



Review of rent models for social and affordable housing

Submission on the Independent
Pricing & Regulatory Tribunal
Issues Paper

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nsw Federation of
Housing Associations inc

This submission was prepared by the Federation working with the community housing sector and a reference group composed of representatives from the Federation, Evolve Housing, Argyle Housing, Women's Housing Company, St George Community Housing, Community Housing Limited, Bridge Housing and University of New South Wales.

Wendy Hayhurst, CEO

NSW Federation of Housing Associations
Suite 301, 64 -76 Kippax St
Surry Hills 2010, NSW
E: wendyH@communityhousing.org.au
T: 02 9281 7144
W: www.communityhousing.org.au

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Section 1: Introduction

The NSW Federation of Housing Associations (the Federation) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal's (IPART) review of rent models for social and affordable housing.

1.1 The Sector

The Federation is the industry peak body for community housing providers (CHPs) in NSW. Since 1993 the Federation has provided leadership, support and resources for the further development of the industry, and has represented the aspirations and interests of the industry to all other stakeholders – government, partners, business and the wider community.

CHPs are well run businesses driven by strong social missions and values. In 2015, community housing providers managed 38,000 tenancies across New South Wales and owned \$1.7 billion worth of community housing assets. The sector's main income sources are rental payments from tenants and rental subsidies; mainly in the form of commonwealth rental assistance (CRA).

CHPs provide social and affordable tenancies for a diverse group of households on very low to moderate incomes. The tenant profile is similar to those living in public housing as most tenancy allocations by community housing providers are made from the shared NSW Housing Register.

The sector increasingly provides or brokers services for people who are homeless or at risk of homelessness, who require support services to sustain a tenancy or who are disabled. At the same time the opportunities available under the National Rental Affordability Scheme (NRAS) and other partnership programs and initiatives have seen a small but steady increase in affordable rental homes much in demand from lower paid workers priced out of the Sydney market.

The sector is in broad agreement about its role and purpose encapsulated in its property transfer position paper¹

- To achieve a viable and interconnected social housing system.
- To be highly responsive to the needs of tenants and communities.

¹ <http://www.communityhousing.org.au/HousingMatters/May16/NSW%20Federation%20Large%20scale%20property%20transfers.pdf>

- To further develop business models and structures which deliver the benefits of efficiencies of scale, while retaining local services, areas of specialization and the flexibility to respond to tenants' needs.
- To maximize public value through community housing providers combining their rental income with other government subsidies, tax benefits and private finance to provide additional, low cost, housing.
- To undertake major renewal of public housing neighbourhoods, maximise community renewal outcomes through long term investment and improve tenant and community engagement and asset redevelopment.

The Federation's response to the IPART review is shaped by this vision and the critical importance that a secure and predictable rental income stream has to providers' financial viability. Of paramount concern is that any changes to the rental model or indeed to eligibility for social and affordable housing do not have a negative impact on the financial sustainability of the sector. Also of priority is that any changes result in a fair and transparent system, which is easy and cheap to administer with rents that are affordable to tenants.

We also want to be assured that the system continues to provide for a broad diversity of households; recognising the lack of other options for not only those on very low incomes but also for workers in low paid and insecure forms of employment for whom there are very few alternatives and little signs of this situation improving in the short to medium term.

1.2 The Submission

The Federation's response has involved considerable consultation with our members and other stakeholders. Over 60 participants have made oral or written responses. This exceeds by some margin input to any recent inquiry or consultation process, including the property transfer program, and demonstrates the interest and indeed the concern this review has provoked. The process we have carried out includes:

- A briefing arranged with IPART at the September Federation Exchange.
- Distribution of a survey to gain the sectors response to the 25 questions posed in the Issues Paper.
- Three webinar / face to face sessions to gain additional feedback about the Issues Paper, in particular key topics raised in the paper.
- Working with a reference group composed of representatives from the Federation, Evolve Housing, Argyle Housing, Women's Housing Company, St George Community Housing, Community Housing Limited, Bridge Housing and the University of New South Wales. Whilst this reference group looked at the broader

topics outlined in the Issues Paper, its main focus was on the different rent models outlined in the Issues Paper.

- Participation in a NGO forum.

Notwithstanding the considerable effort the Federation and its members have made to prepare this submission, our response is partial in its coverage and raises more questions about the Issues Paper than it answers.

In Section 2 we have outlined our overall views about the review as currently conceived. In Sections 3 and 4 we have made some preliminary observations about eligibility and rent models based on the survey returns, webinar sessions and consultation with the reference group.

Section 2: The Review's Purpose and Remit

2.1 The Review Purpose and Remit

The Federation appreciates the review was motivated by NSW Government's intention to remove work disincentives. This was clearly articulated in its paper 'Future Directions for Social Housing' on page 14 i.e. 'Participants in the social housing consultation held in late 2014 and early 2015 identified a number of disincentives for people to enter the workforce. Among these was the risk of losing eligibility for social housing, as well as Commonwealth payments or concessions if they find work.' To address this NSW Government included an action to 'Commence an independent review of different social and affordable housing rent models in 2016. The review will identify options to minimise disincentives in the current income based model. It will also consider possible changes to eligibility criteria whilst ensuring social housing remains affordable'.

The review thus far, while ostensibly having a narrow purpose / motivation, is very broad in scope with potential ramifications going considerably beyond ensuring tenants are not discouraged from moving into employment. We can see by the assessment criteria that IPART will use to compare different rent models there is recognition of the different system impacts that changes will have. Nevertheless, we are concerned the approach being taken is inappropriate for a review of this scale and scope. It is also questionable whether the timeline for this project will allow for an adequate review all of the components outlined in the Issues Paper. We have outlined our specific concerns in 2.2.

Before moving to our concerns, we acknowledge that the use to which the review findings will be put is unclear. If the review is one input into a broader project that examines the overall social and affordable housing system viability and brings in the Federal government before significant changes are made, then this will go some way to allaying the concerns that have arisen.

2.2 Overarching concerns with the review

Our intention in this response is to be constructive and our reason for raising these issues identified during the consultation process is to be assured that there are no perverse consequences arising from the review and indeed that it contributes to a more viable social affordable housing system.

2.2.1 Purpose and remit

While we have noted the remit and scope is broad in comparison with its stated purpose, the Federation acknowledges that a broader based review explicitly examining the social and affordable housing systems on-going financial viability in the light not only of the current circumstances but also future changes would be welcomed.

This would require either a reconsideration of the current approach, project governance and timetable or a commitment that this review would feed into a second more comprehensive review.

2.2.2 Integration with other Initiatives

The rent review is taking place at the same time as many other reviews, inquiries and initiatives. Further, any change in rent models needs to be considered against possible future changes in the housing supply and demand and economic conditions. It is unclear that the project as conceived is considering these issues, is in contact with other project initiative leaders and sharing insights with them, and / or intending to stress test its own outputs to show the impact of changes in (for example) CRA, an increase in affordable housing supply and / or second GFC.

Some specific examples where integration is required are highlighted. There will be others. First there appear to be inconsistencies with other parts of Future Directions (such as the Social Housing Management Transfer program), in relation to the requirement to maximise the rental income of CHPs in order to provide non-traditional landlord services. Any system change that reduces the overall rental income stream will not only reduce the surplus available to finance the non-landlord service expectations in the program but also risk increasing the residualisation of social housing estates.

Second the Affordable Housing Working Group has just published its recommendations, all of which were adopted by the Council on Federal Financial Relations. These include an obligation on States to consider how they will bridge the social housing financing gap to enable more social and affordable housing supply. Clearly different rent models and social housing eligibility criteria will have different impacts.

Similarly, proposals in the Productivity Commission Study Report, *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, November 2016 may have an impact on different models.

It is also unclear whether there has been, or will be, ongoing dialogue with the Commonwealth on any potential reforms to Commonwealth controlled subsidy mechanisms (CRA) or indeed any appetite for considering whether a rent review or changes to the benefit systems are actively being considered at the Commonwealth and State level.

In our opinion a review of this nature requires the involvement of all levels of government.

2.2.3 Work Disincentives – weight of rent model impacts

The relative impact of making changes to the rent model on removing the disincentives to workforce participation and the evidence to demonstrate that changes that can be made to the rent model in NSW is required.

This is mentioned because workforce participation will be impacted by a much broader range of factors such as availability of employment, skill level requirements and training opportunities, transport options and other locational issues. It has been questioned whether the focus should be on moving the ‘opportunity’ cohort out, or assisting tenants with stable accommodation to support a sustainable transition.

The impact of having stable and affordable housing on allowing people to sustain employment should also not be underestimated.

2.2.4 Inclusion of Eligibility

The IPART review includes consideration of the entry eligibility criteria for social housing and other subsidised housing assistance and, in addition, the allocation priority in social housing. Generally housing eligibility criteria are used to target a scarce resource at households who would most benefit.

We also accept that allocations of assistance should be needs based, efficient and equitable to achieve horizontal and vertical equity. The Federation wants to ensure however that there is a balance achieved in recognition that while narrowing eligibility may result in fewer households on the wait list and shorter wait times for housing, it may result in many households in need becoming invisible (given the register is in the absence of housing needs surveys acting as the best available proxy) and indeed may dissuade some from taking employment opportunities so they remain eligible.

Whilst a review of these aspects of the system are necessary due to the challenges faced by the sector (as outlined further in this submission), this review does not appear to be structured to achieve a thorough investigation and review of these matters and appears to have a perhaps unintentional punitive focus.

One interpretation of the Issues Paper could be that this review is a response to the absence of Government policy to adequately address the lack of social and affordable housing. The sector has expressed concern that a risk of the review is that it will target

this scarce resource further, potentially at the cost of the most disadvantaged, rather than the need for further social and affordable housing supply.

2.2.5 Supporting evidence

Concern has also been raised that there are some assertions made in the Issues Paper about current practice, policy or outcomes without reference to supporting evidence. If these assertions are to be used as the basis of proposals, recommendations and decision making then further research and investigation should be undertaken. Clarification is therefore sought from IPART about whether relevant evidence exists and if not, whether further investigation or research will be conducted as part of this project. Some examples include:

- Providing information on the number of and demand for affordable housing would be useful to illustrate the massive undersupply and hence the challenge in relation to supply and demand, particularly in relation to affordable housing in the private rental market as this is where the 'opportunity' group are intended to move to.
- What does it cost to manage a viable service with the additional requirements of non-traditional landlord services?
- The Issues Paper mentions initiatives such as private rental products and the Transitional Housing Plus model. Evidence is required regarding the medium term positive outcomes and whether these products or models are cost effective; scalable or suitable for all groups and whether the impacts have been evaluated.
- Given the extent to which the brief has been expanded, further analysis needs to be provided on where the current system fails which should include a comparison of current and projected costs of services, maintenance and projected rental income over a period of time.
- There is insufficient detail about the current and potential future demand for social and affordable housing. This is required in order to ensure any potential changes to the eligibility criteria; prioritisation; allocation; and rent models are made in the context of future supply and demand.

2.3 Recommendations

The NSW Government should clarify the purpose and intent of this review. Based on this clarification there are two options we recommend.

The first option assumes that the review's scope and remit is confirmed and the approach, timeframe and governance is reconsidered. In this instance we recommend the following.

1. The review is segmented by the different components of the review and the review is undertaken in stages for example: eligibility criteria; prioritisation; allocations; and rent model.

2. Establish a panel of experts (or reference group). The panel should include representatives of peak bodies, including the Federation, academics with expertise in social and affordable housing rent models and relevant government agencies at the State and Federal levels.
3. The timeline for this project should be extended to allow for an adequate review of all the components outlined in the Issues Paper in addition to further investigation and research of evidence to support proposals and decision making.
4. The review is integrated with all current and anticipated reform initiatives at the State and Federal level.

The second option assumes that the review's scope and remit is restricted to examining only changes to elements of the current rent model that would potentially increase workforce participation. We have identified some possible options in section 4. These would possibly be easier to implement in the short term and present less risk of adverse impacts on other social housing tenants.

This option also recognises the considerable similar work being carried out by other Government agencies which will influence rent models and eligibility in and for social housing. This includes the Productivity Commission's Issues Paper (Dec 2016) setting out the parameters of its second stage inquiry into reform of human services. Social housing is one of the six priority areas in this Inquiry.

Section 3: Eligibility Criteria / Prioritisation / Allocation

3.1 Introduction

This is very much a series of preliminary observations. The topic is complex and requires further review and discussion.

3.2 Eligibility criteria

As conceived this review may restrict access to the social housing system in an attempt to (potentially) reduce the waiting list (for example, social housing eligibility being restricted to the clients who currently meet the criteria for the 'priority' wait list)². A risk of narrowing the eligibility criteria (i.e. only allowing for a 'priority' waiting list) is the impact on the proposed 'ineligible' applicants with very limited alternative options for housing in the private market. Whilst 'priority' assessment incorporates recognition of complexity of applicants' needs that are likely to be barriers to seeking accommodation in the private rental market, low income in and of itself is a significant barrier to the private rent market in many locations. Private rental prices and housing costs in general are increasing at a higher rate than household income, exacerbating the affordability issue for lower income households. The underlying issue is the inadequate supply of social and affordable housing rather than the number of approved applicants on the NSW Housing Register.

Households registered on the social housing waiting list also face a 'welfare lock' under the current eligibility criteria where they become ineligible if their income increases above the income eligibility limit, following the initial application stage. This creates a disincentive to enter the workforce as income eligibility rules deter job search and the acceptance of job offers until they have secured social housing. Longer waiting times and stricter income eligibility rules serve only to worsen these disincentives.³

A suggestion from the Australian Housing and Urban Research Institute (AHURI) to address this issue is to reconsider the application of income eligibility rules to those on the social housing waiting lists whereby income eligibility rules might be applied when an applicant initially applies to be on the social housing register but not applied from then on (regardless of income).⁴

² IPART Review of rent models for social and affordable housing, p 39

³ Australian Housing and Urban Research Institute Research & Policy Bulletin, *What can be done to improve employment outcomes among people receiving housing assistance?*, Issue 114, May 2009

⁴ In addition, AHURI suggests that if a tenant's rent amount exceeds the market rent amount (due to their income), this amount in excess of the market rent could be deposited in a Home Credit Fund that social housing tenants could access upon exiting social housing and could be used as a deposit on a home purchase, or to pay for Bonds of a private rental property. Australian Housing and Urban Research Institute Research & Policy Bulletin, *What can be done to improve employment outcomes among people receiving housing assistance?*, Issue 114, May 2009

3.3 Prioritisation / Allocation

Anecdotal evidence indicates that there is inconsistency in the way an applicant is assessed as 'priority'. The definition of 'priority' is subjective in nature and thus open to interpretation by housing providers. Applicants need to have an urgent need for housing, show that they do not have the ability to resolve their housing need and that their need cannot be more adequately addressed through other housing assistance options.⁵

The Federation's experience from teaching housing students given various scenarios to determine whether the applicant would be considered for the 'priority' or 'general' waiting list is evidence of the problem. It is rare for students to agree and there are often very robust conversations between students about how to determine if an applicant should be assessed as a 'priority' applicant.

Prior to the implementation of Housing Pathways in 2010, it was common for CHPs to use a 'ranking system' to determine whether an applicant was considered to be a 'priority' applicant. This ensured horizontal and vertical equity as the applicants' income and circumstances were assessed in the same manner and the needs of applicants were considered when allocating to properties (i.e. allocating on a ratio of 3:1 between the 'priority' and 'wait turn' waiting lists). This ensured fairness in allowing an opportunity for applicants on the 'wait turn' waiting list to be housed, whilst recognising the urgency of housing need for 'priority' applicants. This also allowed for a mix of community housing tenancies, noting that 'priority' applicants (due to the criteria of priority assessment) are likely to have complex and possibly ongoing need. Whilst CHPs are able to develop their own policies in relation to allocation, most use the Housing Pathways policies and therefore most no longer use a 'ranking system'.

At the time of the implementation of Housing Pathways, a project facilitated by FaCS was investigating whether it was feasible or possible to have a generic 'ranking system' developed to be used by all social housing providers. The Federation is unaware of the outcome of this project but such a 'ranking system' was not introduced across the social housing sector in NSW.

Equity, transparency and consistency should form the basis of any changes to the prioritisation of applicants.

⁵ <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#efphun> – viewed 06/12/16

3.4 Opportunity and Safety Net Cohorts

There is an overwhelming and consistently negative response regarding the use of 'safety net' and 'opportunity' cohort definitions. Concerns raised have been that such definitions would be unhelpful, potentially patronising and disrespectful, as well as virtually impossible to define at the margins.

There has been an increase in the proportion of tenants with complex conditions over time. At the same time, due to the barriers to moving out, existing tenants have aged in place. It is therefore likely that there will be a continuing decrease in the number of tenants who meet the 'opportunity' cohort – particularly if the eligibility criteria becomes tighter, excluding such a cohort from the waiting list.

There has been debate about whether it is possible to define 'safety net' and 'opportunity' cohorts, and who would carry out this assessment? What are the administrative implications? How will such assessment of cohort be funded? Further discussion is required if this is considered to be desirable.

An alternative suggestion would be an "intake" process in which the needs, aspirations and capabilities of prospective tenants and households are assessed, leading to the offer of appropriate housing, at a fair rent, for a suitable length of time (including permanently if required), reviewed and updated periodically as needs or circumstances change. This would require highly skilled staff. This aligns to the values of the sector and provides a solutions focused approach, accompanied by a range of housing options available for all applicants.

3.5 Affordable housing supply

An underlying key theme of the Federation's consultations with the sector relates to the need to increase social and affordable housing supply in order to respond to the demand and provide exit opportunities for tenants to be able to transition.

Future Directions envisions social housing that offers opportunities to transition to housing independence for people who can (identified as the 'opportunity group')⁶. The CHP sector recognises the instability and unaffordability of the private rental market and so it follows that if security of tenure is removed from social housing tenants, it may result in increased exits into homelessness. The CHP sector therefore wants to ensure that security of tenure is maintained for tenants as they transition into work.

⁶ NSW Government, *Future Directions for Social Housing in NSW*, 2016

Further to this, in order to achieve the target of moving 5% of the 'opportunity' cohort out of social housing, a range of affordable housing options need to be available for tenants to transition and there needs to be an increase in the affordable housing supply. Such options could include shared and low cost home ownership in addition to affordable housing options (whereby tenants pay up to 75% market rent). There are a range of research reports that highlight issues relating to people on low incomes trying to obtain affordable rent, such as the Anglicare Rental Affordability Snapshot:

<http://www.anglicare.asn.au/research-reports/the-rental-affordability-snapshot>

The Issues Paper appears to be trying to apply normal market conditions of supply and demand to the social housing system where this does not exist. Also, some of the proposed rent models appear to reinforce the view that markets are efficient and market rent is a true reflection of the cost of the provision of housing, where this is not the case.

3.6 Recommendations

Assuming that the NSW Government continues with the full scale review the Federation recommends:

1. Further exploration of the merits of implementing a state wide 'ranking system' to determine prioritisation of applicants on the waiting list to ensure a consistent, equitable and transparent approach in the determining the priority of applicants.
2. Explore the benefits of re-establishing alternate 'priority' and 'wait turn' allocations.
3. Explore potential for the allocation policy to allow a broader tenant mix to include higher income earners capable of paying higher rents i.e. increase the affordable housing portfolio.⁷
4. Further analysis needs to occur to determine how many tenants would be considered to be in the 'opportunity' cohort, against potential future demand, in order for there to be a sound understanding of the number and types of exits that need to be established.
5. Explore opportunities to have a solutions focused approach for applicants with an "intake" process in which the needs, aspirations and capabilities of prospective tenants and households are assessed, leading to the offer of appropriate housing, at a fair rent, for a suitable length of time (including

⁷ NSW Federation of Housing Associations, *New trends and models in rental income*, 2006

permanently if required), reviewed and updated periodically as needs or circumstances change.

6. Establish whether the introduction of fixed based leases in public housing has increased the number of exits into other housing options i.e. private rental market, home ownership.
7. Establish options for the opportunity cohort who have exited social housing to respond if their circumstances change (such as reduced work hours or loss of jobs). The ability to return to social or affordable housing (depending on circumstances) and being approved as 'priority' could be one option.

Section 4: Rental model options

Introduction

It is important to highlight that the key principles the CHP sector requires from any rent model are to ensure:

1. The sector remains viable while providing the essential landlord services, including improving property condition and maintaining and creating mixed communities
2. Fair and affordable rents to all tenants
3. Sufficient, stability, predictability and administrative ease.
4. Ideally can expand our services and increase the supply of social and affordable housing.

The current CHP business model relies on the balance of incomes between different programs such as: Capital program; leasehold program; affordable housing and Specialist Homelessness Services (SHS) program. Income from rent is the primary revenue source for the CHP sector. The sector's viability is therefore extremely sensitive to any changes in rent setting and to Commonwealth Rent Assistance (CRA). CHPs need sufficient income to pay for services. If CHPs were to only rely on rent paid by very low income earners, then they would be required to find additional sources of income or cut back on their current services. It should be noted that as at June 2015, more than 90% of social housing tenants on subsidised rent reported a Centrelink benefit as their main source of income.

CRA based rents introduced in 2008 have been a key factor in the expansion and viability of the CHP sector. CHPs have reported that on average they access around \$3,000 per tenant per year in CRA. However, increases in CRA have not kept pace with increasing rents paid by people on income support payments and CRA doesn't allow for variations between rents in different housing markets.

The CHP sector needs to ensure that there are no unintended consequences of this review (refer to point 5 of the Terms of Reference relating to the impact of rent models on the financial sustainability of the sector).

Wide sector consultation highlighted many issues in relation to the suggested rent models. The Federation was unable to reach a recommended rent model due to the complexity of the interactions with the wider welfare system and the lack of clarity surrounding the impacts on both social housing tenants and the CHP sector.

Some current and potential future key challenges and uncertainties for the CHP sector relating to rental income include:

- Constrained income arising from the tenant profile (including increasing complex tenancies and older people). This challenge is across the board, including (but not specific to) specialist providers and regional.
- Expectations that rent will be used to fund non-landlord services.
- Delivering, measuring and reporting on social outcomes (as outlined in Family and Community Services, *Measuring Social Housing Outcomes – Desktop review of evidence – Interim Report*, May 2016).
- Upcoming Social Housing Management Transfer program which will include property upgrades, new office locations and staffing requirements, likely requirement for new IT systems, estate based locations and more intensive tenancy management for successful tenderers.
- Minimising the funding gap to allow bonds to fund new housing supply. (In relation to the Treasurer, Scott Morrison's recent press release about the Council on Federal Financial Relations agreement to the establishment of a bond aggregator taskforce. This taskforce will design a bond aggregator model and report to Heads of Treasuries by mid-2017).
- Productivity Commission Inquiry into Human Services – Issues Paper published 12th December 2016 opens up discussion on eligibility and rental models as part of its second stage, potentially duplicating the work of this review at the national level

These uncertainties and challenges motivate our recommendation that the review's remit is restricted to focussing on workforce participation.

4.2 Workforce participation disincentives

The stated purpose in Future Directions for this work was to examine workforce participation disincentives.

We accept there are potentially aspects of the current rent setting system that might be changed to encourage workforce participation. However, it is unclear from the Issues Paper to what extent they are the prime or even secondary motivator and what proportion of tenants are de-incentivised to work on the basis of the rent model. Altering the rent model is a relatively small part of the equation relating to these issues. The Issues Paper does not appear to appropriately address the complex and fundamental external factors associated with workforce participation disincentives which include: the labour market and lack of job opportunities in some locations; the precarious nature of

some employment (particularly casual employment); issues associated with sustaining employment; the gap between skills and what the workforce requires; and the lack of affordable housing alternatives. It is questionable the extent to which altering the rent model could address these factors and increase tenants' workforce participation (particularly in the 'opportunity' cohort) and ability to move out of social housing.

Work has been conducted by AHURI who carried out a survey of 400 renters in both public and private sectors in Sydney and Melbourne and published the results in their paper *Work disincentives and housing assistance*, September 2004. AHURI highlight that there are a range of reasons for workforce participation disincentives for social housing tenants including gender, age, discrimination, family responsibilities, the location of current residence relative to jobs, poor health, length of time out of the workforce and in receipt of Centrelink payments, and highly marginal and generally low skilled labour market positions.⁸

AHURI concluded that *"...a range of housing related effects, other than simple financial outcomes of the rent, assistance and income nexus, are critical in developing a realistic model of how renters view the trade-offs between staying on benefits and taking a job"*.⁹

It is recognised that there is a financial disincentive for social housing tenants due to an increase of effective marginal tax rates (EMTR) by up to 25%. Also, as people earn more from work, withdrawal of CRA does not stack on top of already high EMTR's of between 65% and 85% caused by the combined effects of Centrelink payment, withdrawal/loss of concessions and income tax/Medicare levy. Therefore, unemployed social housing tenants face a considerable unemployment trap which means that it is difficult to move into work, and a poverty trap in terms of getting ahead financially when in work in the context of the low wages typically earned by this group.¹⁰

Whilst the design of housing assistance and the income based rent model is a contributor to these traps, most of the disincentives result from the interaction of the tax and income support systems more generally.¹¹

It should also be noted that social housing tenants appear to be reluctant to trade away benefits of social housing (security, affordability and community) for a job elsewhere, especially if they are likely to get casual or episodic work. AHURI further noted however that given appropriate housing and job opportunities, most respondents in their survey were willing to move to get a job. This therefore suggests that the respondent's current

⁸ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p i

⁹ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p 57

¹⁰ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p ii

¹¹ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p ii

locations relate to the availability of low cost rental housing rather than any intrinsic attraction to the area or the availability of appropriate employment opportunities.¹²

Through their research, AHURI discovered that *“Making work pay is a particular challenge for public (social) renters, as the effect of setting rents based on income is to increase further already high EMTR’s resulting from combined operation of the tax and income support systems. Whilst this in theory appears to pose a huge work disincentive, this research found that income related rents in public housing had contradictory effects in practice. On one hand, unemployed public renters considered that setting rents based on income helped minimise hardship and insecurity during periods of unemployment, thus assisting in job search. On the other hand, between a quarter and a third saw the system as making it particularly difficult to get ahead financially. The challenge appears to be in changing rent systems to reduce the very high EMTRs faced by public renters entering work, whilst at the same time minimising hardship and enabling housing agencies to be financially viable.”*¹³

Also, consideration needs to be made about whether the rent setting model contributes to ‘poverty traps’ and ‘unemployment traps’. Considering the complexities associated with workforce participation disincentives, it is unlikely that a rent setting model contributes to such traps significantly.¹⁴

Poverty traps arise when workers make an incremental change in their hours of work, but lose most of the additional earnings through taxes and withdrawal of income support payments (ISPs). Unemployment traps afflict non-participants who find that financial rewards on making a transition into work are eaten away by taxes and lost ISPs. The incidence of unemployment traps among non-participant housing assistance recipients has also increased and is particularly evident among public housing tenants. Income related rents play a role here, but are by no means the only or most important factor. The multiple stacking of taxation schedules and ISP tapers is the main cause.¹⁵

Several suggestions made by AHURI to address workforce participation disincentives (which show that the issue is broader than the rent setting model) include:

- Consideration may be required of the Commonwealth Government to change the design of CRA to take into account the higher rental costs typically associated with areas with strong job markets.

¹² Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p iii

¹³ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p 48

¹⁴ “Poverty trap” – limit tenants from increasing the amount of work they do when they are employed. There is limited or no benefit for those in employment to increase their earnings through additional work. ‘Unemployment traps’ – limit tenants from finding work. Transition to work offers little or no financial award as well as extra costs associated with working (such as transport and child care costs). Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004

¹⁵ Australian Housing and Urban Research Institute, *Housing assistance and economic participation*, July 2008, p 1

- Address the more general problem of high EMTR's for those moving from Centrelink benefits and into work. Make changes to the income support or taxation systems to boost in-work income in order to reduce the need for specific assistance with rental housing costs.
- Develop skills and self-confidence as a component of community renewal projects.
- Develop skills and self-confidence through specific initiatives.
- Contractual agreements between unemployed people and social housing, comprising a mixture of incentives and compliance elements to encourage tenants keeping a job.
- Longer-term investment in education and vocational training to improve unemployed tenants' prospects of getting jobs other than casual or unskilled work.
- Create jobs in, or attract jobs to, areas where unemployed tenants live.
- Assistance with transport to work in areas with jobs or transitional assistance in transport cost on getting a job.
- Reconfigure social housing to ensure that it is located in areas with available jobs.
- Introduce housing management policies that enable tenants who are actively seeking work to live in or move to areas with better prospects of getting a job.
- Reconfigure CRA and state/territory assistance for private tenants (or CHP tenants) according to labour market conditions.
- Address the problem of high EMTRs for those moving from Centrelink benefits and into work.

AHURI recognise that no single option will address the range of issues that unemployed tenants face in getting a job and highlight that it is likely that a range of initiatives will be needed to act in unison to offer unemployed tenants a better chance of accessing and maintaining a job. This gives further credence to the view that focusing on altering the rent model setting will not address issues associated with workforce participation disincentives.¹⁶

It is therefore imperative that Governments and FaCS recognise that there are many disincentives to workforce participation which are outside the remit or influence of any particular rent model.

¹⁶ Australian Housing and Urban Research Institute, *Work disincentives and housing assistance*, September 2004, p iii - iv

Our suggestions are that workforce participation could be encouraged by policy changes rather than changes to the rent model such as:

- a rent increase freeze for 6 – 12 months for tenants who gain employment; or
- extending the Start Work Bonus to community housing tenants, providing the pilot demonstrates positive outcomes

4.3 Subsidies

Any rent model could potentially be affordable for tenants; improve people's life circumstances and be viable for the sector, if the appropriate subsidy is included. The subsidy levels will have a vital impact on sustainability and will balance the two critical factors of tenant affordability and provider viability. We would welcome a discussion about alternative subsidy mechanism that would enable a different rent model – one that recognised the true cost of providing a social housing service.

However, there is uncertainty about both State and Federal Government's intentions in relation to current subsidies and potential alternatives. It is therefore difficult to determine which rent model would be most appropriate without detailed knowledge of potential subsidy levels and sources.

4.4 Other issues

The sector has had a full discussion of the suggested rent models and potential impacts in the limited time available, however more time and investigation is needed to avoid any unintentional consequences.

Federation members were unable to decide on a preferred rent model in the absence of sufficient time and investigation. There were concerns with virtually all the proposed models because we do not understand the impact on the principles outlined at the beginning of this section.

Some of the models also appeared to be administratively complex and would require laborious assessments and therefore increased cost to housing providers. Further investigation should be given to rent models that consider affordability for tenants and the viability of the sector. Each model will need careful assessment to ascertain the impacts of the interactions on all parts of the housing system.

4.5 Recommendations

1. IPART should undertake further investigation and modelling of rent models that prioritise considerations of affordability for tenants and the viability of the housing sector. This would include discussions with both Commonwealth and State governments regarding potential subsidy levels, recipients and application. This modelling should be shared with the sector.
2. Further research should be undertaken to determine the proportion of tenants who are dis-incentivised from workplace participation due to the current income based rent model, which incorporates other relevant external factors.
3. There should be formal evaluation proposed rent model such as the Build and Grow rent policy and Transitional Housing Plus program to determine whether these approaches are sustainable; cost effective; providing positive housing outcomes and scalable.
4. Further investigation into potential policy modifications such as the Start Work Bonus.
5. Further investigate the option in the IPART Issues Paper for different rent models and tenure for the same property over time, if the tenant's needs or circumstances change (i.e. to facilitate transitioning from social to affordable housing).

References

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NSW Federation of Housing Associations, *Submission to Social Housing in NSW: a discussion paper for input and comment*, February 2015

NSW Government, *Future Directions for Social Housing in NSW*, 2016

Productivity Commission Study Report, *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, November 2016

Treasurer Scott Morrison MP, Media Release, *Statement – Council on Federal Financial Relations meeting*, December 2016

Appendix 1: Further relevant Federation reports

The following Federation reports provide further information on rent models. These include:

- NSW Federation of Housing Associations, *New trends and models in rental income*, April 2006
- NSW Federation of Housing Associations, *Discussion paper: rent models in social housing*, November 2014
- NSW Federation of Housing Associations, *Social Housing in NSW: a discussion paper for input and comment*, February 2015