

SHELTER NSW SUBMISSION

Response to IPART issues paper on the review of rent models for social & affordable housing
Submission to the Independent Pricing and Regulatory Authority (IPART) from
Shelter NSW

This submission addresses the history and circumstances within which the review is being undertaken. In doing so, it presents a somewhat different understanding of the factors that have led to the current constraints, and hence, possible solutions. In general, we argue that rent models and eligibility are often not the most suitable mechanisms to achieve the desired outcomes.

We also provide responses, drawing on this background, to most of the specific questions asked by IPART. In terms of the possible rent models proposed, Shelter strongly supports a version of an income related rent, on the basis that the affordability is the overwhelming need, together with security. These are the preconditions for any pathway to improved opportunities for tenants

However, we are also of the view that the impacts of any proposed change will be profound and complex. For this reason, together with other housing and homelessness peak bodies, we believe that the timeframe for these discussions, which go to the absolute heart of our system, should be extended. While this need not extend the IPART review itself, we would urge IPART to propose a joint process for working through the complex implications of possible changes, commissioning modelling where required. In particular, we believe that an expert advisory group – including academics, representatives of providers, tenants, advocates and peaks – should be established to inform this further stage of consideration.

1. Background

Shelter appreciates that the terms of reference given to the Authority for this review by the Government are both broad and based heavily on the directions and objectives of the strategy *Future Directions for Social Housing in NSW*. At the same time, we believe that some further understanding of the history of the achievements and challenges of social housing will put this in context. Shelter also believes that there are some limitations to the achievement of the objectives of aspects of the *Future Directions* strategy.

We hope that we can assist the Authority as it considers the options outlined in the issues paper by providing some initial elaboration of these matters, before addressing the specific questions in the paper.

1.1 Has the nature of demand for social housing changed?

The first background matter we would like to address is the view that those in need of social housing have fundamentally changed – and, as a result, eligibility and pricing must change to reflect this.

There is, of course, no doubt that the composition of households *currently housed* in social housing (and in particular recent allocations) has changed significantly from those housed in the first period of the public housing system. Broadly, the latter were low income working families, for many, on a pathway to home ownership. The former has a high proportion of residents who are outside the workforce, increasingly with other needs for social support.

However, this only partly reflects a changing need or demand for social housing. What it mainly reflects is the changes made to eligibility and priority over the past 35 years, and particularly the last 10 years. There were two main drivers – one social (rather than demographic); and one an administrative response to policy failure.

Following the Henderson Poverty Inquiry in the 1970s, the community recognised that a number of groups had been largely ignored by public policy and were now the hidden poor in post-war Australia. These included single people, young people, single and older women, people with disabilities. At the time, most of these groups were ineligible for public housing. Following community advocacy, eligibility was extended to these groups. During the same period, the need to de-institutionalise services such as mental health services was recognised as the result of inquiries such as the Richmond Inquiry in NSW. However, despite the recommendations of the inquiry, government largely failed to provide the supply of alternative accommodation needed to replace closure of institutional accommodation. Increasingly public housing came to pick up this shortfall.

The second driver was a response to underinvestment in additional social housing needed to meet these new eligibility groups, or to meet population growth. By the beginning of the 1990s the previous year on year growth in social housing of around 3,000 homes began to slow sharply. In part this was a result of the changes to financing which moved from debt finance, provided through the Commonwealth at concessional rates, to Commonwealth capital grant funding with state matching. Under the latter arrangements there was both a steady decline in the level of Commonwealth funding and state under-matching due to the lack of transparency between matching contributions and debt repayment ('revolving funds').

The result of this underinvestment was that the system became increasingly rationed. This was achieved by tightening allocations policy to target them to higher needs and lower income applicants.

The point of this brief history is to clarify first, that, in general, the changes to the composition of social housing households was not a change in demand, but a consequence of a decision to respond to an existing *unmet* need/demand by being more inclusive, and to ration the undersupply. It was a supply, not a demand issue.

The other side of this coin was that the demand from low income *working* households did not disappear – even though it was being steadily excluded from social housing. And in response to this, a newly badged form of social supply was introduced from the early 1990s – what is now called ‘affordable housing’. ‘Affordable housing’ is below market rental housing (with a variety of rental models) designed to meet the housing needs of exactly the group that was being excluded by the targeting of social housing.

While there were changes in emphasis – these were not the working families eventually seeking homeownership in the greenfield suburban estate developments linked to emerging industries in these areas, but rather, working people employed in urban renewal areas but priced out of the now higher cost housing, or longstanding residents who would be displaced by the rising costⁱ – a social response to meet the needs of lower income working households (and labour force needs) continues to be part of our social housing responses.

In our view this development was an unhelpful and confusing process that particularly limited the capacity of the increasingly tightly targeted ‘social housing’ part of the system to respond flexibly, by creating two separate silos of housing assistance.

1.2 Financial viability of public housing

It has been well understood for the past decade and a half ¹ that the main cause of the financial unviability of state housing authorities is rationing, through targeting to those with the lowest incomes and often other support needs. In order to maintain affordability for this vulnerable tenant population, rental income streams fell steadily.

Where previously a significant proportion of households paid market rents which more than covered the operating and financing costs, allowing the surpluses to cross subsidise the lower rents of very low income households, targeting saw the NSW Department of Housing go from the second highest operating surplus in the country in 1991 to a deficit of more than \$250 million including interest and depreciation in under a decade². It left an unfunded maintenance liability and debt.

A striking consequence has been that the Commonwealth funding provided, for many years through the CSHA, and recently through the NAHA, which under the CSHA was explicitly (and under the NAHA is expected to be) capital funding, has instead been used to fund operating deficits.

ⁱ The first two such affordable housing programs were in Pyrmont Ultimo and in the Honeysuckle development in Newcastle. These were commenced in the 1990s as part of the Commonwealth Building Better Cities program. More affordable housing was also planned (and a little later delivered) as part of Sydney’s Technology Park development.

The options clearly identified over a decade ago for the social housing systems (in all jurisdictions across the country) were:

- Continue to fall further behind demand, leading to tighter rationing and targeting, with the result that the system is financially unsustainable and must sell down its assets to fund its operationsⁱⁱ - the vicious cycle option.
- To return to growth to meet at least the previous proportionate level of demand, enabling reduced rationing, reduced targeting and sustainable income streams. NAHA capital funding and some government borrowings would have appropriately funded this option – the virtuous cycle.
- Hall & Berry in their 2004 AHURI study of the finances of all state housing authorities noted a third (transitional) option. That is for governments to fund the difference between public housing market rent and the subsidised rent paid by tenants.ⁱⁱⁱ The report calculated that this would enable all state housing authorities except one to return to operating surplus.

Despite the clear consequences, NSW and most other SHAs (except perhaps Western Australia) continued down the first path.

Instead of finding a solution that would provide sustainability, the NSW government limited the rate of decline by using the NAHA funding to subsidise operations, a moderate (but cumulatively significant) sell-down, which for a time was moderated by head-leasing stock from the private market; and an ad hoc process of increasing public housing rents and charges. The latter has been achieved by adding user charges, modifying the calculation of household income, and altering the rate – but without any consideration of the impact on affordability and the well-being of households. In effect, the most vulnerable have been left to pay for the government failures.

The significance of these observations to this review is that it makes clear that the viability of the current social housing income streams are the consequence of government decisions (targeting) and not by changes in demand leading to changing tenant profile; and that the most effective solution, returning to earlier proportionate levels of supply, has been well understood for over a decade and would, of itself, resolve many of the rental income and flexibility concerns discussed in the issues paper.

ⁱⁱ The issues paper on p27 says: “... the stock of social housing has not grown substantially in NSW. In the 8 years from 2006-07 to 2014-15, the total number of social housing properties grew by only 3,432.” In fact, this includes 6,000 new dwellings funded by the Commonwealth through the Nation Building Economic Stimulus package. The state’s performance was a net loss of over 2,500 units.

ⁱⁱⁱ The underlying problem with subsidised social housing rents, which we will discuss further, in section 2 and our response to question 3 (p 19 of this submission), is that since targeting virtually eliminated cross subsidies from market rent paying tenants, the ‘subsidies’ for affordable rents are unfunded. The subsidy is often misunderstood as a source of funds that could be used for other purposes. This is not the case. And while there is an opportunity cost of affordable rents, the activities that this is set against are not discretionary.

1.3 The private rental market alternative

The issues paper presents a brief but clear picture of the situation that has emerged since the beginning of the 1990s in the private rental market as a result of the collapse of housing affordability.

“In part, this (lower exit rate) is being driven by an increasingly unaffordable private rental market in urban areas for people on low incomes. For example, Anglicare’s Rental Affordability Snapshot 2016 found less than 1% of private rentals advertised in Greater Sydney and the Illawarra were affordable for income support recipients. Minimum wage recipients, particularly singles (with or without children), face similar rental unaffordability.”³

However, it doesn’t identify the dimensions of the problem for lower income renters or its fundamental implications for any attempt to provide incentives to increase throughput.

- First, the private rental housing needed to house the majority of lower income households without them being placed in housing related poverty does not exist. Housing related poverty means going without essentials, including meals and items or activities for children’s educational needs.
- Second, until a household is earning incomes at around the middle quintile, they will have very little chance of finding affordable rental in the private market. The employment options for most of those in the “opportunity group” provide incomes well below this, in industries that do not generally provide a pathway to middle income or much above minimum wages.
- Thirdly, the majority of options available to lower income households involve seeking rents that allow them to meet basic requirements, involve moving away from community supports, or employment opportunity. The geographical polarisation of households by income caused by this and the concentrations of disadvantage in the private rental market have been documented by Prof Bill Randolph⁴.

1.3.1 Supply/ shortage of affordable private rental housing

The authoritative data on the shortage of affordable rental housing comes from the series of reports undertaken by the Australian Housing and Urban Research Institute (AHURI)⁵. This work was also the source of intercensal projections produced by the National Housing Supply Council until its work was discontinued in November 2013.

The report shows that there is an absolute shortage in NSW of dwellings affordable to very low income households^{iv} – those in the first quintile of gross household income with Rent Assistance (Q1). This shortage has grown from 28,000 dwellings in 1996 to 61,000 in 2011.

^{iv} Affordability in the AHURI report is based on the 30/40 rule according to which a dwelling is unaffordable if it costs more than 30% of income (for the bottom two quintiles). This measure is conservative compared to measures such as the after-housing poverty line or Budget standards

Shortages of affordable private rental dwellings in NSW 1996 - 2011

	Absolute shortage			Shortage of affordable and available			Per cent paying unaffordable rents		
	1996	2006	2011	1996	2006	2011	1996	2006	2011
Q1									
Sydney	-25,600	-40,400	-47,000	-31,200	-44,500	-52,600	87	93	92
NSW non-metro	-2,400	-15,200	-14,000	-20,000	-29,200	-33,000	58	68	63
	-28,000	-55,600	-61,000	-51,200	-73,700	-85,600	73%	81%	78%
Q2									
Sydney	9,000	57,800	35,800	-34,900	-30,300	-40,500	68	44	55
NSW non-metro	56,200	79,500	88,900	-11,900	-7,800	-8,800	29	16	17
	65,200	137,300	124,700	-46,800	-38,100	-49,300	51%	32%	39%
Total									
	37,200	81,700	63,700	-98,000	-111,800	-134,900	60%	54%	57%

Source: Hulse et al, AHURI Final Report No. 241. From Tables 18 & 19: Summary of spatial dimensions of shortages for Q1 & Q2 households on three measures, 1996, 2006 and 2011. (Source: Customised ABS matrices based on 1996, 2006 and 2011 Australian Census of Population and Housing data.)

This is not a reflection of choices or allocation, but rather an absolute measure of supply at a particular price point. The significant contribution that the study makes is that it also assesses the number of rental properties available at a price affordable to the lowest and second lowest quintiles respectively, but which are occupied by households in the third quintile or above. That is, it reflects the actual market allocation.

This measure of the supply of rental properties that are affordable and available to Q1 households shows that the undersupply for Q1 was 85,600 dwellings in NSW in 2011 – up from 51,200 in 1996.

There was an absolute surplus of dwellings affordable to Q2 households in 2011 of 124,700 dwellings. However, when the number that are affordable and available is measured, there is a shortage of 49,300 for Q2 households. Overall, the shortage of sufficiently low cost housing

measures. We will comment on this further in response to questions in the issues paper on criteria and on rent models.

for very low (Q1) and low (Q2) income households in NSW was 134,900 in 2011. Although we will have to wait for the latest census data to be released, it is unquestionably greater now.

This makes it completely clear that it is unrealistic to expect very low and low income households to be able to access affordable housing in the private rental market. This is despite the availability of Commonwealth Rent Assistance (which is included in the calculation of gross household income). It is impossible for 92% of very low income households in Sydney and for 55% of low income households in Sydney. Nationally, in 2011 a quarter of very low income households (Q1) were paying rents that were only affordable to middle to very high income households.^v

The objective of encouraging social housing tenants to exit into the private rental market is simply incoherent in the face of this undersupply of low cost rental.

Moreover, it is important to be clear that the purpose of social housing is to provide the supply that meets that gap. To this extent, the role of social housing has not changed fundamentally from what it was as a product of post-war reconstruction – to respond to a serious housing undersupply.

1.3.2 Is housing unaffordability tolerable to some extent?

Despite the extensive evidence, it would seem that there is an implicit denial of the intolerable nature of housing unaffordability for low and very low income households. This observation is driven by the adherence to policies that are known to place or maintain such households in an unaffordable private rental market.

One implicit argument seems to be that such households do continue to live in unaffordable housing and only a modest proportion of them become homeless. Another might be a view that, for many, it is temporary circumstance. The observations in this section are intended to sharpen two points:

- The nature of living in unaffordable housing is severe deprivation
- Such deprivation falls below what we as a community believe is acceptable for anyone. This ought to be an end to the discussion, but it is also the case that such deprivation lessens intergenerational life chances, severely reduces the chances of households achieving economic or social participation, and that these have a clear economic cost in terms of economic growth.

Not every low income household is at risk. A high proportion of very low income households will not be subject to housing stress or deprivation. The majority of these are older people who own their own homes. For this reason, older people also have far lower rates of material deprivation. But again, increasing proportions of older people – particularly older women – are reaching retirement without having achieved home ownership and without adequate superannuation (if any) or family supports.

Of course, not everyone who lives in unaffordable rental housing will experience the level of deprivation considered. Some will have family to turn to for support. Some will make

^v 4% were paying rents only affordable to high or very high income households. AHURI Fig 2.

compromises, such as sharing (although sustained overcrowding is, in itself, defined as homelessness). Some will overcome the barriers to employment that flow from the locational, the presentational, and the health impacts of unaffordable and sub-standard housing, and go on to establish employment careers that take them out of housing stress.

But the probability of intolerable deprivation is an inevitable consequence of living in unaffordable housing. And it is far too high for public policy to accept housing unaffordability amongst low and very low income households.

The best measure of social deprivation comes from the Household, Income and Labour Dynamics in Australia (HILDA) longitudinal survey produced by the Melbourne Institute for Applied Economic and Social Research⁶. Material deprivation rates are also positively correlated to financial stress and low well-being measures. The main measures are whether a household has 2 of the indicators of deprivation or 3 or more.

11.6% of households have 2, and 6.6% of households have 3 or more. Lone parents have the highest rates of all household types (29.4% and 19.1%). Indigenous households have the highest rates (40.3% and 21.5%). For the purposes of this discussion of rental unaffordability, the rates of deprivation in the bottom two income quintiles is relevant. These are 26.3% and 16.2% for the bottom quintile and 19.6% and 12.0% for the second quintile^{vi}.

The HILDA report describes deprivation across the population, not just for households renting privately at unaffordable rents. However, the point of these observations here are:

- To show that levels of deprivation are substantial in the income groups potentially subject to rental unaffordability
- To stress the nature of material deprivation – that is, living without the ability to access items the community as a whole says are essential for every household: that is, deprivation that our society believes must not be tolerated.
- And to illustrate (and itemise) the nature of deprivation as a means of understanding the impact and intolerable nature of housing stress.

This takes us to the meaning of housing affordability. The crucial point is that it refers to after housing income, and the adequacy of that. **Housing affordability is the level of housing costs that leaves a household with sufficient income to meet all other needs at an acceptable but very modest community standard.**

The 30/40 rule is a convenient proxy for this measure, which becomes less adequate as incomes reduce, since the after-housing income reduces, becoming less capable of meeting all other needs. As a result, it understates the risk of material deprivation for very low income households.

^{vi} Bearing in mind that a minority of households in these income quintiles are renters (33%) (a large proportion of Q1 are older home owners 43% or purchasers 21%), and of renters, a large proportion are already social housing tenants(7%). [AHURI Brief: *Housing tenure by income level for Australian households* 2013-14] So potentially all private renters in Q1 suffer deprivation of 2 essential items and 66% suffer 3. Two thirds of Q2 renters suffer 2, and over 40% suffer 3. The proportion will be a little lower, since some low income purchasers will also suffer deprivation.

The original work on material deprivation was undertaken to establish 'budget standards' in 1998 by Prof Peter Saunders et al.⁷ It described the low-cost standard as: "the low cost standard is intended to describe a level below which it becomes increasingly difficult to maintain an acceptable living standard because of the increased risk of deprivation and disadvantage. In round terms, the low cost budget corresponds to a standard of living which is achievable at about one-half of the median standard in the community".

The measures of material deprivation used in the latest (2016) HILDA report, Chapter 8, is somewhat more restrictive: "Material deprivation exists when people do not have and cannot afford to buy items or undertake activities that are widely regarded in society as things that everyone should have."

The following are the items, to be unable to access which, comprise material deprivation – and these are the forms of deprivation that are most likely to be caused by unaffordable rental housing for the bottom two quintiles.

- A substantial meal at least once a day
- Medical treatment when needed
- At least \$500 in savings for an emergency
- Dental treatment when needed
- When it is cold, able to keep at least one room of the house adequately warm
- Medicines when prescribed by a doctor
- Warm clothes and bedding, if it's cold
- A separate bed for each child
- A yearly dental check-up for each child
- Children being able to participate in school trips and school events that cost money
- New school clothes for school-age children every year
- A hobby or a regular leisure activity for children
- A telephone (landline or mobile)
- A decent and secure home
- A home with doors and windows that are secure
- Furniture in reasonable condition
- A roof and gutters that do not leak
- Home contents insurance
- Getting together with friends or relatives for a drink or meal at least once a month
- A washing machine
- A motor vehicle
- Comprehensive motor vehicle insurance

1.3.3 Income thresholds for sustainability in the private rental market

A central notion of the *Future Directions for Social Housing in NSW* strategy, and hence the terms of reference for this review, is that there is an 'opportunity group' in social housing who, with the right support or opportunities, would be able to join the workforce and become independent.

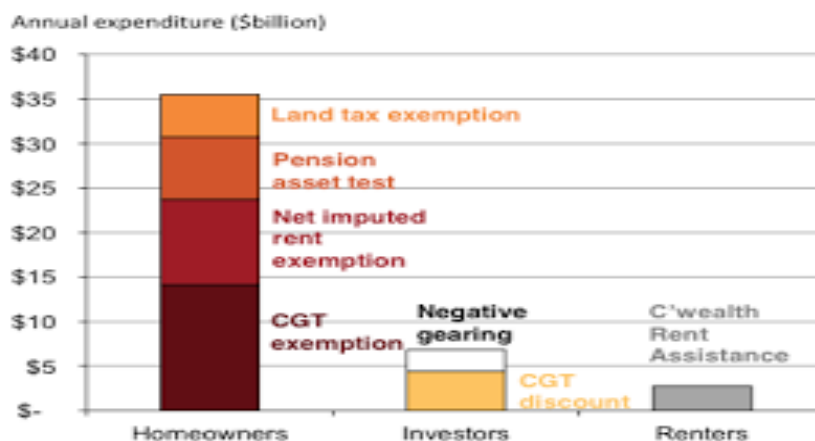
There is no doubt that many social housing tenants can have good expectations of obtaining employment, given the right circumstances. A number, albeit a declining proportion, *are* securely employed. The contribution that social housing makes to this is an important part of its role and outcomes.

However, the corollary, “...and become independent” is seriously flawed. The term “independent” itself is inappropriate, since it implies that social housing tenants are inappropriately dependent on subsidies if they can earn an income. This is an extraordinary claim in a housing system in which home owners, investors, developers and even a significant proportion of private renters are the beneficiaries of very generous and largely untargeted public subsidies.

Analysis by the Grattan Institute makes this clear:

Figure 1

Figure 4.1: Annual government expenditure on housing policy



Source: Grattan Institute analysis of ABS (2013a) Survey of Income and Housing 2011-12
 Note: The items in Figure 4.1 focus on annualised benefits. As the First Home Owners Grant is a one off payment, and is relatively small once annualised, it is not covered in this analysis. Estimates vary depending on assumptions and data sources. For consistency we use the Survey of Income and Housing 2011-12. See the Commonwealth Treasury Tax Expenditure Statement and individual state budget papers for alternative measures of tax expenditures.

There are appropriate uses of ‘independence’ that can be applied to social housing residents – to young people transitioning out of the family home, people with a disability or older people who are able to maintain independence with appropriate supports. But the use in the context of the ‘opportunity group’ is generally inappropriate.

However, the substantive concern is the assumption that entering or re-entering the workforce will allow social housing tenants to move to the private rental market – and that they should be encouraged to do so.

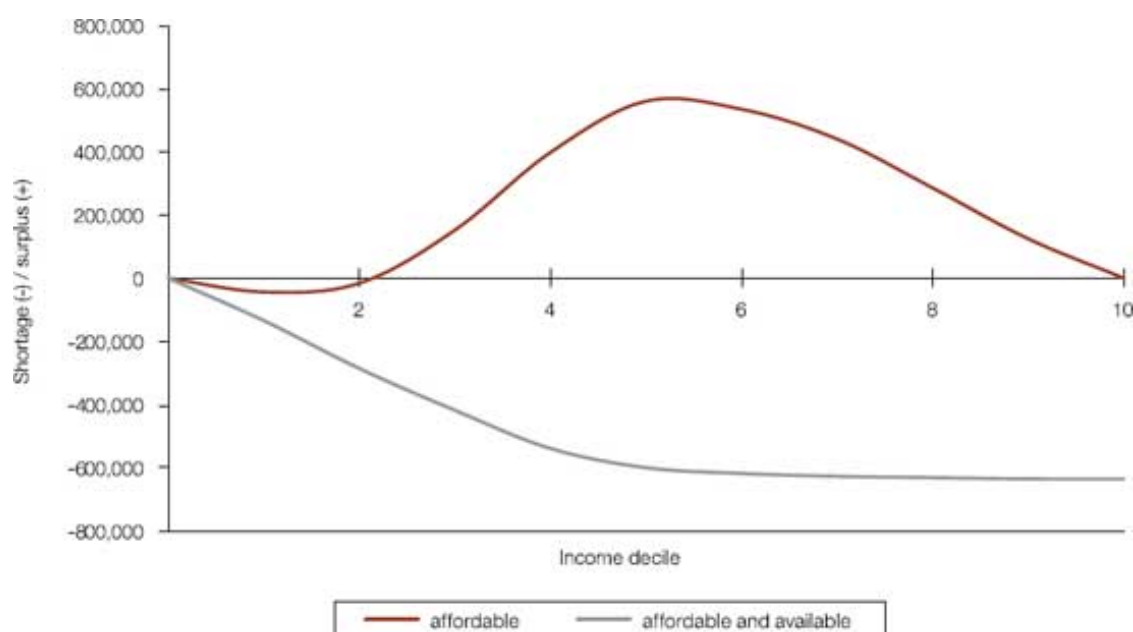
For this to be true, two necessary conditions must be met^{vii}:

- Such tenants can expect to predictably and consistently earn wages that will ensure that rents are affordable – in jobs that are located within socially and cost effective reach of the housing rented.
- That the jobs provide career prospects that could further reduce the risk of falling into housing stress over time.

For most workers in social housing, these conditions are unlikely to be met. The employment opportunities typically available to disadvantaged job seekers – particularly in today's labour market – are low paid, casualised or part-time, with limited career prospects.

The cumulative undersupply of affordable and available housing nationally reaches its nadir roughly by the end of the fourth or fifth income decile. (see Figure 2 below) After that, the risk of being unable to afford to rent is low^{viii}. This is shown in figure 2, taken from the National Housing Supply Council 2012 report.

Figure 2: Affordable and available rental dwellings by income deciles, 2009-10



Source: NHSC (2012)

The corollary of this is that until household incomes approach middle incomes the probability of finding affordable rental housing is low. While the published AHURI data⁸ is

^{vii} Apart from the condition discussed above, that the social housing system can somehow be sustained without the income streams provided by a proportion of low-wage, but unsubsidized, tenants.

^{viii} The situation in NSW – particularly Sydney – in 2016 will be significantly worse. The November 2016 National Rental Affordability Index report shows median rents in LGAs across most of Sydney metropolitan region are unaffordable to households on median regional income, with a high proportion of LGAs 'severely' or 'extremely' unaffordable. (SGS Nov 2016)

not provided by decile, it suggests that for those in the bottom 3 quintiles the probability is very low. And a significant proportion of low and very low income households are employed, without thereby being able to achieve affordability.

42% of private renter households with very low incomes had one or two people in the household employed. But 78% of these households with an employed person were in unaffordable housing and 28% were in severely unaffordable housing.⁹ Despite including employed household members, these households had a gross income of \$30,500 or less in 2011. In 2011 the minimum wage was \$30,643.60.

82% of low income households (Q2) private renter households were employed, but 34% of these were in unaffordable housing. These households earned \$30,501–\$56,000 in 2011.

Significantly, many of those most likely to be living in unaffordable housing are the kind of households targeted as part of the ‘opportunity group’.

“The main Q1 households living in unaffordable rental were one-parent families (the largest group) and those living alone and aged under 65 years. Younger households aged under 45 (both those living alone and with children) comprised the majority of those with severely unaffordable outcomes. Recently arrived migrants were also overrepresented among Q1 households in unaffordable private rental.

Families with children comprised half of the Q2 households who were living in unaffordable housing, with the next biggest group being younger people aged under 45 living alone.”¹⁰

It is clear that for the opportunity group to have a reasonable chance of sustaining private rental, at least one household member would need to be earning significantly above the full time minimum wage.

In 2013 Australian for Affordable Housing produced the report, *Opening doors to employment: Is housing affordability hindering jobseekers?*

This report examined the likelihood of housing being unaffordable to people moving from income support into employment in the areas that provided the highest density of entry level jobs. For our purposes, this provides a occupationally and locationally specific insight into whether it is realistic to expect such employment to enable social housing tenants to sustain private rental housing..

The report identified the occupations that jobseekers are most likely to move into when moving from welfare into employment, and the 40 locations in Australia that have the highest density of those jobs, and then asked whether median rents are affordable to people on a the usual weekly incomes for those occupations (including employment income and government benefits). The report notes:

“The results from this report are conservative; for many people entering or re-entering employment only jobs that are part-time, casual or otherwise insecure are available. This

is characteristic of the occupations identified in this report, and suggests that many jobseekers may have more difficulty finding affordable housing than this report shows.”

The entry level occupations considered were:

- Carers and aides
- Cleaners and laundry workers
- Store persons
- Sales assistants
- factory process workers
- Labourers including construction and mining labourers.

The report found that housing was unaffordable for jobseekers in all of the 40 regions where they were most likely to find employment.

For some occupations workers were more likely to need to pay more than half of their income on rent (severe unaffordability). For example:

- Carers and aides would need to spend more than half of their income on rent in 19 of the 40 areas.
- Sales assistants and salespersons would need to spend more than half of their income on rent in 32 of the 40 areas.
- Cleaners and laundry workers would need to spend more than half of their income on rent in 23 of the 40 areas.

1.1.4 Shelter’s assessment of the *Future Directions for Social Housing in NSW* policy

As noted at the outset, Shelter appreciates that the terms of reference of this review are framed around the objectives of *Future Directions*.

Shelter shares the view jointly held by the state’s key housing and homelessness bodies that pricing is rarely the right tool to help achieve either the objective of enabling social housing tenants to take up opportunities that could improve well-being, or the narrower objective of effectively choosing to exit social housing as they continue to pursue these opportunities. Rather, it is access to relevant support as options are considered and expanded at the pace that fits the individual’s circumstances. Other measures such as complex or intrusive, or simply time consuming, eligibility requirements and complex pricing arrangements, are most likely to be barrier to navigating these pathways.

Again, we share the view of the key housing and homelessness bodies that tenants need to be able to expect that permanent or long-term social housing will be available as a basis for their actions to improve their future well-being and opportunities. If their aspirations are then to exit social housing, other housing solutions may be appropriate – such as some of the transitional models being trialled for young people. But again in these models, the support provided in those models will be far more important than the rental model.

Shelter’s broad assessment of the key elements of *Future Directions* can be summarised as:

- The recognition of the potential of the social housing providers to be key agencies in brokering and coordinating the range of supports that will (a) increase the opportunities for tenants, (b) support their well-being and independence^{ix} and (c) build communities that strengthen opportunities for social, economic engagement and reduce exclusion, is very positive.
- The recognition that the majority of current social housing tenants require secure long term social housing is very welcome. We also welcome the understanding that a proportion of appropriately housed social housing tenants will aspire to employment, education or training, and should be supported to do so.
- However, we believe that characterising these groups as ‘safety net’ and ‘opportunity’ and characterising only the latter in terms of greater independence, is demeaning, disingenuous and inaccurate. Both groups will aspire to independence, and may need support to achieve this. But living in secure, affordable, subsidised social housing does not make a household/ person ‘dependent’ – certainly no more than any other tenure. Nor does living in private rental equate to independence.
- We very strongly disagree with setting exit from public housing as an objective of those who aspire to and achieve economic participation. The target of increasing the rate of exits ultimately relates to a goal of increasing throughput as a means of managing serious undersupply. This is the worst possible strategy for dealing with demand driven by undersupply of secure affordable housing – since attempts to encourage significant throughput have been shown to be ineffectual in the context of a private rental market that completely fails very-low and low income households. On the other hand, it fails the ‘opportunity group’ since it places them in an unsustainable situation. Perhaps most important, increasing the exits by working households to manage demand is contradictory, since it is precisely the income loss from sharp fall in the proportion of such households that is responsible for the past loss of stock (and hence more unmet demand).
- We believe that there is a need to address the viability of the social housing business, and that rent models are part of this. However, we do not believe that the adjustments to rent models should be considered from the point of view of incentives to exit or change behaviour. That said, we do believe there are strong disincentives in eligibility and tenure arrangements, and to a lesser degree in rent settings, that can be addressed.
- We are very glad that the strategy includes increases to social housing supply. However, the growth projections from both the current round of the Social and Affordable Housing Fund and Communities Plus are in no way commensurate with the issue. Without very much more substantial increases, they will be ineffectual in addressing any of the problems for which we need increased supply:

^{ix} Particularly older people, people with disability,

- To meet the demand from low and very-low income households that cannot be met appropriately in the private rental market. This will require an immediate increase of 130,000 affordable and available units, and a further 100,000 over the next 20 years to meet population growth¹¹.
- To reduce the current rationing that has undermined income streams leading to an unsustainable system.
- To eliminate the major supply constraints that prevent tenants from exercising meaningful choice. Amongst other things, this prevents useful consideration of any elements of amenity choice or associated pricing.

We have outlined this assessment and provided the more detailed account of the constraints faced by the social housing system, social housing tenants and applicant, to provide a context for the IPART's consideration and recommendations; and for our responses to the specific questions posed in the report which we will address in the next section.

2. Response to issues paper questions

In this section we will respond to questions asked in the issues paper. We have not responded to all – either because they fall outside or main area of expertise or because they are less central to our concerns.

2.1 People and issues in the current system

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

We believe that there is an important misunderstanding in this question – one that is also probably at issue in the Future Directions policy itself. That is an apparent failure to appreciate the difference between the identification of cohorts for the purpose of planning and budgeting (which can be done in aggregate by considering cohorts) and for the purpose of targeting specific services, rents, eligibility or supports.

There is no doubt that a very substantial proportion of social housing tenants will have little or no engagement with paid employment or training; and for this reason are unlikely to change their circumstances sufficiently to be likely to exit social housing. Equally, it is certain that a proportion of social housing tenants will be able to, and given the right supports, are likely to choose to take up paid employment opportunities, or training to improve these opportunities. It is also likely that a proportion of these will choose to relocate – perhaps into the private rental market.^x

^x In our submission to *Social Housing in NSW: a discussion paper for input and comment*, we estimated these to be a maximum of 41,000 (29%) of the 140,000 social housing tenants who might ever expect to access employment. This was comprised of unsubsidised tenants or those whose main source of income is wages in public and community housing; Newstart recipients in public housing, head

While, as outlined earlier, Shelter does not support the terms ‘opportunity group’ and ‘safety net group’, the above paragraph provides a description of our understanding of these groups.

However, it is impossible to predict which individuals will in fact be in a position to embark on such a path. Conversely, a proportion of older people – notionally in the ‘safety net group’ – may find opportunities for work, or further education.^{xi} The conditions which enable or prevent economic participation are highly varied, individual and changing.

For this reason, it is not possible to identify in advance who should be targeted for incentives. The most that can be said is that social housing should be proactive in making support and opportunities available.

The risk of targeting incentives – particularly negative incentives associated with rents – or eligibility conditions to definite cohorts, is that an unknowable proportion of any such cohort are likely to be unable to respond to such incentives and are likely to be seriously disadvantaged.

The more defined and targeted incentives, eligibility conditions or assistance is, the less flexibility is achieved. Rather there is a complex and rigid system with high administrative costs and a poor fit for tenants.

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

Section 1 of this submission covers our response to this question.

However, we would like to briefly comment on the characterisation of a number of the issues identified in the Chapter 3 of the issues paper:

- **Potential work disincentives** – Broadly Shelter would like to endorse the discussion of workforce disincentives in the issues paper. While there is no doubt that the effective marginal tax rates (EMTR) from layering increasing rents over social security withdrawal rates result in an unusually high EMTR that would normally be considered to add to disincentives to take up work opportunities, the measures already in place to minimise these barriers are helpful in overcoming this disincentive. But more important, from all our consultations with tenants it seems clear that EMTRs are less important as a workforce disincentive than the risk of being required to exit into the private rental market, and the loss of secure housing.

tenants under 25 in community housing, Parenting Payment recipients in public housing. While there are 97,000 young people under 25 (of the 293,000 total people housed) for whom support to access pathways to independent adulthood may be very valuable, only head tenants in social housing households, can contribute to throughput and demand response.

^{xi} There is no doubt that many long-term tenants make a profound contribution to the community in an unpaid capacity.

We are, however, surprised that the issues paper does not draw the obvious conclusion from this – and, in particular, the Productivity Commission’s observation that housing security is a platform for workforce participation. There is no security in the private rental market; and any ability to sustain what will initially be a tenuous attachment to the labour market, will be lost if the security of social housing is removed. Moreover, the risk of facing the insecurity and unaffordability of social housing has been repeatedly demonstrated to be a major barrier to participation at all.

The evidence cited in the Issues Paper discussion of workforce disincentives should make it clear that a policy that links participation with pressure (or ‘incentives’) to exit social housing are contradictory and are doomed to fail. There does, however, seem to be an implication that rents could be designed to provide countervailing ‘incentives’ to outweigh these disincentives. Not only would this (on the evidence of the relative unimportance of EMTRs) be unlikely to succeed, but to the extent that the measures to counteract high EMTRs involve increasing unaffordability, it would also be seriously inappropriate public policy, risking serious deprivation and damage to vulnerable households.

- ***Inequities in the system*** – Shelter considers the discussion of ‘inequity’ in the social housing system to be misguided.

The overriding equity principle at issue in social and affordable housing is vertical equity. Social housing provides very low and low income households the same opportunity for safe and secure housing, without being at the cost of material deprivation, as those with higher incomes.

Consideration of horizontal equity is flawed in two ways:

- To seek to achieve horizontal equity of access to amenity, between two equally disadvantaged households, at the expense of exposing both to material deprivation, is not socially just. No equity goal is served if it results in an increase in deprivation. And horizontal equity is only compelling if there is a relatively equal capacity to make trade-offs without causing harm. This is clearly true of the argument that it is inequitable to provide higher implicit subsidies for social housing tenants than the explicit subsidies (from Rent Assistance) for similar households in the private rental market. (The absurdity of suggesting that it could ever be desirable to push one group below minimum acceptable standards, because another group is already disadvantaged in this way, is patent). But it is also true of arguments for amenity pricing.
- The corollary of this is that proposals for amenity pricing as a horizontal equity measure can only be legitimate when there is sufficient supply of affordable social housing for people to genuinely choose the most suitable options without creating disadvantage. If there is an important equity issue at stake, then it is the public policy decisions that have failed to provide sufficient supply, thereby creating inequity

between disadvantaged groups. Until the supply issue is resolved, there is no basis for any consideration of horizontal equity or of amenity pricing.^{xiii}

- ***The imbalance in the demand and supply for social and affordable housing*** – Once again, Shelter endorses the description provided in this section, although discussion fails to note that expressed demand is being explicitly managed by the nature of information provided to discourage applications, making changes in expressed demand unreliable indicators of trends. However, our main reservation is that the paper doesn't draw any implications from its description. As we argued earlier in this submission, the problem is primarily a supply, rather than a demand, problem. A focus on managing waiting lists (expressed demand) through throughput measures are marginal responses to the problem, socially inequitable (since they expose relatively vulnerable households to risk of material deprivation & thereby discourage participation), and largely ineffectual because the gap between social housing and private rental is too great to be bridged by low-paid employment. Most important, it is not appropriate to seek to reduce this gap by reducing affordability for social housing tenants. It can only be tackled by policies designed to reduce the *unaffordability* and insecurity of the private rental market.

The discussion of measures 'Addressing the demand and supply imbalance' is also seriously limited, with implications for what incentives could reasonably be provided through pricing. While it is true (and welcome) that the Government has begun to address social and affordable housing supply (after allowing a significant loss of supply over many years), the quantum proposed will have no material impact on the supply/demand imbalance^{xiv}. As noted earlier, the gap in supply of available affordable housing in NSW is 130,000 units at this moment, without considering population growth. The same must be said of the 'demand management' measures such as private rental assistance products. These provide limited responses to a long-term structural problem. While they should be seen as valuable individual assistance, they are simply not at a scale or duration to be characterised as 'demand management'.

- ***The gap between social and affordable housing and the private rental market*** – Following from the above comments, and our detailed discussion of the private rental market in the first part of this submission, we make two comments:
 - First, IPART's observation that both the gap in rents and in security between social housing and private rental create a barrier to exit, while self-evident, appears to imply that 'exit' is the primary and appropriate outcome, and that measures to

^{xii} Indeed, the current 'bedroom tax', which is appropriately limited to areas where there are genuine alternatives to allow a choice/ trade off, violate horizontal equity precisely because only those tenants where some (limited) alternative is available are required to make a trade-off, while others in identical household circumstances are not.

^{xiii} This discussion also applies to the issues paper's discussion of 'Imbalance in the type of demand and supply'

^{xiv} This does not undervalue the substantial benefit it provides to those applicants who are housed as a result, but it does not affect the structural problem at issue.

narrow that gap (from either side) should be pursued. But while 'exit' will be an appropriate choice for some, when their circumstances (and support) lead them to make that choice, it cannot be the goal (or expectation) of social housing while the nature of our private rental market means that it is inappropriate (creating debilitating material deprivation and insecurity) for the most very low income and a high proportion of low income households.

- Second, the issues paper refers to 'affordable housing' as a 'stepping stone' out of the social housing system. This would represent a serious policy shift, and yet again, a shifting of the deck chairs. 'Affordable housing' was introduced to meet a clear social and economic need. That is, the need to house lower-income workers in areas where their labour is required and low income households (waged or unwaged) are likely to be displaced by redevelopment and gentrification. It goes to labour market efficiency and to the crucial need for diversity in high cost locations. To redirect affordable housing to a new purpose of providing transitional housing, will simply leave these needs unmet.
- ***The financial sustainability of the system*** – We would particularly refer you to our comments in section 1.2 above relating to the causes and the solution to this problem. One issue that we did not discuss in that section is the limitation of an internal subsidy for social housing.
 - It is important to be clear about the nature of the subsidies in social housing. First, in public housing, it is not a subsidy received by either the tenant or the provider, but rather an opportunity cost. It is important to avoid any implication that such a subsidy represents income that could be directly used elsewhere. In fact, it is both an opportunity cost to the provider and a saving to those parts of government that should be subsidising the affordability of social housing tenants. And it is the failure to provide such an explicit subsidy that lies behind the viability issues of social housing.
 - The second observation is that social housing is doubly disadvantaged in this way. It is one of the few areas of human services that is expected to fund its own capital program (compared to, say, hospitals)^{xv} and it receives no external funding to systematically subsidise the gap between operating costs and affordable co-payments by tenants. Of the three costs to the system – capital, operating and tenants subsidy – only operating costs should be met internally, although this includes maintenance and might include some debt servicing.

^{xv} See Shelter's 2015 report, *The cost of increasing social and affordable housing supply in New South Wales*, prepared by Sphere Consulting
http://www.sheltersnsw.org.au/sites/sheltersnsw.org.au/files/public/documents/rpt1412costofgrowt h-final_sphere.pdf

2.2 Criteria to assess options

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

Much of our response to this question will be clear from our previous discussion.

- In the context of the fundamental failure of our private rental market to meet the basic housing needs of low and very low income households, and understanding the implication of material deprivation that results, Shelter believes that affordability is the primary and over-riding criterion.
- We believe that reducing workforce disincentives is a useful, but low order, criterion, given the evidence that it plays a minor role in a suite of workforce disincentives. Nonetheless, administrative measures – such as deferral of rent increases to reduce negative impacts of engagement with the labour market, should be part of the workforce supports available.
- Simplicity for tenants is an important criterion to build confidence in the system and to allow low-income households to budget predictably.
- We do not believe that, while there is such profoundly constrained supply, horizontal equity is an appropriate criterion. Moreover, given the importance of vertical equity (which underpins the affordability criterion) and the very high risks of material deprivation and reduced life chances arising from the failure to provide vertical equity through housing affordability, there is no scope to trade off vertical equity for horizontal equity considerations.
- Flexibility and choice are useful criteria in-principle. But in a situation of constrained supply, ‘choice’ will never be genuine and should not be a criterion for rent models. ‘Flexibility’ is important. But we are concerned that the discussion in the paper suggests that it is misunderstood. Flexibility is undercut, and unintended consequences are greatly increased, along with administrative complexity, when a range of different rent models, eligibility criteria, and tenure arrangements are introduced. The current rent model which adjusts tenant rents as circumstances change up to a market rent, already delivers the most flexibility with the greatest simplicity.
- The circumstances and needs of Aboriginal people living in social housing should be a high order criterion. Aboriginal households have the highest rate of material deprivation and the lowest rate of home ownership and are an increasingly large proportion of social housing tenants. Issues of security and affordability are particularly important for these households.
- The impact on the financial sustainability of social housing is an important criterion for any consideration of rent models. Financial sustainability must, however, be achieved in tandem with affordability, rather than traded off against it. So it must always be a subsidiary criterion. Moreover, the viability of the social housing system is substantially

driven by the availability (or otherwise) of external subsidies and the level of supply. That is, rental or eligibility models cannot be assessed using a sustainability criterion in isolation from external policy settings.

- Shelter does not support the use of the 'Impact on demand for other housing tenures and products' or the 'Impact on future demand for social housing' as criteria. The reason for this is that while it is possible to reduce the demand for social housing (and conversely increase the demand for other tenures or products), there is no justification for seeking to do so. The alternative products or tenures do not meet the needs of most low and very low income households, whether or not they are employed. Moreover, the proportion of social housing applicants or tenants who might reasonably choose alternative tenures or products is very small and hence a very poor criterion for assessing overall rent models. We have already noted that attempts to segment rent models to cohorts where this criterion might be relevant will conflict with the flexibility criterion and the simplicity one.
- We would support the use of a criterion related to concentrations of disadvantage as a consideration. But again, there are serious qualifications. The apparent tendency of a particular rent model to increase concentrations of disadvantage is always driven by the external constraints of the system. Income related rents only produce this result in the context of very tight targeting as a rationing approach for a system with critical undersupply, located in defined estates. And just as important, the operation of our unaffordable private rental market – into which *Future Directions* proposes there should be increased exits, is creating more extreme concentrations of disadvantage than social housing, as low income tenants are driven into the limited areas with relatively lower rents.
- Efficiency is always an appropriate criterion. But again there are serious limitations to its use as a set of criteria for this review. The data to assess productive efficiency simply doesn't exist. An important recent study by AHURI on assessing costs and outcomes of social housing found that while community housing providers could produce such data, public housing was unable to.¹² Secondly, it is far from clear that a criterion of allocation to 'those who need it most' is coherent (see the response to question 5 below), nor is this the only, or overriding allocative goal.

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

See 3 above

2.3 Eligibility and allocation – managing the waiting list

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

No. In fact, such an approach is incoherent. There are only a small number of measurable and robust criteria for the notion of ‘greatest need’. These are: urgency of need, which relates to safety and immediate homelessness; income, which relates to the level of material deprivation experienced in the private rental market; and vulnerability, which relates to the risk of harm, discrimination or abuse of tenancy rights. Even the latter has strong subjective elements. Beyond that, ‘greatest need’ becomes a proxy for competing demands of client groups in an over-rationed system.

But beyond this, we should not design a housing system (including its rent setting and eligibility) to meet the temporary constraints created by relatively recent policy inaction. Already we are seeing a gradual reversal^{xvi} of the supply constraint that has created the need for intense rationing, and we are hopeful this trend will continue, despite its slow beginnings.

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

First, we must reiterate the crucial point: that the way to create a financially and socially sustainable social housing system is to avoid allocating solely to ‘priority’ applicants, but rather to expand the range of households in social housing.

The IPART suggests that “the long time they can remain on that list, raises the question of whether social housing is the best form of assistance for these people.” It is important not to conflate what is the appropriate form of assistance, with what options ought to be offered to those who are unable to access what might be the most appropriate form of assistance in a timely way. Given the importance of housing security – both for children and to enable people to join the workforce or participate effectively in other ways – and the damaging effects of material deprivation experienced in housing stress, social housing remains the most appropriate form of assistance.

That being said, the most effective assistance for applicants faced with long waits for social housing is an adequate level of rent subsidy. This may need to be linked to forms of bond assistance, and for some applicant groups who are subject to discrimination, to brokerage. But these options alone are inadequate. Adequate rent subsidies must be both sustained and must lift recipients out of housing stress. This could involve supplements to the now inadequate Commonwealth rent assistance – particularly to address the impact of high cost areas, to which CRA does not respond.

^{xvi} With the first increases in supply for many years by the state, through the Social and Affordable Housing Fund and Communities Plus.

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

Renewable tenancies with review of eligibility have already been shown to be an ineffective policy, with a very small number of tenants being assessed as no longer eligible. Moreover, the disincentive effects of such an approach far outweigh any encouragement to take up opportunities for greater economic participation. Finally, the cost effectiveness of such an approach is questionable.

However, the issue raised by IPART is broader than this – and should be more clearly separated from it. That is, it considers how to most effectively engage with tenants to assist them to access any necessary support. The issue here is the appropriate balance between an intrusive and paternalistic intervention and enabling effective access to the supports that will improve a tenant's well-being and opportunities.

There is an important principle to all social housing management, which is the separation of housing and support. Housing is a basic need which, however inadequately, is secured by important legal rights and protections. Making these conditional on engagement with support invariably undermines these rights and opens the way to both inappropriate and ultimately ineffective forms of 'capture' or coercion.

Broadly speaking, good practice is already demonstrated in the difference in the level of engagement with the housing provider and subsequent engagement with appropriate services reported by community housing tenants and public housing tenants in the national Social Housing Survey.

This shows a significant level of assistance provided by social housing tenancy managers (both public and community) in accessing crucial services. Again, it identifies a modestly higher level of access to many services by tenants of community housing managers. In all cases for which results are provided, community housing tenancy managers provided approximately double the assistance provided by public housing managers.

Community and health services accessed by respondents in the past 12 months

	% public housing	Provider assisted (a)	% community housing	Provider assisted (a)
Health/medical services	52.6	3.5	54	6.4
Mental health services (b)	19.4	4.8	25.6	9.1
Information, advice and referral services	9.8	12.6	13.2	21.8
Day-to-day living support services	9.4	10.1	12.4	20.5
Aged care	8.5	10.5	9	23.2

Financial and material assistance	7.1	10.9	10.3	23.5
Training and employment support services	7.1	np	9	7.5
Other support services	7.2	7.5	8.2	18.4
Services that provide support for children, family or carers	6.7	8.3	6.6	np
Life skills/personal development services	4.6	np	8.7	17.0
Residential care and supported accommodation services	3	28.4	7.3	44.8
Drug and alcohol counselling	3.1	np	4	np
None of the above	36.1		31.6	

Source: tables 4.1 National Social Housing Survey 2012

(a) Only those who reported they had accessed a service were then asked to indicate if they had accessed that service in the past 12 months with the help of their housing provider.

(b) The category 'mental health services' includes the following services which were listed separately in the 2012 NSHS: 'psychological services', 'psychiatric services' and 'mental health services'

n.p. Not publishable because of small numbers, confidentiality or RSE greater than 50%.

This suggests that tenancy management practices, rather than formal and intrusive 'needs reviews' can achieve effective identification, referral and brokerage to necessary supports.

Some of the tenancy management differences relate to the higher level of on-the-ground presence, indirect forms of engagement mediated by strong local tenant groups and activities supported by the provider, a culture and practice of awareness of flags suggesting support needs, and an active and open strategy of information provision.

These approaches are far more likely to be effective, and are far more appropriate, than formal reviews.^{xvii}

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

The principle of setting a higher income threshold for lease renewal is essential if renewable leases remain part of the system. The risk of losing affordable social housing and being thrown back into the private rental market is considered by tenants to be the strongest work disincentive possible. It is crucial, therefore, to provide a buffer during which employment security and the adequacy of employment income can be tested, before any choice to change arrangements is considered. It would be entirely counter-productive to reduce this buffer, if the system is to return to the rates of turnover that previously applied.

^{xvii} See also Shelter NSW Inquiry into Tenancy Management in Social Housing: Submission to the Public Accounts Committee of the Legislative Assembly. August 2014
<http://www.sheltersnsw.org.au/publications/social-housing/inquiry-tenancy-management-social-housing>

10 & 11 Is the order in which clients are currently housed appropriate? Is the prioritisation policy the most efficient given the current supply/demand imbalance?

As discussed in principle in response to question 5, the considerations used to prioritise applicants are really the only ones that could coherently be applied.

But beyond this, there are more criteria than pressing need that must be considered in the allocation of social housing. Very importantly these include the sustainability of that tenancy, the capacity to meet support, social participation, and community integration needs. The success or failure of that tenancy *and* of the tenancies of others in the same location^{xviii}, depend on these considerations. The success of a whole social housing community is crucial to creating the conditions for social engagement – and also to very often provide the first informal support for fellow tenants. An overly rule bound approach to allocations that generally applies in public housing, has meant that it has been less successful at this than community housing providers who apply judgements more flexibly.

A social housing allocations system dominated solely or predominantly by the principles of rationing is a social housing system that is failing to focus on its core business of creating appropriate housing in strong and engaged communities.

12, & 13 Other assistance measures

We note the views of some community housing providers reported in the issues paper discussion, and appreciate the difficulty they refer to in saying more flexible options are needed for transition. We understand that is likely to refer to one of two situations:

- People making a transition from a crisis situation in a specialist homelessness service to long-term unsupported housing. In these cases, providers are facing pressure from both ends with an unmet demand for crisis services and an undersupply of social housing and an unaffordable private rental market.
- Lower income households who aspire to some of the benefits of home ownership, particularly the security, and will only access this through new products such as shared equity.^{xix}

However, particularly in the former case, but also in the case of social housing households whose circumstances are changing for the better, the best practice principle is to establish secure (which means security of tenure) and affordable housing, and from there wrap evolving supports or wider opportunities around the households. Channelling households

^{xviii} Whose lives can be made difficult, or who may be required to provide considerable informal support by an inappropriate allocation.

^{xix} Shelter does not, in fact, support the notion of a housing continuum. This implies that it is both 'normal' and desirable to seek to achieve home-ownership, and undesirable and a failure to be a long-term tenant in social housing. Neither of these is true and such expectations are simply the product of particular post-war housing policy settings in Australia.

through a procession of housing options creates the very insecurity and disruption that undermines their potential for social or economic engagement.

But in its discussion, IPART raises a more fundamental option. That is to restrict a supply side response (social housing) to those most in need, while finding a demand side option for all others who cannot reasonably be housed in the private rental market without a severe risk of material deprivation.

For all the reasons we have outlined earlier, Shelter does not support this option. Such a social housing system becomes even less financially viable, it undermines the ability of social housing providers to help create the community of tenants that is a key part of a pathway to independence, such a residual system is always stigmatised. On the other side, a substantial growth in demand side measures runs the risk of increasing rents and further undermining affordability across the rental market.

Finally, such an approach will not solve the demand bottleneck. In fact, it will exacerbate it by limiting social housing to those cohorts least likely to change their circumstances and choose alternatives to social housing. Nor can it satisfy even the demand from 'those most in need', which is being continually generated by social disadvantage, illness, disability and population growth.

2.4 Flexibility within the rent setting framework

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

The discussion of this option is set in the context of achieving greater flexibility and reducing workforce disincentives.

While we have made these points earlier, we should reiterate our concerns about the segmented rent approach.

- It does not increase flexibility. On the contrary, segmentation increases rigidity, depending on administrative assessment and decision making, rather than flexibly responding to decisions.
- In fact, the current income related rent does precisely that – flexibly respond to the changed income resulting from changed circumstances, while maintaining affordability, up to the point where such income is able to support full 'property pricing' (the market rent).
- The allocation of households to particular groups or cohorts is administratively difficult. The assessment of 'priority' is already inconsistent, since such judgements cannot be made objectively or rigorously. The assessment of people's circumstances, opportunities and likely future choices is even less capable of being made consistently or objectively.

- The unacceptable aspect of such a proposal is that it explicitly trades off affordability for increased income (property pricing in this case, justified by horizontal equity) or reduced workforce disincentives to encourage a transition away from affordable social housing to unaffordable and insecure private rental housing. The aim of good housing and rent policy is to achieve both affordability (which is the fundamental requirement) and other objectives such as financial viability, choice of amenity, or opportunities for economic participation. Where they both cannot be achieved, affordability is the primary criterion.

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

Just as in the segmented rents option, the tapered subsidy option also proposes to trade off affordability, with no better aim than to habituate the group subject to it to the unaffordability of the private market.

The current public housing rent model does include a limited version in which most of the very-low income households pay 25% of income, while those with higher income pay 30%. But this approach merely recognised that the 30/40 rule does not deliver affordability to very low income households, without proposing that any household is charged an unaffordable rent given their income.

Are there any exceptions to the principle we have expressed here? The case of young people who have chosen to be housed in the private rental market referred to in the IPART discussion might be a case in point. What would make this acceptable? First, this is applied, not to a 'cohort' but to young people who place a particularly high value on the transition to independence (a term that is correctly used of young people leaving the family home^{xx}) and who will make trade-offs such as group households that are not appropriate to others. Second, and most important, such young people have chosen to make living in private rental a priority. Third, there is a good reason to provide a controlled demonstration of what it takes to pay a private rent, since such young people will not have done so before. Most other social housing tenants need no such demonstration, since their experience of the private rental market is precisely the reason they have applied for social housing.

In saying this, we are recognising that there are specific needs and support programs that might properly utilise some version of tapered subsidies. But this cannot be applied on a cohort basis or an even less precise 'opportunity group' basis. It can only be applied where the individual has specifically prioritised living in private rental, and is not familiar with what this means or the trade-offs required to manage it.

Given this, it is not something that should be presented as part of the rent setting framework in general.

^{xx} But not when it implies that social housing tenants in receipt of subsidy are 'dependent' while home owners and private renters and investors are not.

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

Again, we have referred to this earlier. However, to reiterate, affordable housing was established in the 1990s to meet a significant gap in housing assistance as well as an identified need in local economies.

Too often housing responses that have an appropriate and necessary function have been appropriated to meet other public policy failures. The failure to replace the accommodation lost with deinstitutionalisation, left the social housing system to pick up the additional load. The NDIS is set to do the same. Even effective programs like HASI that link secure housing to mental health services, required social housing to provide their housing for existing clients of the health system, rather than supporting the needs of existing tenants.

Affordable housing is not a transitional model for people exiting social housing – although it may be an appropriate option if the previous social housing household meets the purpose for which affordable housing is provided. That is, to house low income workers in the areas they work but which are unaffordable, or to maintain residents at risk of being displaced by gentrification who may well be un-waged or in-principle, social housing eligible. These objectives are critical to the current planning objectives for our cities.

2.5 Preliminary rent setting models

As we have made clear throughout this submission, Shelter believes that an income related rent model is the best and only appropriate option.

The thrust of our submission has been to explain in detail why affordability is so important:

- because for most very-low income renters and a high proportion of low income renters, unaffordable rent causes material deprivation that undermine the health, well-being, life chances of both adults and children living in unaffordable housing – and these are outcomes that our community says none should suffer;
- Because the incomes from work needed to avoid this outcome are higher than the entry level incomes that most social housing tenants will be able to achieve.

Moreover, the other objectives – financial viability, encouragement to achieve improved circumstances which could provide tenants with greater choice of their housing (including to exit to the private market), even the objective of reducing the supply constraints to the point that tenants can genuinely choose to make amenity (property)-related trade-offs – are all driven far more by other factors than by rents. Rent models are particularly ineffective and inappropriate mechanism to achieve these outcomes.

We particularly note that IPART's own discussion of workforce disincentives makes it clear that rents (that is effective marginal tax rates) are not the major barriers to participation. It would therefore be perverse to prioritise these over affordability.

This does not mean that we object to change in the current form of income related rent setting. In particular, we believe (with IPART) that the internalisation of the implicit subsidy is a key reason for the financial unsustainability of social housing.

Shelter strongly recommends that this subsidy should be explicitly delivered separately from the social housing business.

Such a model could provide the subsidy to meet the gap between the cost of provision and the co-payment that is affordable to the household directly to the provider. Alternatively it could be made directly to the tenant who is then charged the cost-rent. The latter has the benefit of transparency – both to the provider and the tenant. However, it has the disadvantage of administrative complexity. (See property rent models below)

We strongly oppose any increase in the percentage of income charged as part of an income related rent.

As IPART has noted, these already create unaffordability hardship for many households. The current rates are the result of iterative increases over the years. It is simply inappropriate to apply an affordability measure, undercut by ad hoc changes driven by the need for revenue.

Shelter is also supportive, in principle, of what IPART has described as a ‘residual income based rent model’.

However, we do not support it in the form apparently proposed. As is made clear in the discussion paper, this is the only approach that genuinely reflects affordability and its impact – particularly for very low income households. This is an extremely compelling reason for relacing a percentage measure with a more realistic measure.

However, there is no doubt that it is more costly, since it fully subsidises the affordability gap, which the current 30/40 benchmark only approximately covers. For this reason, we support its introduction in the context of externalising the implicit subsidy.

Most community housing providers have also expressed concern about the administrative burden and intrusiveness of calculating rents on the basis of a household’s particular expenditure pattern. We would support this concern if that were how the model was implemented. But this is not the case. The current income reviews on which income related rents are presently set would apply, and benchmark costs for defined household types applied – just as for social security payments. The information about household composition on which these are generated is already collected and are part of existing rent reviews.

Shelter does not support amenity related rents while the current supply constraints prevent any meaningful opportunity for choice or trade-offs. For this reason we reject the hybrid models described by IPART.

Our approach to the property related models raised by IPART for consideration is dependent on the income subsidy proposed.

Our support for an externalised subsidy means that a property related rent with an income related subsidy would have the same net effect for tenants, would ensure the viability of the social housing business, and is far more transparent. Moreover, it removes the apparent basis for horizontal equity measures.

But our support for such a model would absolutely relate to the adequacy of the income subsidy (in at least two of the models discussed). This would have to be a full affordability subsidy at no less than the current implicit subsidy.

Given this, the benefit of such a model is to make explicit the income (net tenant rent and subsidy) needed to support a viable social housing operation. It would play a minimal role in providing tenants with price signals as the basis for amenity related choices.

Were there to be a property related rent, we do not support setting it on the basis of market rents. Indeed, in a rental market characterised by excessively high rents (driven by the distortions of speculative property market), this would seem inappropriate. If the subsidy is externalised (as it would have to be to maintain viability), this would provide a windfall gain to the housing provider at the expense of the income-subsidising government agency.

We therefore support a cost-rent basis.

We do not support the use of a discount to market rent model for social housing, as it generally fails the affordability test for the most vulnerable households.

While this is a common model for affordable housing, where such affordable housing is rented to households who would be eligible for social housing (very low income) the rent must remain affordable at the benchmark levels of social housing.

2.6 Calculation of income in an income related rent model

Our preference for an administratively efficient residual income based model would largely remove the need to consider how various components of income are treated. However, it is possible that explicit payments to meet the cost of certain circumstances – such as the cost of disability – might be considered in benchmarking adequate residual income.

In the case of the current percentage benchmarks, we will simply state the fundamental principle. When a payment is made specifically to meet specific essential costs – such as disability or the cost of school age children – such payments should not be captured by housing providers to meet a different cost. Therefore, no such payments should be included in the calculation of rents.

APPENDIX

Brief history of policy constraints on social housing supply

For its first 50 years, social housing provided a tenure that offered both secure housing for low-income households and an affordable transitional tenure for those saving for home ownership. While the share of housing stock was low in comparison to most European countries, this provided a complement to the private housing market and a buffer against the supply gaps of affordable rental. In NSW the supply grew at just under 3,000 units a year until 1995¹³. By the 1990s, however, a number of factors had begun to create a drag on the ability of social housing to play this role¹⁴:

- Funding reductions limited the capacity for growth. The 1981 CSHA had introduced the requirement for state matching; although, in 1989 Commonwealth funding was made in terms of grants rather than loans, reducing cost to the State. Commonwealth funding declined steadily in real terms from the mid-1980s, and then more sharply from the mid-1990s to 2007.
- The 1978 Commonwealth State Housing Agreement (CSHA) had established a requirement to target public housing to those most in need. In the 1980s NSW targeted housing to those most in need rather than working families; and an increasing proportions of applicants were singles, older people, the homeless and people with disabilities. In the 1990s targeting of housing assistance to those in priority need as a form of rationing increased in response to continued reduction in Commonwealth funding.
- However, rationing social housing to those with very low incomes and higher needs both seriously eroded operating revenue (because rents were related to income with no additional subsidy) and increased operating costs.¹⁵ This is the fundamental cause of the unsustainability of public housing today¹⁶; and until the revenue stream is restored to levels that cover operating costs (and, ideally, financing costs) through an explicit external subsidy to cover affordability (rather than housing agency being expected to subsidise this internally), social housing cannot be made sustainable. Further rationing/ targeting will only increase both operating and subsidy costs, in a vicious spiral.
- Maintenance also became an increasing cost to the system. An increasing proportion of the stock was aging and in need of increased levels of maintenance. In the 1980s in NSW there was a new emphasis on rehabilitation of old housing stock; and in the 1990s there was major investment in the Department's stock with substantial effort to bring it up to standard.
- The legacy of the major estate building programs of the 1960s and 1970s became a challenge to the system as design problems, isolation from services and employment and an increasing proportion of lower income and special needs tenants were housed. In

the 1990s, the Neighbourhood Improvement Program (later renamed Community Renewal/ Regeneration) commenced.

- Today, rather than increase supply to meet the growing shortfall of rental housing that is affordable and available to low and moderate income tenants, the Land and Housing Corporation projects net reduction of stock and an inability to meet maintenance needs. (Although it should be noted that HNSW maintained the level of social housing more effectively and for longer than most other jurisdictions.)

Notes

¹ Hall & Berry AHURI 2004, Darcy & Randolph May 2000

² Paola Totaro, *Sydney Morning Herald*, March 15, 2004
<http://www.smh.com.au/articles/2004/03/14/1079199094986.html>

³ IPART, *Review of rent models for social and affordable housing*, p26

⁴ Randolph, B. 'The new geography of suburban disadvantage in Australia' in *Around the House*, No 99. Dec, 2014

Randolph B; Tice A, 2014, 'Suburbanizing Disadvantage in Australian Cities: Sociospatial change in an era of neoliberalism', *Journal of Urban Affairs*, vol. 36, pp. 384 - 399,
<http://dx.doi.org/10.1111/juaf.12108>

⁵ Kath Hulse, Margaret Reynolds, Wendy Stone and Judith Yates , *Supply shortages and affordability outcomes in the private rental sector: short and longer term trends*. AHURI Final Report No. 241. June 2015

⁶ https://www.melbourneinstitute.com/downloads/hilda/Stat_Report/statreport_2016.pdf

⁷ https://www.dss.gov.au/sites/default/files/documents/06_2012/policyresearchpaper74.pdf

⁸ Hulse et al

⁹ Adapted from Hulse et al Table 4: Rental affordability by selected characteristics of lower income private renter households, Australia, 2011

¹⁰ Hulse et al p23

¹¹ Judy Yates, *Addressing the Housing Affordability Crisis: Basis for an estimated need of 100,000 social housing dwellings in NSW over the next two decades*. NSW Federation of Housing Associations, 2016

¹² AHURI Final Report No. 257. Pawson, H, Milligan, V, Liu, E, Phibbs, P & Rowley, S with Elton Consulting. *Assessing management costs and tenant outcomes in social housing: recommended methods and future directions*. December 2015

¹³ NSW Auditor-General *Making the best use of public housing*, Report to Parliament, 2013 Appendix 1, Figure 1

¹⁴ Sources include history of public housing on HNSW web-site and history of the CSHA Commonwealth Parliamentary web-site

¹⁵ In NSW, the response to falling rental income was to increase the proportion of income paid in rent, add additional charges (such as water) and expand the range of household income included in the calculations.

¹⁶ J Hall & M Berry, *Operating deficits and public housing: policy options for reversing the trend*, AHURI Final Report No. 55, March 2004