard to the risks above and then set out that how the funder/provider model anticipates managing these risks going forward.

The Building Block Cost Approach

It is understandable that IPART have looked at the experience of other long lived regulated assets to apply a building block cost approach to the provision of social housing (a similar long lived asset). In arriving at the building blocks of costs for social housing, IPART have adopted an appropriate framework other than in several key areas. These are:

- The absence of an allowance for insurance costs for social housing properties. Irrespective of the insurance arrangement (i.e. catastrophe, industrial special risks or other), social housing providers incur costs associated with insuring their property portfolio and these must be considered.
- The costs of tenancy management and in particular, the role that a social housing provider should play in accommodating "wrap around" services for their tenants notwithstanding private sector tenancies are not required to do so.
- The provision of location based services such as access and demand arrangements currently proposed to be undertaken as part of the management transfers program.

Although the NSW government's *Future Directions* strategy sets out the importance placed by State Government agencies in improving social housing tenancy outcomes through a whole of service/capability strengthening framework, it is moot as to whether this additional support be considered a "cost" of service for social housing providers or rather, is more appropriately funded independently of the social housing system. Further, given disadvantaged households in need are also housed by private market providers in the mainstream rental market (or in emergency accommodation as they await admission into the social housing system), there is an equity consideration in providing additional tenancy management support for households in social housing that may not otherwise be available to other households renting in the private market.

Alternative models of funding and responsibilities

Arguably, the IPART *Draft Report* does not provide a detailed rationale for rejecting alternative options for providing support to households in need for social housing. Although the *Draft Report* considers the option of replacing capital/provider funding with the option to support households on a recurrent/subsidy basis (akin to Commonwealth Rent Assistance) the *Draft Report* does not adequately cover some of the clear advantages to this approach. The advantages of providing recurrent/subsidy support include for example:

- Doing away with the need for the NSW Government to determine or plan the preferred distribution of social housing properties. In a demand driven system, the distribution of social housing properties would be determined by the specific needs of tenant households as opposed to the determinants of State government agencies.
- Mitigating the risk that the goal of adding to the stock of new social housing is outweighed by a need to meet social housing targets in key constituencies or for key interests (for example, the need for social housing in major CBD centres).
- Ensuring that support is not provided in locations where market conditions are sufficient to provide low cost housing as a result of supply additions.

The *Draft Report* would be improved if IPART were to more thoroughly consider the advantages of introducing a demand driven subsidy system mirroring the CRA model. In the event that a transition to such a system for legacy or existing assets proves to be financially challenging, IPART should consider the option of introducing the model for new entrants into the social housing system. Such an approach would also have the benefit of introducing contestability and innovation within the existing system.

Transfer of responsibilities to local government

Although arguably out of scope for the IPART report, it is regrettable that IPART did not consider the option of recommending the transfer of responsibilities of social housing to local government. Although historically social housing has been the domain of State governments (largely due to Commonwealth State Housing Agreements) the sustainability of the sector would be greatly improved with a transfer to local government.

Broadly the case for local government rests with the principle of subsidiarity and include:

- The ability to apply a more sustainable (and equitable) funding base to support social housing tenancies. Local government has access to the most efficient (and equitable) of all available taxes (i.e a broad base land tax or rate) and the ability to lever this funding source to support social housing is preferred than the current State tax mix.
- Social housing can be integrated into broader housing and strategic plans at the local and district level. Local government, as the primary determinant of land use and development controls, for housing is best placed to ensure that social housing is integrated into the broader housing needs of the local area. Further, in areas where large concentrations of social housing exist, local authorities are best equipped to manage the renewal and ultimate disbursement of these concentrations.
- Aligning the interests of communities seeking additional social housing (such as Sydney City Council) with both the responsibility accountability for social housing service provision. At present, an asymmetry exists between local communities desirous of more social housing and State Government provision in such locations. By transferring the responsibility for social housing to these communities, then accountability for provision would rest with the local authority itself.

Conclusion

The IPART *Draft Report* is a clear step in the right direction and an important contribution to the challenge of reforming social housing arrangements in NSW. As IPART would be aware, reform of social housing is a topical consideration and has been the subject of examination in several spheres of public policy including through the Productivity Commission. The IPART *Draft Report* adds to this body of knowledge and is a welcome contribution to the reform discussion.

Notwithstanding this however, there remain aspects of the IPART *Draft Report* that could be strengthened and aspects that would be improved with a stronger emphasis on risks in implementation. This short submission has attempted to highlight some of these areas given the current structure of the system and in particular, the predominance of existing assets and providers.

I would be more than happy to elaborate on my submission should I be called upon to do so.

