

# SHELTER NSW SUBMISSION

## Response to the draft IPART report on the review of rent models for social and affordable housing

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Submission to the Independent Pricing & Regulatory Tribunal (IPART) from Shelter NSW

This submission responds to the draft report and is in two parts:

- An overview and response to major themes of the draft report. This overview will identify some of the reasons for broad reasons for support, qualifications or opposition to bundles of recommendations.
- Commentary on the individual recommendations in four parts: strongly supported key findings and recommendations; qualified support for other key recommendations; recommendations that are not supported; some on which we have no view.

### 1. Overview

Shelter strongly welcomes the main themes, findings and recommendations of the report. We believe that the report has taken the discussion about social housing's objectives and viability forward in a significant way. There are, however some important aspects for which we have qualified support and a small number which we cannot support.

### The themes of the report

#### Objectives

The draft report has reframed the inquiry's objectives to "to recommend changes to (the framework for setting rents for social and affordable housing) and policies 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."

Shelter welcomes this clearer formulation of the objectives and generally supports these objectives. In particular, it strongly welcomes the priority given to affordability for tenants; the finding that rent models are not the most appropriate tool to create incentives for workforce participation; that the terms 'safety net' and 'opportunity' groups are not helpful; and that financial sustainability is a fundamental objective. However, there are two qualifications to our general support:

- Shelter is on record as strongly rejecting the *Future Directions* objective of providing incentives for tenants to leave social housing; and so we also reject it where it is reflected in the report recommendations. The reasons for this are (a) the importance of security for both individuals and strong communities that enable tenants to take opportunities to improve their circumstances, and (b) the absolute unsuitability of the NSW private rental market for most very low or low (and often moderate) income households.

That being said, we note that the report makes very little reference to providing incentives to leave (although they are implicit in some recommendations); that it recommends improved security; and that there is clear discussion of the unaffordability of the NSW private rental market.

- While on the face of it, the objectives are appropriate, the report goes on to make recommendations that rely on a narrower interpretation of some aspects. The three main instances are that: "affordable and equitable" draws on an inappropriate interpretation of equity; "assisting those most in need" is taken to mean "*only* assist those most in need"; and "better matching of tenants needs...preferences...with the type of social housing available" is taken to mean "require tenants to relocate to ....". We will discuss these below and in the context of the relevant recommendations.

### **Rents that ensure housing affordability**

Shelter strongly welcomes the headline recommendation that the current income-related rental contributions be retained and that the sliding scale from 25% to 30% of income be retained. These reflect the principle that no-one should fall below a community accepted standard of living/ well-being after paying housing costs, and the vertical equity principle that is fundamental to welfare policy.

However, a number of other recommendations seek to apply a different equity principle – the horizontal equity principle that those in like situations (income) should be treated alike – in recommending that a number of subsidies specifically designed to meet the costs of particular needs that would not otherwise be adequately met (the cost of children, energy costs, medicines) be included in assessable income. This means that those payments, designed to meet a specific need, are cut and may no longer be able to meet that need. This leads to unequal outcomes.

To the extent that this is also intended to provide additional income, it continues a long process of ratchetting up tenant contributions – making those in the greatest hardship shoulder more of the cost of the failure of governments to properly fund and finance the social housing system. Given the significant recommendation in this report that government should explicitly meet its responsibility to fund this gap, it is inappropriate to then continue to squeeze small amounts of additional income from disadvantaged households.

### **Eligibility delivering housing security & housing that meets tenants' needs**

Shelter strongly welcomes the recommendation that social housing leases should be continuing leases. This reflects a welcome recognition that the ability to participate in the workforce or in wider ways depends on the security of a secure home in an engaged community. Limitations to this create strong disincentives to take up other opportunities. Shelter also particularly welcomes the recommendation that continuing tenancies endure even when a tenant is no longer eligible for a subsidy. This both normalizes social housing and recognizes that tenants themselves are best placed to make the judgement about whether to leave social housing. It also recognizes that the risk of losing the tenancy is a strong workforce disincentive. Shelter also welcomes the recommendation that allocations to housing should take greater consideration of the range of tenants' needs and that tenants should be afforded as much choice as possible.

However, the report then proceeds to limit or undermine these. It proposes that there be an expanded regime of reassessing needs to determine whether the dwelling still meets those needs and to require tenants to relocate if not. In this case, tenant judgement and choice is not valued, and the benefits of security (except ongoing affordability) are lost. It is crucial that security is not seen simply in terms of removing workforce participation disincentive. Crucially, the proposal is unimplementable, since it is predicated on the availability of alternatives which will never be freely available in the context of undersupply. We are somewhat shocked by the associated recommendation that the realignment of needs and dwellings take priority over the allocation of dwellings to applicants, to the extent that it proposes that applicants with urgent needs can be accommodated in temporary accommodation. This indicates a limited understanding of both the operations of a housing

business or homelessness responses. In the first instance, routine rehousing will very quickly compound into unworkably high levels of vacancies, underutilisation, and cost. In the second, TA is a deeply flawed measure to manage a system with chronic undersupply. It places the most vulnerable people in unsafe situations and denies them the support they urgently need.

It further proposes that tenants who choose to remain in social housing after they cease to receive a subsidy should pay a premium for security that would not be available if they rented privately. From a wider housing policy point of view this sends the wrong signal – that there should not be security in the private market without an additional cost. Shelter cannot support this view – nor does it fit with international markets, or with current recognition that the lack of security in the private market is a serious failing of that market that governments have begun to move to address. As we also discuss below, the proposed pricing is inequitable and inconsistent, since it charges all such social housing tenants for a good that is already enjoyed without charge by almost half of current private tenants, and which it recommends be removed through a requirement to relocate if a dwelling no longer fits the household needs.

### **Eligibility and assistance that support workforce participation**

Shelter strongly supports the recommendations to de-risk tenants' entry to the labour market and potential decisions to rent privately having achieved an income that appears to be able to sustain the cost of private rental. Recommendations to provide right of return safety net and an extended Start Work Bonus are welcome.

The only recommendation that we have greater reservations about is the recommendation to extend current private rental subsidies. Shelter supports the recommended extension, recognizing that many social housing eligible households have no options but to remain in the private market. But we strongly caution against presenting this as a “potentially more beneficial” option. For most low and moderate income working households, the combination of pervasively unaffordable rents and low and insecure wages increasingly the only options in large parts of the labour market, means that short term private rental subsidies will only rarely be adequate or effective forms of assistance.

### **A housing subsidy that delivers sustainability**

The recommendation that government provide an explicit subsidy that meets the gap between a tenant's affordable contribution and the efficient cost of delivering social housing is fundamental to a social housing system that is sustainable. We strongly endorse it.

However, we are concerned that the recommendation proposes that a market rent is a reasonable approximation to the efficient cost of social housing. Indeed, we are concerned that the building block methodology (which is higher than market rent) understates the real cost in three key areas: social housing tenancy management delivers a form of tenant engagement that is substantially different from the service provided by a private real estate manager or that which is currently contracted by LAHC. Without this, the outcomes IPART seeks are unachievable. The maintenance benchmark appears to be drawn from LAHC expenditure which the report acknowledged does not meet a serious backlog. The calculation

of return on investment is based on the existing residential investment market – a significant part of which is made up from the realisation of capital gain and tax savings through CGT discount and negative gearing. Social housing is far more constrained in its ability to realise asset value and the tax benefits are exposed to political decisions that are more likely than not to see them restricted in the short to medium term. In addition, these factors are the principal driver of housing unaffordability and reliance on such market factors is at best contradictory.

We also believe that the decision to recommend delivering the subsidy directly to the housing provider, rather than a subsidy to tenant, lacked adequate explanation or explicit consideration of the efficiencies of the latter approach. This warrants further consideration and discussion.

### **A housing system that maximises the effectiveness of the proposed affordability and viability approaches**

It is here that Shelter has the strongest reservations about a number of key recommendations. That being said, we do broadly support the proposal to introduce a funder provider model of governance of the social housing system. We also strongly support the recommendation that the funder (purchaser) develop a strategy that guides resource allocation and on the basis of needs. We also support the existence of independently managed shared ‘infrastructure’ such as the current Pathways application and eligibility and prioritising assessment tool that ensures that there are ‘no wrong doors’ for applicants.

In our view, such a funder: provider model could be important if it were to be the framework under which the current public housing ownership and management was devolved to smaller, locally based, flexible businesses with a focus on services for tenants and mobilising resources to leverage public investment in growth. While these would look like community housing providers, the ownership and management could remain public<sup>1</sup>.

But as the recommendation stands, we believe it is unsupportable. It proposes that FACS would be both the purchaser and the provider of the majority of the management, asset and development services. This is a fundamental conflict of interest that would certainly undermine the integrity of the system. We also note that for a number of years in the 1990s following the Mant Report, a funder provider model operated and was undermined by the dominant interests of a dominant government provider, and we urge IPART to be alive to these risks.

While we support a Pathways, computerised application and eligibility assessment & prioritising tool, we do not support the recommendation for a system of allocation that eliminates the crucial local provider engagement with applicants and judgement about the suitability of a dwelling to the wider social needs of the applicant and the community. We

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<sup>1</sup> We do not, however, support the entry of for-profit entities into the operation of social housing. After some decades of robust privatization of other human services, the track record of failure, abuse and poor service levels is too widespread to make private participation prudent. Partnerships and service purchasing from the private sector can, however, add value.

believe that the outcomes IPART rightly seeks, are being delivered now by most community housing providers; and that devolution, rather centralised computer algorithms will enhance this. While we note (and support in principle) the consumer choice that can be provided by a choice based letting system, we are not convinced that the necessary conditions of appropriate available choices will exist for quite some years.

But our biggest concern is recommendation that the available government resources be solely used for 'those most in need'; in particular, that there be no government investment in or subsidy for 'affordable housing'. With this, there is the associated recommendation that the strategy to guide resource allocation be simply a 'social housing strategy'.

The fundamental problem with this is the failure to fully appreciate the interconnectedness of the housing system. No solutions for social housing subsidies, demand, throughput etc can be reliable without consideration of how measures in other parts of the market will affect them. It also ignores the fact that public policy and programs for most forms of human services (eg. health, education, childcare) provide services and assistance across income bands – while always delivering the deepest subsidies to those most in need. Similarly, there are important policy reasons for interventions to provide housing solutions for low-income working households, independent of the need of social housing eligible households.

Whether or not IPART chooses to make any recommendations about rent models for affordable housing, we strongly recommend that the recommendation to only use public subsidies on social housing be dropped.

## **2. Findings and recommendations**

The following sections develop the above thematic discussion in relation to the specific findings and recommendations in the draft report. It begins with those for which we have the strongest support, moving through to those we strongly oppose.

### **Strong support for key findings and recommendations**

Shelter strongly endorses the major findings in the draft report. These are:

- 1. An income based rent contribution is the best option to ensure affordability for tenants**
- 2. The current rate for tenant contributions (25%-30% of income) and thresholds at which they apply, are appropriate. The threshold for which tenants are no longer eligible for a subsidy is appropriate**
- 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**

Equally, we strongly support the following draft recommendations (albeit with minor qualifications in some cases) and believe that they provide the best basis for a sustainable and affordable social housing system:

**R4. 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 as applicable)**

We strongly support the main point of this crucial recommendation, and made a similar recommendation in our initial submission<sup>2</sup>. However, we are not wholly convinced that market rent is the best measure of an efficient cost. Our detailed concerns about an approach to calculating the explicit subsidy are discussed in Appendix A.

**R5. 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.**

Again, we strongly support the outcome and the varied level of subsidy. However, while market rents would enable such variability, so too will a building block approach that appropriately includes land costs.

**R8. To get the right housing stock in the right place to meet the demands from those in need of assistance, that FACS develop and publish a Social Housing Strategy, updated annually, detailing the number of dwellings to be delivered across NSW over the next three to five years by location, size and type.**

While we strongly support the central proposal of this recommendation – that there be a formal strategy – we do not necessarily believe that this should be developed by FACS, that it should be limited to social housing, or that it should only identify the planned supply. As will be clear from our response to R7 and R26, (discussed in the next section on recommendations about which we have more significant qualifications) we are concerned about approaches that silo the currently residualised social housing from the other elements of the low-cost housing system that fundamentally impact on the demand for social housing or other secure and affordable housing<sup>3</sup>. Instead we urge IPART to reframe the recommendation as an affordable housing strategy, identifying the broader levers, interactions, and industry development requirements and strategies to achieve them. Part of this will be social housing targets and the resources available to support them.

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<sup>2</sup> Shelter NSW Response to IPART issues paper on the review of rent models for social & affordable housing. Dec 2016. pp 29, 31

<sup>3</sup> The term ‘affordable housing’ here is used generically, rather than to apply to a niche subsidized model. Rather it refers to sub-market and low cost housing affordable to very low, low and moderate income households.



**R9. That the FACS develop performance indicators for the Social Housing Strategy and report on these annually as part of its annual report.**

**R10. That an independent evaluation be carried out and reported publicly every five years on the effectiveness of the Social Housing Strategy.**

We also strongly support these two associated recommendations with the same provisos about the role of FACS and the focus of the strategy.

**R15. 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.**

We support the view that subsidies to improve affordability for those who are unable to access an alternative to the private rental market are important and could be further expanded.

A very important caveat on this is that the evaluation of such programs must cover a sufficiently long period to cover the end of the first lease and the sustainability of the tenant's income over a sufficiently long period.

However, we do not support any objective to divert potential applicants from social housing through the use of private rental subsidies or to encourage their exit. (Such as R20) Because of the extreme risk for most lower-income households in the lower end of the labour market that private renting will not be affordable or sustainable, diversion or encouragement to exit are profoundly inappropriate and self-defeating.

**R16. That all social housing leases be issued as continuous leases and be reviewed periodically (at least every three years) to assess whether the dwelling continues to meet the tenant's needs and characteristics.**

We strongly support the main thrust of this recommendation; and while we do not support the further elaboration in R 17, as it stands the review proposal is innocuous.

**R18 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.**

**R19 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.**

We strongly support the important recognition, evident in these recommendations, that housing security is a strong basis (and its loss, a strong disincentive) for workforce participation. However, we would echo suggestions from others, such as NCOSS, that for some cohorts, such as mature age workers or people with degenerative disability, two years is not long enough; and encourage IPART to consider some extended periods for these



cohorts. Similarly, we believe that a 6 month exemption might be too short for cohorts whose attachment to the labour market is more at risk (such as people with episodic mental illness) and that a longer period might be required before it is clear that employment is reasonably secure.

**R23. 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.**

**R24. 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.**

**R25. That FACS/AHO consult with Aboriginal representatives and housing providers on additional criteria relevant to Aboriginal clients to be included when matching Aboriginal applicants to Aboriginal housing under our recommended allocation process (see recommendation 21).**

Shelter broadly supports the three recommendations above. We particularly support R 24, given the variability of available data on the sustainability of Aboriginal community housing and the subsidies required to address this. In general we believe that Aboriginal people in NSW should provide the definitive input to these recommendations. For that reason we strongly support proper consultation with Aboriginal communities and a clear understanding of the essential criteria for sustainable tenancies proposed in R 25, and the same approach should be taken to R23. We should note, however, we do not support the proposed mechanism for better allocation in R 21, although we strongly support its intent.

### **Qualified support for other key recommendations**

Our support for the following recommendations is more qualified than for those above:

**R6. That LAHC be placed on a commercial basis as a priority, and the remaining housing providers transitioned to the sustainable funding model over a 4 year period.**

It is not clear what is meant by “a commercial basis”. **To enable less ambivalent support, we recommend that it be redrafted to overcome possible misunderstandings and to make the point more clearly.**

It is our understanding, based on IPART briefing<sup>4</sup>, that the LAHC is an entity able to receive the explicit subsidy. This does not entail setting it up as a market entity. Nor does it

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<sup>4</sup> Housing Partners Reference Group, 27 April, 2017

proscribe a particular business model. If our understanding of the recommendation is correct, it is supported.

However, it raises two important issues that also relate to other recommendations:

- In a number of places, the report discusses the objectives of an explicit subsidy and argues that any capital investment by government should provide a return on investment to government. It goes on to note that this might alternatively be used to reinvest into new supply. We strongly believe that it is not a necessary principle that government capital investments should produce an explicit return to government. While this is clearly true of a purely commercialised government enterprise (which remains in government hands for reasons such as a natural monopoly), it is not the case for capital funding of human services. Hospitals do not produce a return on investment to government. Neither should the investment in social housing. That being said, it is possible to leverage direct capital funding, with either debt or equity investment funded by efficient income streams. For that reason, we support the inclusion of a calculation of return on investment in the building block model.
- As we will discuss below with regard to R7, the current role of LAHC as the asset owner of most of the portfolio, with tenancy management contracted to FACS Housing or head-leased to community housing providers, is not a good model. The separation of asset management, strategic investment/ redevelopment decisions, and tenancy management leads to the least effective delivery of housing to low-income households. The rejection of the asset driven housing policy of the early 1990s was rejected in the Mant Report which led to a client focused model under a funder: provider framework. The key to an effective funder: provider model is a genuinely multi-provider system, delivering flexibility, local responsiveness, customer focus and innovation – all within a strategic policy, regulatory and shared systems framework.

**R7 That a purchaser-provider framework be implemented for social housing in NSW, with FACS responsible for policy, planning and allocation functions for social housing, and contracting tenancy management functions with housing providers.**

While a purchaser provider model can play a fundamental role in establishing a transparent, flexible and responsive subsidised housing system, there are some important qualifications:

- A purchaser provider model operated for 6 years in NSW from 1993 to 1999. The purchaser was the Office of Housing Policy based in the Department of Planning. This was a key recommendation of the 1992 Mant Inquiry into the Department of Housing<sup>51</sup> This split was fiercely opposed by the then Department of Housing, which saw it as a loss of fundamental policy and planning and budgetary roles; the ongoing resistance eventually saw the ‘funder’ functions brought back into the Department. The lesson

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<sup>5</sup> The Inquiry brought about the separation of the asset management business from the tenancy management functions of the then Department of Housing in order to change from asset led policy to a service delivery culture, and was a further catalyst for the significant growth of community housing.

from this is that such funder: provider models are inherently unstable and politically vulnerable; and that unless the location and political and policy legitimacy of the funder is carefully considered, it will be unsustainable.

- If the tenancy management functions currently undertaken (under contract from LAHC) by FACS Housing, the development and delivery of the other forms of housing assistance such as private rental assistance, and the LAHC itself remain within FACS or the FACS cluster, there will be an irresolvable conflict of interest if the ‘funder’ and owner of the strategic plan is also part of FACS. Even if LAHC is “commercialised” as recommended by IPART (R6), the conflict will remain if it and the ‘funder’ are part of the FACS cluster. In our view, this would only be overcome by a full devolution of all public housing<sup>6</sup> to create a genuine multi-provider system.
- While we support the call for a Social Housing Strategy, we believe there are limitations that require a more modulated model. Housing providers are often best placed to understand the nature of local housing need and the best way to create sustainable communities with appropriate opportunities, in terms of other community resources, partners or employment. That is, we believe that a blend of a high level strategy and place-based planning and delivery are required.
- Similarly, in practice, substantial caution must be exercised about the meaningfulness of precise supply targets by location, due to market and capacity constraints of (such as availability of land) in various locations. Similarly, the model assumes that the financing required to deliver growth can be mobilized. The certainty provided if the report’s recommendation for an explicit subsidy was implemented would be a major building block to accessing finance. Nonetheless, the investment required is very large and the institutional investment options and the cost of funds are as yet not fully developed. The role of instruments/ agencies such as a bond aggregator is still not bedded down. A key lesson from this is that it is impossible to assess the effectiveness of recommendations like a plan for growth targets, the quantum of the explicit subsidy, the case for focussing on very low income social housing, without placing it in the wider context of housing policy, programs and levers.
- In this context, we recommend that the IPART final report discussion of this recommendation be placed in the context of the recent AHURI report of its Inquiry into Australia’s affordable housing industry capacity<sup>2</sup>. Crucially, that inquiry and report, understands that the capacity to deliver growth in social housing depends on the capacity of an industry that is increasingly delivering a range of products across the bottom end of the rental (and shared equity) housing market. This reflects our strong concerns about the narrow focus recommended for government action in R 26.

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<sup>6</sup> It must be stressed that such proposed devolution does not necessarily mean the ownership and management of part of the portfolio is removed from public hands. Rather, it relates to the independent decision-making relating to the local business, within the context of an overall shared framework – tenant right, provider regulation, access systems etc.

**R20 That, following the 6-month rental contribution freeze, if the tenant's household income is over the threshold for a subsidy, that the tenant be offered alternatives of either:**

- **One-off private rental assistance (for example, a bond loan, rent in advance and (capped) moving expenses) as per current arrangements to move to private rental, or**
- **Stay in the social housing property and pay the full property rent without subsidy (market rent) plus 5% to reflect the security of tenure provided by social housing.**

Shelter supports the package of measures designed to de-risk entry into the workforce. One qualification that we have with R19 (while strongly supporting its general thrust) is that 6 months is too short a time to assess the stability and adequacy of employment income – particularly for tenants with high needs or episodic conditions. In the case of this recommendation (R20), our qualifications are stronger, since they include our opposition to the additional 5% for security, and our strong concerns about the risks that all but a handful of tenants will face in the private market, unless within the 6 month period they gain reasonably secure employment with at least middle income remuneration.

**R21 That FACS redesign the waiting list prioritisation and allocation processes to better match current housing stock to tenants' needs and characteristics, including their capacity to benefit from employment, education and training opportunities.**

We have very strong reservations about this recommendation as it is currently conceived. But again we strongly support what we take to be its intent. That is, to improve allocations across the system to focus on wider outcomes for tenants than simple eligibility for the household size and accessibility issues.

- It seems that the recommendation might involve two misapprehensions: that allocations are part of the core Pathways system; and that there is a systematic failure to allocate in the way proposed by IPART. In fact, community housing providers allocate based on their own policies and practices – although the broad pattern of allocations are monitored to guard against any 'creaming'. (In fact, as the *Report on Government Services* continues to show, in 2015-16 community housing providers in NSW continue to house a higher proportion of applicants in 'greatest need' (75.8%) than did public housing (51.7%). The national average shows the same result.<sup>7</sup>). While public housing, managed by FACS housing, uses a linked system to manage tenancies – including allocations – this is not part of Pathways. In principle, Pathways is a jointly owned system, one which was initially jointly governed by an advisory body with membership from each sector.<sup>8</sup> The main point to be made here is that, while it is true

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<sup>7</sup> Productivity Commission. Report on Government Services: Housing and Homelessness. 2017. Table 18A.9

<sup>8</sup> In fact, Pathways is a case in point for why it is inadvisable to locate shared governance and infrastructure in an agency that contains one part of the provider system as we noted in our reservations about R7. The costs of

that some community housing providers have taken the path of least resistance and adopted public housing practices in allocations (partly under the influence of public housing partners during the implementation of Pathways), a large proportion continue to adopt approaches designed to achieve the wider outcomes looked to by IPART. It might be speculated that the greater use of support services and training and employment services by community housing tenants, and the greater engagement with housing managers in accessing them, might be due to the allocation approach.

- This highlights a fundamental concern with the recommendation. That is, that the kind of allocations and the subsequent engagement that deliver the opportunities looked for by IPART in this recommendation, are driven by local knowledge, relationships, and face to face engagement with applicants and subsequently tenants. They also include a good understanding of the impact of particular allocations on the wider community. Centralised, formulaic, approaches are not appropriate or effective for tenancy management – including sensitive allocations.
- The same point should also be made about allocations based on standard occupancy standards. While these provide an important guide and an aggregate measure, successful tenancies depend on individual interpretation and flexible decision making. The judgement about whether an additional bedroom for an informal (rather than formal) carer arrangement will make all the difference, cannot be prescribed. This is the implication of the fact that it is a *human service*.
- The larger consequence of this discussion is that the outcomes sought cannot be achieved by (and should not be part of a recommendation about) a centralised register. Rather, the mechanism to achieve it is a decentralised, genuinely multi-provider, without the market dominance and centralised ownership of the majority of the assets by one provider. This entails the transfer of assets, and the devolution of the housing management, currently exercised by LAHC and FACS housing. This is the model that has shaped most public policy about improved services delivery, and sustainability over the past 30 years. It also requires high levels of transparency, strong tenancy and appeal rights for tenants and applicant, robust regulation, and an effective policy and funding framework such as the strategy recommended by IPART.
- **We recommend that IPART recast its recommendation to reflect the provider roles and provider system that will best enable the allocations approach envisaged in the report.**
- We do, however, appreciate that the model proposed is not based on a purely formulaic computer model. Rather, having achieved a relative fit, allocation decisions are

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Pathways system was born by government and so the hosting and management was located in Housing (now in FACS). The result was that the system, decision making, and implementation became captured and dominated by the public housing system. A recent review has considered a return to the original commonly owned and governed model. *ARDT Review of Housing Pathways*. 2017

effectively left to tenants through the use of a choice based lettings system. There are many strengths in such a system – in particular, placing the decisions about appropriateness in the hands of applicants themselves. However, this benefit is undercut if the choice is constrained by very limited options and intense need/demand, such as is the current situation. Just as in the private rental market, only some tenants will have genuine options. Nonetheless, we see some value in piloting choice based lettings in a limited way.

- We also note that R16 proposes 3 yearly reviews of the suitability of a dwelling for the current household. In this case, there is no suggestion that tenant choice decide the suitability or otherwise. This is a very significant internal contradiction. In these instances, Shelter believes that the tenant judgement – in the context of appropriate alternatives – should determine ongoing suitability.

### Recommendations not supported

While we support the majority of the recommendations in the report – albeit with some (at times substantial) qualifications or elaborations, there are a small number that we strongly oppose and that they undermine the overall strength of the report.

**R1 To ensure rent is affordable and assistance is provided to those most in need, that FACS revise its Tenancy Charges and Account Management Policy Supplement so that social housing tenants above the subsidy eligibility threshold pay market rent plus 5%, to reflect the security of tenure provided by social housing compared to private rental.**

Shelter believes that this recommendation is wrong in four ways: in principle; it is not internally consistent; in its methodology; and it adds a new workforce disincentive for those tenants with the more marginal expectations of success in the labour market. It would also be of marginal importance to the broad direction of the IPART proposals.

- In principle, it assumes that the insecurity (and associated costs) in the private rental market is the norm, and that protection from that provides a benefit that should be charged for. This mistakes the relatively unique form of market failure that exists in the Australian private rental market – one that is exacerbated by the dominance of short-term, retail, speculative investors – for normal rental market conditions. This is an unusual market (by international standards) and is the product of failed public policy. Currently, governments are recognising that private rental insecurity of tenure is not normal, but something that should be overcome by enabling the entry of a new class of long-term volume investors and providing greater legal rights to long-term tenancies. It is entirely inappropriate to price for a good that should be freely available

in the private market, is in most other rental markets, and that now potentially might be achieved in our market<sup>9</sup>.

- Conversely, IPART has recommended (R17) that all tenants, including those who might be paying the proposed 5% 'security' surcharge, NOT be offered security of occupancy, but only as long as the dwelling meets their (externally determined) needs. That is, just as in the private at the moment, they will be required to relocate. This is plainly inconsistent with R1. Incidentally, it also misunderstands the variety of needs for continued occupancy in a particular dwelling.<sup>10</sup>
- Also wrong in principle, since it is a version of amenity pricing which is inappropriate as long as the essential housing good (after housing adequacy & security) cannot be met for low to moderate income households at market prices – let alone market plus premiums. Amenity charges should be limited to discretionary goods – and security is not a discretionary good.
- The proposal is for *all tenants* who have crossed the subsidy eligibility ceiling to be charged a surcharge equal to the saving from security equal to the cost of moving incurred by private market tenants – and that this should be equal to the cost of moving every 2 years. There are two methodological problems with this. (a) While the *average* number of moves by private tenants is 2.03 times in five years<sup>11</sup>, a significant percentage of private rental tenants do not incur the costs attributed to them – they move less than twice in a 5 year period. 19% have not moved in five years and 26% have moved only once. (b) On the other side of the coin, despite the presumed security of tenure, 20% of public tenants have moved more than twice. On average, public tenants move 0.9 times in five years<sup>12</sup>. Even if it was appropriate to base the presumed benefit of security on the mean number of moves, the benefit would have to be the average *additional* number of moves – the difference between the average private and public tenant moves. This is 1.1, rather than 2. In effect, it would halve the size of the proposed surcharge.

However, in our view it is not possible to justify charging all secure tenants a surcharge based on costs saved, when the incidence of these costs is so variable. The effect of basing the charge on an average is that almost half such tenants would be charged for a benefit (a reduction in costs) that they would not have incurred on the private market.

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<sup>9</sup> While we acknowledge that some of the proposals to legislate for longer tenancy agreements that offer higher levels of security have led to suggestions that some additional implicit costs should be borne by tenants with such security, this proposal has not received wide endorsement. In the long run – and in other housing markets – security is not a good that is likely to be priced into private market rents.

<sup>10</sup> See comments on R17 below.

<sup>11</sup> ABS *Housing Occupancy and Costs. 2013-14* Cat No. 4130.0 table 1. This broadly corresponds to the data from the recent Choice, National Shelter, NATO survey of renters.

<sup>12</sup> Ibid.



- Is also *ad hoc*, since it simply assumes that the benefits of security relate primarily to avoidance of removal costs. Without a market to establish a genuine price for the benefits tenants attribute to security, any price nominated is unreliable. While this might suggest a potentially higher 'price', without understanding the trade-offs actually made, even this cannot be assumed.
- Finally we are not convinced that the framing of the recommendation – “To ensure rent is affordable and assistance is provided to those most in need...” is accurate. First, it in no way ensures that rents are affordable. On the contrary, it is a rent above (even less affordable than) the market rents, currently known to be unaffordable for a household well up the income scale. It is worth noting that the calculation of household income for social housing is broader and more tenuous than household income used to measure affordability in the private market. It is also worth noting that while such households will be in the middle income quintile, the suburbs of greater Sydney with affordable rents for such households are in the outer ring. The recommendation only addresses targeting assistance to those most in need in the most indirect way.

**R2 To improve equity between social housing tenants, that FACS revise its Tenancy Charges and Account Management Policy Supplement to:**

- **assess Family Tax Benefits Parts A and B at 25% in the calculation of rent payable for social housing (instead of 15%)**
- **include the Pension Supplement in the calculation of rent payable for social housing, and**
- **include any benefits or allowances that are regular, ongoing and provided for general living expenses in the calculation of rent payable for social housing.**

**R3 That the maximum increase in weekly rent contributions payable by applicable tenants associated with assessing benefits and assessable income be capped each year at \$10 per week.**

**R14 That FACS retain the current weekly income thresholds for social housing eligibility at entry and revise the way it assesses income in line with draft recommendation 2.**

Recommendations 2, 3 and 14 are not separate. Were R2 to be implemented, Shelter would support R3, but we do not support R2. Similarly, while we support the recommendation not to change eligibility (R14), we cannot support the change to assessable income to which it has been linked.

- Fundamentally, the principle that any income that is “regular, ongoing and provided for general living expenses” should be fully assessable for eligibility and rental contributions is wrong.

- Just as a time limited payment made for as specific compensation or assistance should not be included, neither should an ongoing payment made to meet specific higher costs of particular groups or circumstances. Far from improving equity between tenants<sup>13</sup>, this undermines equity between households with different needs (and associated costs).
- In the case of FTB, IPART makes the point that part of this payment to meet the higher cost of children includes using the payment to meet the higher cost of housing. However, while this properly means that a part of the FTB properly goes to cover rent, it is not clear *what* proportion, and hence, how direct the relationship is. Moreover, a proportion of FTB is already included in assessable income. It is clear that the recommendation to claw back 25% rather than 15% of the FTB payment, is not based on an assessment of the proportion of FTB that actually is provided for housing costs<sup>14</sup>, but rather a continuation of the gradual creep in the tenant contribution in response to the financial constraints on the social housing system.
- The main point here is simply that in general the principal applied by the IPART is wrong in privileging horizontal equality over vertical equity. In the case of FTB, it is worth understanding the vital contribution it makes to child poverty reduction, as a further reason that it should never be used to cost shift from federal to state government or (in the process) from the state to very low income tenants. As ACOSS has pointed out<sup>15</sup>:

FTB is designed to compensate families for the costs associated with raising children, with higher rates of assistance targeted to families on low incomes.

Recent research on child poverty in OECD countries suggests that the Family Assistance system in Australia has been instrumental in reducing child poverty. Since major reforms were undertaken in the 1980s, increases in the rate of family payments for low-income families have corresponded to a significant drop in rates of child poverty in Australia.

- Other parties have pointed to the serious health impacts that applying this principle to payments to meet ongoing costs of medication. A 25% claw-back in this case would force tenants to do without essential medication that they might otherwise have afforded.
- However, perhaps the most important underlying issue is that no state government should be seeking to claw back payments made as part of the Commonwealth social security system to meet fiscal pressures. This compromises the integrity and effectiveness of the system of income support for the most vulnerable across the nation. Equally, the financial pressures experienced by housing providers because of the inadequacy of their income streams – which has been exacerbated by 20 years of

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<sup>13</sup> The IPART recommendation here focuses on horizontal equity, but in so doing, undermines vertical equity.

<sup>14</sup> There is no such calculation in establishing the rate of FBT.

<sup>15</sup> Analysis of the proposed changes to Family Tax Benefits. ACOSS Paper 174. May 2011

targeting – should not be taken as a given, but should be seen in the context of the second largest component of the income stream: the Commonwealth NAHA.

Shelter recommends 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.

- To facilitate the development of agreement on the treatment and contribution of such subsidies, the State's contributions should be made transparent. It is currently not possible to tell through either the State Budget papers or annual reports of entities within the FACS cluster, what contribution to the cost of housing is made by the state (or conversely, what use is made of the NAHA subsidies). Until this is clear, no recommendations relating to subsidies or the tenants contributions will be robust.

Shelter recommends that a transparent report of the funding and expenditure for social housing and housing assistance in NSW be prepared to accompany the state budget in consultation with stakeholders.

**R17 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.**

We strongly oppose this recommendation. The recommendation is framed in the context of a broad view of suitability; but in most cases the criteria for wider suitability will be a matter of judgement and not a suitable basis for requiring relocation. It seems to us that ultimately the recommendation relates to the view that the efficient use of the available stock (in terms of occupancy standards) is of preeminent importance. IPART argues that rehousing to meet these standards should take precedence over allocation of available stock to those in urgent need<sup>16</sup>. We find it very difficult to justify the importance IPART attributes to this. We note, and strongly support, the associated recommendation that social housing tenancies should be continuing tenancies. However, in our view, the strong presumption that should inform housing policy is that security implies secure occupancy. There are four reasons for this:

- First, the well-being of households, on which the capacity to engage effectively and live a fulfilling life, depends on the network of associations and their ongoing security that are centred on the home (what is sometimes called 'ontological security'<sup>17</sup>)<sup>3</sup> For vulnerable low income households this can be crucial in pursuing further activities

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<sup>16</sup> Commentary on p 51 in relation to R22. While the draft report focusses on meeting needs in terms of "access(ing) the amenities and opportunities they can benefit from" (p53), it seems to us that both recommendations relate principally to occupancy standards.

<sup>17</sup> **Ontological security** is a stable mental state derived from a sense of continuity in regard to the events in one's life. [Giddens](#) (1991) refers to [ontological](#) security as a sense of order and continuity in regard to an individual's experiences. He argues that this is reliant on people's ability to give meaning to their lives. Meaning is found in experiencing positive and stable emotions, and by avoiding chaos and anxiety (ibid; Elias, 1985)

such as employment, or maintaining mental wellbeing. It is also crucial for building strong communities.

- While formal rules for occupancy standards exist, they routinely fail to recognise the strong role played by informal relationships – and these are often the most effective in sustaining a tenancy, supporting a person whose support needs fluctuate, are particularly effective in preventing the need for more expensive formal supports. In terms of the appropriate number of bedrooms for older people or people with disability, there has been an erosion of the recognition that an extra room provides vital flexibility and is cost-effective.
- The focus on ensuring that the whole portfolio is fully utilised (in terms of bedrooms) does nothing to change the number of households assisted. Its purpose appears to be to maximise the rental yield by ensuring that larger households, paying larger rents, are housed. This would only be coherent if LAHC was not divesting itself of larger dwellings and overwhelmingly constructing smaller units. Equally, it might be to maximise the opportunity to realise the value of larger dwellings, eventually replacing them with smaller stock. While the former at least might be a relevant efficiency consideration, it must not be achieved at the expense of providing genuinely appropriate homes for low income households. The latter is a short term view that takes significant risk of not being able to meet future patterns of demand.
- But the most fundamental objection is that it is unachievable. The barrier to date is not the requirements on tenants, but the lack of appropriate alternatives. It is crucial to understand that this is not only a product of the overall development of the social housing portfolio. It is equally a matter of the inherent rigidities of any housing system. The availability of an appropriate range of dwellings cannot be achieved across the portfolio, but much be achieved within each geographical area. The lead times in redevelopment or new development mean that it will be take considerable time to realign the portfolio to meet projected demand. However, as we have learned from the recent sorry history of the sell-off of inner city schools to take advantage of incorrect demographic projections, incautious reconfiguration of the portfolio can create significant limits and risk on its capacity to meet future need. Worse still, it is self-fulfilling, since it places self-imposed constraints on the capacity of the portfolio to meet emerging needs – and hence on what the social housing population will become. Until there is a significant expansion in the overall size and mix of the portfolio to make rehousing a realistic and appropriate option, this recommendation should be dropped.

**R22 That households in urgent need of housing are provided with temporary accommodation or other forms of housing assistance until they can be placed in suitable social housing.**

This recommendation must be understood in the context of the previous one. It proposes that, rather than giving priority to urgent need, priority should go to rehousing to meet occupancy standards (or other suitability criteria), and that in the meanwhile, urgent need should be addressed through temporary accommodation. (However, see also footnote 12)

This recommendation could only be proposed in the abstract. The history of temporary accommodation is one of the running sores of the NSW social housing system. Temporary accommodation is notoriously hard to supply. To date, the available options have very often been seriously unsafe, although FACS has recently taken steps to improve this. Moreover, for many people requiring urgent housing, there is an equally urgent need to link this with relevant support. While there are models that achieve this, they are far from widely available.

The bottom line is that, for those in urgent need, temporary accommodation is the worst possible option (short of street homelessness).

**R26 That, rather than investing in government-subsidised affordable housing for people on moderate incomes, the NSW Government focus housing assistance on:**

- **providing social housing for people on very low to low incomes in need of long-term secure accommodation, and**
- **providing time-limited private rental subsidies for people on very low to low incomes in need of temporary assistance.**

**R27 That the NSW Government not impose any new requirements on existing affordable housing schemes.**

This recommendation would do serious damage to housing policy in NSW. Housing policy responses cannot be considered in silos.

- Shelter understands the intention to focus government assistance on those in the greatest need. We would be troubled by a system that created incentives to prioritise those on moderate incomes over those on the lowest income. But that proviso does not prevent us recognising:
  - (a) that households outside current social housing eligibility experience unsustainable housing affordability pressures that should be addressed in parallel with the provision of social housing. Such households would once have been public housing eligible, and even now, they may be in the same situation as a number of continuing social housing tenants.
  - (b) Significant state government assistance (subsidies) are routinely directed to moderate and high income households in terms of home purchase assistance, infrastructure subsidies for new housing developments, and exemptions from state housing related taxes. To exclude only low and moderate income renters who would otherwise be in housing stress is both inconsistent and inequitable.

(c) The principle that public expenditure is necessary and appropriate for a range of incomes (with higher subsidies going to those on the lowest incomes) is taken for granted in the funding of areas such as health, education, or aged care.

- The parallel subsidising of affordable housing improves the sustainability of the social housing system by limiting demand pressures and intervening early to prevent more acute housing need. With constrained social housing supply<sup>18</sup>, increasing demand for social housing leads to further targeting, which either increases the social housing losses or increases any explicit subsidy required<sup>19</sup>. For this reason, addressing the drivers of demand is crucial; and, particularly, addressing them early enough to prevent people becoming detached from the labour market. ‘Affordable housing’ plays the crucial role of making housing affordable to lower income workers in the locations they need to live to access employment. This has implications for social housing demand, for moderating the private rental market, and for labour supply in crucial areas of the state economy.
- We note that the recommendation refers to “housing assistance” which may mean that the recommendation is neutral with regard to current proposals to increase the use of value capture and sharing for affordable housing (inclusionary zoning). However, it must be stressed that this will have minimal impact on the supply of below market rental housing, unless it is leveraged in other ways – including some levels of subsidy. Such subsidy levels are lower than those required for very low income households.
- The proposal is not consistent with the recommendation (which we support) to provide continuing leases for public housing tenants – including those who are no longer eligible for subsidy. Affordable housing provides housing with a smaller level of subsidy for the same population as public tenants who have re-entered the labour market, but who still require a subsidy for their housing to be affordable.
- The recommendation goes on to suggest that time limited private rental subsidies should be provided for low income working households, rather than increase the supply of more affordable housing. We can only stress that for a very large proportion of low income working households in the contemporary labour market, rental unaffordability is unlikely to be a short-term situation, and rental subsidies will not be a short term requirement.

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<sup>18</sup> And it must be stressed that even if the proposed explicit subsidy proposed in R4 were implemented, the time it will take to generate sufficient new supply to meet the demand gap means the current extreme under-supply will remain for a considerable time – unless there is a substantial capital reinvestment, such as hypothecating the state’s windfall stamp duty revenue to social housing supply.

<sup>19</sup> The reason that the social housing system across the country became unviable, is that a limited supply was targeted to the highest cost and lowest income applicants in combination with an income-related rent. The alternative response could have been to choose the virtuous cycle of investing to grow the whole system, capitalizing on the lower subsidy costs of a proportion of low/moderate income households so that over time the system had the capacity to meet both sets of needs.

- The development of an affordable housing industry, with financial instruments designed to support the development of affordable housing, is well advanced. To recommend that NSW become isolated from these trends is counter-productive. (See also our comments in response to R7)
- In effect, this recommendation undermines the policy benefit of the proposed explicit subsidy. The strength of that recommendation was that it called on government to meet the unfunded cost of the system so that it could grow, rather than continue to ration. In this recommendation, the report supports ongoing rationing.

### **No formal view – but provisional reservations**

Shelter appreciates that the following recommendations are intended to provide greater certainty and efficiency for providers. We also are aware that some of the recommendations (such as contracting) might provide new risks for providers or (like fortnightly subsidy payments) might have some administrative impact. We believe that housing providers are best placed to provide IPART informed advice about the benefit or otherwise of these; and these comments are therefore provisional:

#### **R11 That FACS enter into long-term contracts with social housing providers, to deliver the dwellings as set out in the Social Housing Strategy.**

It is not reasonable to ask community housing providers to enter into contracts to deliver an unknown number of dwellings over the term of the contract. Even more important, it is not reasonable to expect providers to carry the development (and/or financing) risk in exchange for a subsidy that may or may not meet the financing costs. As it stands, the uncertainties associated with the proposed explicit subsidy make that risk very high indeed.

#### **R12 That FACS distribute the explicit subsidy to social housing providers for tenanted properties on the basis of fortnightly claims submitted by these providers.**

The administrative cost of providing fortnightly claims to government is too great. While we appreciate that the proposed fortnightly payments are intended to ensure a viable cash flow, the calculation and adjustment of the subsidy can be delivered more efficiently. It should be noted that the subsidies to cover the cost of the existing private head-leasing program might be used as a model that could be adjusted if there are greater efficiencies that could be jointly determined.

Shelter also does not see any clear argument for the decision to pay the subsidy directly to the provider rather than to the tenant. This is generally the practice in the case of those tenants eligible for CRA (although we recognise that there are proposals to end this arrangement). The main argument is that it protects providers from the risk of this additional loss of income when tenants are in arrears. Offsetting that is the saving in not having two payments to invoice and administer. Finally, paying the subsidy to tenants makes



it clear where the real relationships lie – between landlord and tenant. It is the tenant who purchases the service – not FACS or the government.

Shelter recommends that there be further consultation before landing on one of the approaches considered for subsidy payment.

**R13 That social housing providers obtain an annual independent assessment of market rent for the basis of their subsidy claims to FACS.**

Again, the administrative cost of this is too great. Even LAHC only surveys a third of their portfolio. Other programs such as NRAS require less frequent detailed assessment, with the interim adjustments being based on aggregate market data.

## Appendix A

### Issues relating to the building block model of efficient costs of social housing provision

Shelter approaches this with some caution, since we accept that IPART has a technical expertise that we do not. We offer these observations as just that, but hope that the observations might prove useful in IPART's further review of this model.

However, we are clear about the outcomes and possible concerns arising:

The measure of (or proxy for) the efficient cost of operating social housing must be such that a full explicit subsidy, together with the tenant's contribution, would be sufficient to:

- cover the necessary tenancy and asset management activities,
- to meet the cost of borrowing or return on investment to equity investors
- generate a prudent surplus to manage business risk (particularly development risk)<sup>20</sup>

While we acknowledge the margin for error in the building block model, if there is any risk that a market rent benchmark will not reliably meet the above costs, a building block method (refined over a period of time as the subsidy actually operates) should be preferred. On the face of it, there is such a risk.

#### Tenancy and property management costs

Our principal concern is the tenancy management figure used. The tenancy management capacity of FACS has declined in recent years, with tenants reporting declining face to face contact, and a steady erosion of tenant groups and the like. The more reliable measure, despite the smaller sample, is the data from the AHURI project. Here we note that IPART has only included one of the three disaggregated aspects of tenancy management in a properly functioning social housing provider – basic tenancy management, individual tenant support, and additional tenant and community services. All three must be included to estimate the effective cost of tenancy management.<sup>21</sup> This increases tenancy management costs from \$1,554 to \$2,059 (in 2015-16 \$s). If we take the LAHC property management costs, since they have the full gamut of property management responsibilities, only part of which community housing providers in NSW undertake, the property management cost becomes \$3,165. With council and water rates, it becomes \$5,228 per property. While this is only a 3.2% increase in IPART's total estimated efficient cost, that cost is already 8.1% above the estimated market rent. Together, they suggest that the market rent measure would underfund the efficient cost by 10%.

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<sup>20</sup> This might be generated by the return on any investment that the organization itself makes in new assets.

<sup>21</sup> These are aspects of the more responsive tenancy management role of a social housing provider and are distinct from specific support services that a tenant may need to access. These are separately delivered and funded. We also note that the AHURI study noted that the third of these is underdeveloped (due to financial constraints).

We also note that the property agent comparator is of very little use, since the standards and activities of a private property manager are significantly lower than for social housing (except for high end estate management).

### **Maintenance costs**

The following observation is more by way of a question. The maintenance cost included in the 'summary of building block costs' is \$368 million per annum. This is \$2,695 per property – effectively the recurrent costs of \$2,700 discussed in the report. However, we are unclear why the capitalised maintenance cost of \$1,900 per property is not also included in the efficient cost.

While for accounting purposes they appear on the balance sheet, they are real costs. We assume they are not captured in depreciation. Nor does it seem that they are reflected in the RAB on which return on assets are calculated, since these reflect the market value. A general concern for Shelter is that changes in the balance sheet (including asset revaluation/appreciation) should not be treated as being readily realised, since, unlike speculative investment in residential property, most social housing should be retained over the long term to provide security and minimise disruption to the tenant communities.<sup>22</sup>

While we assume that they *are* captured in the overall efficient cost, we suggest that this treatment might be made clear in the final report. If they are not, then the building block model would need to increase by a further 9.8%.

### **Allowance for return on assets**

Again, we simply make comment on aspects of the calculation of the benchmark rate of return, without having a view about the appropriateness of the final figure.

As a general comment, we note that we are unclear about the purpose of this component of the efficient cost. It is not the case that a rate of return on government investment should be paid on social housing – any more than it is on hospitals. Nor should the future financing of social housing be assumed to be provided by the current retail investors in the rental market. The behaviour of these investors (seeking to realise capital gains) and the tax subsidies that support them, produce rental housing that is insecure and are the cause of unsustainable house price inflation. The return required for social housing is that which will support borrowings used to leverage charitable or public funding that requires no return. Moreover, the announcement of a bond aggregator should see an instrument that will encourage the entry of institutional investors, and will reduce the cost of funds. It should also provide a return that covers the nature of the risks that social housing providers take in investing in new supply. We suggest that the final report include a clear discussion of the purpose of the return required to support the growth of social housing.

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<sup>22</sup> This is not to say that the asset can never be reconfigured or (to a modest extent) increased values captured.. But this should be very judiciously undertaken. Shelter has concerns about the immediate and long term impact of current Communities Plus model and strongly opposed the wholesale divestment of public housing at Miller's Point. (Again, judicious sales would have been acceptable – and were, in fact, proposed by the residents.)

We note that the discussion of the analysis of the rate of return notes that the capital gain yield should be reflected in the RAB. We reiterate the point that the realisation of any capital gain in social housing is severely constrained.

With reference to E2 'estimating the rate of return for residential investment', we note that this relies on the Russell/ ASX Long Term Investing Report on the current return on residential property. As we noted above, we are not convinced that these investors, the returns sought by them, and the tax regime that supports these investments will be relevant to – or appropriate for – investment in social housing.

### **An prima facie anomaly in the calculations**

Again, we simply note this apparent anomaly so that IPART may consider whether or not it is an issue.

Figure D1 compares current funding with the building block costs. This shows current funding of \$1,429 million and costs, excluding the return on assets and tax allowance, of \$1,478. This would suggest that the current operations of social housing – which don't include tax or a return on assets – are largely funded, with a small deficit of \$49 million. Indeed, the current tenant contributions and CRA in table D1 is \$70 million less than that shown in Table 4.1<sup>23</sup> which, if added, would suggest a small surplus. However, it seems clear that the operations do not generate a surplus or even a small loss.

Shelter's analysis of the FACS annual report calculates an operating loss of the combined FACS Housing and LaHC – excluding homelessness services and AHO – of \$626.4 million in 2015-16. This is subsidised by \$239.3 million of mainstream NAHA Commonwealth funds, leaving a shortfall ultimately funded by the state of \$387.3 million.

Again, we simply note an apparent understatement of the funding gap that might be easily clarified. But if there is an understatement, this simply gives us further concern about the adequacy of the market rent as a benchmark for calculating the explicit subsidy.

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<sup>23</sup> Table 4.1 closely matches our reading of the annual reports adjusted to include community housing.

## Notes

<sup>1</sup> John Mant, *Inquiry into the Department of Housing: Report of Commissioner John Mant*, November 1992.

<sup>2</sup> AHURI *Ready for growth? Inquiry into Australia's affordable housing industry capacity*. April 2017  
[https://www.ahuri.edu.au/\\_data/assets/pdf\\_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf](https://www.ahuri.edu.au/_data/assets/pdf_file/0016/12832/Ready-for-growth-Inquiry-into-Australias-affordable-housing-industry-capacity-Visual-Report.pdf)

<sup>3</sup> Giddens, Anthony (1991) *Modernity and Self-Identity. Self and Society in the Late Modern Age*. Cambridge