National Rental Affordability Scheme

Submission by the City of Sydney

May 2008

SUMMARY OF RECOMMENDATIONS/COMMENTS:

1. There is a need for the Scheme to directly engage with Local Government to ensure the efficacy of outcome objectives to maximise participation in the Scheme.

2. That consideration be given to providing developments involving local government resources a pro-rata ‘up-front’ capitalisation of the incentive scheme, subject to agreements ensuring the development’s on-going use as a provider of low-moderate income private rental housing.

3. That the income levels for those tenants participating in the Scheme be raised beyond currently proposed Commonwealth social welfare levels to, say $40,000 for singles and $70,000 for couples. This would expand the ‘pool’ of those in housing stress eligible to participate and would reduce developer/financier uncertainty in committing proposals. In particular it would enable the Scheme to extend into the ‘key worker’ sector, and would help alleviate the potential for the Scheme to act as an additional ‘poverty trap’ for such tenants.

4. That the Scheme be integrated in eligibility criteria with similar affordable housing schemes recently introduced or legislated by the States.

5. That the definition of ‘Not-for-Profit’ eligible to receive the incentive rebate be extended beyond mere charity status as determined by the Australian Tax Office (ATO). Alternatively, there is a need for discussions to be held with the ‘Not-for-Profit’ sector and the ATO to create a register of eligible recipients.

6. That attention be paid to supplementary legislation that may be necessary to ensure that other regulatory barriers do not exist to hinder the flow of funds from non-traditional financial sources such as Superannuation Funds.

7. That consideration be given to the establishment of differentiated local eligibility criteria to ensure that such criteria reflect the circumstances of local housing markets and private tenants within those markets. The goal should be horizontal equity in support across markets. This does not necessarily imply absolute equality of criteria.

8. That the allocation mechanism adopted reflects ‘need’ as defined by: (a) private rental housing stress and (b) the position of key workers in the local housing/transport market.

9. That the nature and extent of State Government ‘in-kind’ contribution be formally prescribed by an ex ante transparent register process and an agreed methodology of calculation.

10. That consideration be given to a prescribed ‘reasonable’ assessment period in order to achieve the objective of delivering dwellings ready for occupancy by June 2010.

11. That consideration be given to the support and development of an educational program to ensure adequate supply of skills for NFP providers/managers to achieve the initial objective of 50,000 dwellings by 2012.

1. Introduction

This submission outlines the City of Sydney’s preliminary views on the proposed administrative operation of the National Rental Affordability Scheme, as detailed in a technical discussion paper released on 2 May 2008.

The Prime Minister with the Minister for Housing, the Hon Tanya Pilbersek MP released this paper seeking submissions and comments to help settle “the final administrative and legislative design features” of the National Rental Affordability Scheme.

This submission, therefore, focuses on these technical administrative design features, rather than the policy foundations underlying the scheme. The City would anticipate further opportunity to discuss the suite of policies required to address the critical issue of housing affordability in our major cities in a co-operative inter-governmental approach to this issue.

2. Background: Significance of Housing Affordability

The City of Sydney welcomes the endeavours of the Federal Government to address the problem of housing affordability. There are few issues more fundamental to the development of cities than their ability to provide secure, appropriate and affordable housing for its residents.

It particular it congratulates the Federal government for initiating a scheme directed to increasing the supply of rental accommodation by providing an incentive for private financiers to invest within a financial model based on collaboration with the not-for-profit sector and other levels of government, including local government.

Such an approach, seen as part of a national and multi-government strategy to address this issue provides one of the critical measures in ensuring its success.

The comments that follow are predicated on this conviction that as a key policy initiative its potential to address the private rental housing market is maximised.

2.1 National Affordability Issues

Much attention has been directed in recent years to the decline in affordability in housing Australia-wide, and in the major cities in particular. Despite a period of relatively low interest rates underpinning strong housing demand, resultant supply shortages have seen price rises in housing to a degree that has severely impacted on overall housing affordability.

In particular, changes to the returns from alternate investments and taxation regimes, a shift of investors away from property investment has seen a decline in the relative supply of private rental accommodation, compounding a decrease in real expenditure on public housing.

This has particularly affected those on lower incomes struggling to purchase a home and subjected them to significant rental increases in the absence of a growth in alternative shelter options.

As Professor Judy Yates has pointed out, despite a 7.6 % growth in the number of private rental dwellings between 1996 and 2001, the number of dwellings renting for less than $235 per week (in $2001) declined. (AHURI: Changes in the supply of and Need for low rent dwellings in the private rental market) In 1996, such dwellings accounted for 86% of the total rental stock. In 2001 they accounted for just 78%. In other words, between 1996 and 2001, any growth in the number of private rental dwellings occurred solely in the top quintile of the rental distribution. The authors went on to point out that there was a supply shortage of 59,000 dwellings in 2001 for households on less than $335 per week (in $2001) – the bottom 165 of Australian households incomes. This proportion was higher, and more concentrated, in the capital cities.

Analogous research utilising the 2006 Census data confirms that this trend has continued. Significant cutbacks in Commonwealth funds for public and social housing, delays and infrastructure contributions for new release areas and the shift of investors away from property investment for a variety of reasons including changes to superannuation arrangements, have given rise to a housing ‘affordability ’crisis’. Any rise in interest rates significantly compounds the problem.

This has important effects on both intra- and inter-generational equity. Higher house prices result in a transfer of resources from those outside the housing market, such as would-be home buyers, to those inside the market, such as existing home owners. This also tends to favour older generations at the expense of younger. The wealth gap between home owners and others is widening. And for those increasingly trapped in the private rental market, their capacity to save for a deposit to enter home-ownership is doubly impacted. Indeed, many city residents are being forced, beyond choice, to relocate out of these cities as affordability becomes a critical issue. For others, declining affordability worsens “housing stress’ and can put pressure on necessary expenditures on health and education.

Recent work by Yates and Milligan (AHURI, 2007: *Housing affordability – a 21st century problem*) confirm that the burden of high housing costs is not borne equally by all households. While 16% of all households had high housing cost ratios, over 28% of lower-income households were in housing stress - (measured by paying more than 30% of income in housing and in the lowest 40% of income-earners)

For particular types of households, the incidence was even higher. For example, the incidence of stress for private renters was 65%. The incidence of housing stress is highest for lower-income private renters; single-person households aged less than 65 years and lower-income home purchasers. Almost half of lower-income households in stress are working households and over a third of lower-income working households are in housing stress.

Yates and Milligan estimate that by 2045, the incidence of stress is projected to have increased for all these households (by 4 percentage points for all lower-income households and by as much as 13 percentage points for private renters and 10 percentage points for sole parents). AHURI predicts that by 2045, the numbers in housing stress will rise by 77%.

Housing stress is not merely an equity issue. It has important impacts on the macro-economy and economic efficiency through labour market processes.

2.2 Spatial Impact of Housing Affordability: Local Affordability Issues

Whilst issues related to housing affordability have important national implications, by its very nature, housing also has significant local spatial implications which broaden the consequences.

In particular, significant spatial and economic processes are operating within the major capital cities in response to structural changes attendant upon globalisation forces and opportunities. Drawing on Sydney as an example, over time, with globalisation, the structure of employment of the City of Sydney has changed with the average income of the CBD workers being some 40% higher than the average of the Sydney metropolitan workforce, as a result of the increase in managerial and professional jobs in the Finance and Business Services sectors. Similarly, the income distribution of the residents is shifting dramatically as the traditional pattern of greater than proportional numbers in both the lowest and highest deciles groupings (with little in the middle) is effected by newer residents coming almost solely in the in the middle-higher income categories. There are more rich people and a smaller, but still significant number of those at the lower end of the income spectrum.

Arguably, there are two distinct housing markets operating within the Sydney metropolitan area. There is one located on the fringes of the city, which is particularly susceptible to the overall supply of new dwellings and, in consequence, the supply of developed land sites. On the other hand, in inner-city the emphasis is on unit development on redeveloped ‘brownfield’ sites. Driven by strong employment growth and an under-performing public transport system, this market has remained strong in terms of new development. Conversely, issues associated with the development process and the cost of infrastructure contributions has seen a shortfall in new development on the outskirts. The consequence is that the City of Sydney has continued to bear a more than proportionate ‘burden’ of new dwelling completions – in recent years averaging over 15% of all Sydney new dwellings and at times exceeding one-in-five. In this ‘inner-Sydney’ market it is the issue of lower-income affordability rather than supply, per se, that is more significant. The consequence is that policies at the outskirt need to have more of a ‘planning and land supply’ focus, whereas those in the inner Sydney need to examine alternative models of financing new development.

As a result, the City of Sydney welcomes the policy direction and response reflected in the National Rental Affordability Scheme.

It is notable that the tenure-mix in the City residents is broadly the reverse of the rest of the metropolitan area of Sydney. Only about one-third of City of Sydney residents own or are paying off their own home and some two-thirds rent their accommodation. This is the highest percentage of renters in Australia for a local government area. About one-in-six are public housing tenants, which leaves approximately half the City of Sydney residents living in private rental accommodation. The increasing majority of this accommodation is in high-rise apartments in a densely urban neighbourhood. Approximately 20% of all high-rise residential apartments (in buildings of four or more floors) are located in the City of Sydney LGA.

It is also important to recognise that the City Centre acts as a point of attraction for many other groups in the metropolitan area and beyond. The location of Central Railway in the City means that the City acts as the first point of urban welcome for those travelling from the country and arriving in Sydney. Often in search of a more satisfying life and work opportunities. The City rail stations are also the crucial hub of a radial rail system through the metropolitan area, as is the role of Circular Quay in the ferry transport system of Sydney Harbour, and the City is the destination or through-route of the bus system of transport.

Because of its centrality/accessibility, the inner-City is also the location of the majority of boarding houses in the metropolitan area. These provide an important form of low-cost accommodation to many people on low-income or in more transient occupation/lifestyle. Despite the loss of approximately half of this boarding house stock in the last decade there are still approximately 300 boarding houses remaining in the City of Sydney.

However, many of these remain under threat from continued redevelopment for both commercial and residential apartment purposes.

Socially, therefore, the City is increasingly acting as the attractor of both the higher and lowest ends of the income spectrum with an extreme diversity of people with differing cultures, backgrounds and aspirations. Economically, though, those at the lowest end of the spectrum are facing significantly increasing housing affordability pressures.

At December 2003, only 4.6% of stock in the former City of Sydney LGA was affordable for rental by those on the 40th percentile of average weekly earnings for the Sydney metro area. In the former South Sydney LGA only 21.9% of stock was affordable for that income group. (The current City of Sydney was formed in February 2004 as an amalgamation of these areas)

At the same time, December 2003, in the former City of Sydney LGA 61.3% of residents living in private rental accommodation and in receipt of Commonwealth Rent Assistance were in housing stress – that is they were paying more than 30% of their income in rent. In South Sydney the figure was 68.3%.

The proportion of low and moderate income earners renting and in housing stress in the City at the 2006 census was 67%, compared with 56% on average across the metropolitan area.

An analysis conducted by the Australian Financial Review in June 2007 found that six of the ten suburbs with the highest incidence of housing stress in the Sydney metropolitan area are within the City of Sydney LGA (AFR: 29 June 2007, *Housing Stress Hits Home Countrywide*)

All up, there is estimated to be well over 6,000 people in the current City of Sydney Council area in receipt of Commonwealth Rent Assistance and in housing stress. These are people who are on statutory or very low incomes, who are in private rental properties and whose rent is high enough for them to require additional financial assistance with their rent. It is then possible to look at those people receiving Commonwealth Rent Assistance, how many are paying more than 30% of their income in rent – these people are considered to be in housing stress. People on low incomes paying more than 30% of their income in rent will struggle to meet other non-housing costs. Therefore these are the most vulnerable people in the community and most at risk if there is any tightening of supply or price increases in the rental market.

In many ways these people are the tip of the iceberg.

2.3 Key Worker Issue

Increasingly, research is showing that inner-city housing costs are driving out low-paid workers who are caught in a crunch of long-distance commuters as Australia's major cities become increasingly polarised. This is the "key worker' problem.

In response to the increased stress on time and money, these workers then consider withdrawing from jobs in the City and inner-city employers link their retention and turnover difficulties to the relationship between housing costs and daily commuting. They say long commutes to and from work contribute to absenteeism, fatigue and lateness.

If such longer-distant commutes are continued then this has deleterious effects on the City's level of greenhouse gas emissions, as well as social and economic aspects related to child-bearing and future labour supply.

More detailed research by Judith Yates on changes in residential and employment locations of low- and moderate-income households in Sydney between 1999 and 2001 confirms this 'out-migration' of low-paid workers: "The inability of employers to recruit and retain key or essential workers is likely to be part of a much broader and potentially much more insidious process. Vibrant cities need hospitality workers; they need cleaners, they need workers who work at all times of the day or night".

Analysis of the income of residents in the City of Sydney over the last decade shows that the share of City residents within the second quintile (third and fourth deciles) of the Sydney metropolitan income distribution has declined by an absolute 5.4% from 21.5 % to 16.1%. This is the quintile that most directly refers to low-income workers, including those engaged in critical child care, cleaning, maintenance and community service sectors. It suggests a substantial loss of such workers as residents of the City.

Other research has suggested that central Melbourne is becoming divorced from the rest of the city, so the problem is not confined to Sydney. It also has overseas parallels in London and US cities. Ultimately, this lack of local housing affordability can become a global competitiveness issue jeopardising the ability of a city to maintain its place as the centre of productivity-enhancing innovation clusters.

The initial positive of this globalising process is enhanced creativity, activity, economic growth and employment. This 'coin', though, can also have an economically-induced 'down-side' with the potential for lower-income residents being forced to re-locate to more affordable, though less accessible, areas and increased housing stress on those remaining, which in turn can have deleterious effects on other expenditure needs. The result can be an unsustainable position of increasing lack of diversity, labour shortage in certain occupations and a degradation of social capital, which can manifest itself in social exclusion.

This can threaten the economic competitiveness and growth which has given rise to the process. And, in the case of the capital cities, can have important national economic consequences. In the case of Sydney, metropolitan-wide over a quarter of Australia’s GDP is generated here, and within the City of Sydney alone, approximately 9 per cent of the nation’s annual economic wealth is sourced.

Similarly, the creative workers who are so significant in generating the innovation and productivity are also most vulnerable to affordability pressures and may be forced out of the inner-city, and most pertinently the creative clusters which generate the productivity premium which makes the major cities so crucial to national economic growth.

Given the national, regional and local consequences of the housing affordability issue, it is therefore critical that all levels of government co-operate jointly in developing an integrated framework, strategy and set of actions to address the issue and its implications for future sustainability.

The City of Sydney accepts that there is no single ‘silver bullet’ in resolving the situation of worsening housing affordability. This requires a comprehensive package of measures engaging all levels of government as well as the expertise and support of the community and business sectors.

However, it is clear that increasing the supply of lower-cost private rental accommodation must be central to such a comprehensive strategy.
For that reason the City welcomes the National Rental Affordability Scheme.

3. Response by the City of Sydney

3.1 Sustainable Sydney 2030

The City of Sydney has released a draft version of a new strategy designed to guide sustainable development in the City to the year 2030 and beyond.

Sustainable Sydney 2030 has a vision of a Green, Global, and Connected City.

- Green with a modest environmental impact, green with trees, parks, gardens and linked open spaces
- Global in economic orientation, global in links and knowledge exchange, global and open-minded in outlook and attitude.
- Connected, physically by walking, cycling and high quality public transport, connected virtually by world-class telecommunications, connected to communities by a sense of belonging and social well-being and connected to other spheres of government and to those with an interest in the City. (*Sustainable Sydney 2030 Final Consultation Draft April 2008*)

To achieve this vision, Sustainable Sydney 2030 identifies ten Strategic Directions, including Housing for a Diverse Population.

Social and housing diversity is thus a key goal of Sustainable Sydney 2030. Diversity is essential for the social and economic vitality of inner Sydney. Specifically, this means that a range of housing opportunities will be provided in terms of housing types, prices and rents and this will include ‘affordable’ housing.

The Sustainable Sydney 2030 draft strategy sets ambitious targets which aim to redress the current trends and ensure that 15% of the City’s housing stock in 2030 is provided in the form of social housing through government and community providers and affordable housing delivered by ‘not-for-profit’ or other providers.

Whilst Sustainable Sydney 2030 specifies a set of objectives and policies to achieve this target, it has proposed a demonstration project to show how governments working together for affordable housing objectives can achieve those objectives.

3.2 Glebe Project

On 29 April 2008, the City of Sydney and the New South Wales State Government signed a Memorandum of Understanding committing the City and the State Government to a partnership to develop affordable housing on a 3.6 hectare site in Glebe-Ultimo, currently owned in separate parcels by both levels of government.

This $260 million project will build up to 700 new affordable, social and private housing units aimed to both address the city’s affordable housing shortage and as a demonstration project.

The first stage of the project is to engage urban design experts to undertake a joint master planning process which will:

- Review existing planning controls
- Identify site uses, public domain uses, building heights and density;
- Undertake a commercial assessment for the site redevelopment including funding models and partnerships; and
- Implement a comprehensive community consultation plan.

To quote the Lord Mayor, Clover Moore MP: “We are aiming to develop new models of affordable housing which can be replicated around Australia. We want to ensure a healthy mix of accommodation types, not a segregated city with an increasing gulf between the haves and the have-nots.”

The Premier Morris Iemma stated at the joint announcement : “We need new ways to tackle the problems low to moderate income families are having accessing affordable rental stock across Sydney, and elsewhere in NSW.

It is important that the three tiers of government work to address this issue, and I have welcomed the Rudd Labor Government's substantial policy and funding commitments to help make this happen over the next few years."

This significant demonstration project represents an important opportunity to demonstrate how co-operative action by several levels of government can achieve significant affordability outcomes.

The extent of Council's commitment of land (with a market value of $30 million) indicates the significance that the City puts on the need to provide affordable housing in our local government area for both economic reasons related to the supply of key workers, and also to ensure a socially-equitable diversity of the City's residents.

3.3 Affordable Housing Strategy

Whilst Sustainable Sydney 2030 outlines the strategic directions and broad actions to achieve specific housing objectives, the City has also been developing a draft affordable housing strategy with specific actions aimed at achieving affordability targets.

This will be considered by Council in the near future, following consultation with organisations operating in the housing industry including both the private and 'not-for-profit' development sector.

Aside from the opportunity presented by this submission, the Council looks forward to further on-going discussions with the Federal government to achieve our common objectives in relation to providing affordable housing to our residents.

4. Specific Issues to Address in NRAS

4.1 Maximising Local Government Participation

Whilst the City of Sydney understands that the National Rental Affordability Scheme is primarily aimed at attracting private investors into innovative schemes to increase the supply of affordable rental housing, the City also recognises that where such tax-credit schemes have worked successfully overseas they have been based on substantial grants (in cash or in kind such as land) from other levels of government. In particular, varied research shows that some 40% of the equity for such housing projects comes from grants (cash or in-kind) from other levels of government; 40% from private investors; and only a small proportion from the US Tax Credits available. Similarly, in the UK, some 60% of funds for such schemes come from subordinated equity or grants; in Canada, there is a 40% subordinated equity share and in Holland, a government guarantee regarding risk.

The point is that almost universally these schemes, whilst nominally operating as a rental tax credit scheme, were ultimately driven by substantial components of government grant money or land; and an acceptance of risk by the government.
This highlights the significant role other governments have, and can play in delivering such schemes.

This point is acknowledged in the Discussion paper (in section 1.1):
“The scheme is designed to pool significant resources from a range of participants including financial institutions, non-profit organisations and local government which, when combined with the incentives of the Scheme, will increase the supply of lower-rent housing.”

Aside from processing advantages, the resource most readily identified as coming from local government is land that it may hold that could be incorporated into a development. However, this is a significant commitment of revenue-yielding assets for Councils, and potentially exposes a significant burden of risk associated with development, with that commitment extended over the economic life of the building. This long-term commitment stems from the motivation of local government to be involved, as a place-policy commitment, to increase the supply of affordable residential accommodation within their local government boundary.

Private developers are able to opt out of the scheme after ten years of receipt of the incentive. Driven quite rightly by a desire to maximise profits, private developers can then increase rents to full market rent or sell the dwellings unencumbered. Local government, given its policy goals, is bound to the development, as low-cost affordable accommodation. Even the incentive commitment by other levels of government in terms of the annual payment ceases after 10 years.

This puts local government at a considerable disadvantage in assessing whether to engage in the Scheme in the first place. One way of ‘evening the playing field’ would be to allow developments with local government direct involvement to receive the ten-year income stream of the incentive as a capitalised ‘up-front’ payment, on the basis of commitment backed by a Memorandum of Understanding to maintain the property as affordable rental accommodation.

Whilst the document outlines the role of ‘stakeholders’ in the scheme – the federal and state governments; financiers; developers; non-profit organisations – the role of local government , when mentioned, remains somewhat ambiguous.

Like developers, local government can contribute land and, like the not-for-profit sector, it can play a role in initiating collaborative arrangements. However, unlike the other levels of government, local government has no explicit advisory or approval role or even referring role. Against that it isn’t charged with a contribution for a component of the $8000 grant each year, although the state governments, for instance, can offset land contribution against that requirement.

More importantly, the role specified for state government in: identifying land that may be earmarked for affordable housing developments; contributing to projects; acting as broker between financial institutions, tenancy managers, developers and philanthropic donors; and supporting non-profit organisations participating in the scheme, is a role that local government could equally perform.

The discussion paper states that “local governments may be able to support projects by contributing land, providing planning expertise, expediting planning approvals or contributing infrastructure.” (Section 2.2.4) No further detail of this role is given, nor is there an institutionalised set of arrangements to work collaboratively with local government by the other two levels of government outlined.

The City of Sydney would welcome the opportunity to engage directly with the Federal Government to improve the efficacy of the Scheme, given the incidence of housing stress in the inner part of Sydney.

4.2 Eligibility Criteria

The income criteria proposed to determine eligibility of renters to the scheme are very low, particularly in a Sydney context. Essentially, those eligible are restricted to Commonwealth Pension and Beneficiaries or very-low income families with a number of children who have access to the Commonwealth Health-Care Card.

This raises the spectre that the target for the scheme are more likely to be those eligible for public housing or community housing provided by community housing providers.

Unfortunately, these are not the key workers identified in the discussion paper as being an appropriate target, as outlined in section 2.2.4: “The benefit for local government is the increased prospect of attracting and retaining key workers such as teachers, apprentices and child care workers in the local area”.

As an illustration, the example limit for a single person given in the discussion paper is $28,000 p.a. Examination of the results of the 2006 Census by place of employment indicates that only 15% of the City of Sydney workforce had incomes below this limit, including those who are merely casual workers (such as students) and those in self-employment who made nil or negative income. Sydney-wide, only 28% of workers received below $28,000.

However, most definitions related to housing affordability relate to the lowest 40% of households, and in financing current affordable housing options, providers are usually incorporating a mix of both low and moderate income earners.

For these tenants, the danger is that despite a rent rebate of 20%, this rental level may still be higher than that which might prevail in public housing which is based on a proportion of income.

Moreover, there is the danger, through the need to maintain continued eligibility, of creating a ‘poverty trap’, whereby such low income people, if offered employment at a slightly higher income, may well choose to reject that if one of the consequences would be to be ruled ineligible for participation in NARS, with consequent costs associated from moving out of their family home. Further, the family would be paying a market rental which no longer attracts a 20% rebate. Such an outcome would run contrary to the Federal Government’s intention of increasing labour supply participation to alleviate labour supply constraints as well as its desire to reduce effective marginal tax rates for low income earners.
Further, those on very low and low incomes often have special and complex needs which may well significantly increase tenancy-management costs faced by the provider which would negate against the capacity to increase the effective rate of return required to attract financial investment in the first place.

It is suggested that eligibility levels need to be broadened to encompass low-to-moderate income earners with say, $40,000 as a limit for single persons and around $75,000 for households. This would make the scheme available for key workers, particularly in inner Sydney.

In particular, it would ensure that the benefit for Local Government as mentioned in the discussion paper (ie “the increased prospect of attracting key workers”) would have substance.

4.3 Determination of Eligible Not-For-Profits as ‘Recipients’

The discussion paper appears to envisage an important supporting role for the ‘Not-For-Profit’ sector as ‘providers’ as the tenant manager of NRAS properties.

However, it is also envisioned that some of these providers may become developers and owner-investors. The discussion paper then suggests that to be eligible to receive the incentive these ‘recipient-providers’ would need to be registered with charity status from the Australian Taxation Office.

For most existing Community Housing providers this would already by the case. These ‘Not-For-Profit’ entities can get significant tax advantages that are not available to public housing authorities such as Public Benevolent Institution (PBI) and Deductible Gift Recipient (DGR) Status, GST concessions and income tax and fringe benefit tax exemptions.

However, given that a goal of the Scheme is the provision of affordable housing for key workers, it is possible that a Not-For-Profit' 'recipient' owner entity created for the purposes of the Scheme will not necessarily have this tax status.

Further to this, collaborative engagement with the private sector may endanger the charitable status of an organisation. The Community Housing Federation of Australia sought Australian Tax Office advice on 13 models of collaborative engagement, and found that of these, two would place the organisations involved at risk of losing continuing endorsement as an income tax exempt charity, as well as losing DGR and fringe benefits tax exemptions. (CHFA, Community Housing: *New partnerships & the tax system – charity tax advantages in future government/community/private arrangements*, 2004)

It is important to the funding attraction of the scheme that these entities are able to readily obtain the 'incentive' payment. Therefore in the interests of clarity and certainty the Federal Government needs to consider broadening or expediting eligibility to achieve the intent of the Scheme.

This might require further discussions with the Australian Tax Office or establishing a register of Affordable Rental Housing recipients, to ensure greater certainty for potential investors interested in being involved in the Scheme.

4.4 Removal of barriers to flow-of-funds into Scheme by investors

The key point is to ensure that there are minimal barriers in the operation of the Scheme that would hinder this directed flow of funds from financial institutions currently outside of the general ambit of housing finance organisations.

In this regard, it is important that directors of, for instance, Superannuation Funds are not proscribed from investment under the auspices of the Scheme by virtue of rigid application of ancillary legislation such the Trustee Act which might require them to obtain the highest possible rate of return from their investment.

4.5 National Criteria but Local Impacts – requires consideration of local eligibility criteria

It is important to note that it is a National Scheme with national eligibility criteria and a national incentive payment. However, as the earlier discussion points out, there are several housing markets operating within the national context, and even within large metropolitan areas such as Sydney.

Moreover, as the analysis shows, private renters in Sydney are under highest level of housing stress and facing the most significant affordability problems.

Whilst the allocation process of eligible developments may address this problem, there is a danger that the application of national guidelines to the local Sydney market will significantly reduce the relative number of applicant projects to be located within Sydney. This mismatch may result in a misallocation jeopardising the success of the Scheme where it is most needed.

National eligibility criteria discriminate against high housing cost places such as Sydney on two fronts.

Firstly, the $8,000 per year incentive is a much smaller percentage of the required investor outlay (about $350,000) compared to other places in Australia. Whilst the risk is higher for the investor, the incentive is fixed to this nation-wide figure. The likelihood is that Sydney-based investors would be less likely to invest to obtain this incentive.

Secondly, given that Sydney residents get approximately 20% more in income than the Australian average then less individuals and families would be eligible as households into the scheme, despite the fact that they are more likely to be facing housing stress.

In particular, as already pointed out, the Scheme would not address the position of key workers in the Sydney context.

Conversely, the potential ‘poverty trap’ implications associated with moving from an eligible dwelling into a higher-market rent regime are correspondingly greater.

A more sophisticated scheme would reflect the differences in market rent, housing stress and incomes in various housing markets with a grant-incentive payment differentiated to reflect these differences.

The City understands that differentiated eligibility is a difficult response/concept for the Federal Government to implement but would indicate that, given the differentiated nature of the housing market in Australia, this may well be necessary to ensure the desired success of the scheme, both locally and nationally.

Whilst this is considered further, then a more immediate resolution would be to extend the income eligibility criteria as discussed above.

4.6 Other Issues/comments

4.6.1 Clarification of State Government ‘In-kind” Contribution

There is some doubt as to what constitutes ‘in-kind’ incentive from the State Government in lieu of $2000 p.a. payment. There have been some suggestions that, for example, where a State Government ‘allows’ up-zoning of land, that this may be considered as meeting the condition of the $2,000 contributed by the State Government. In the interests of investor certainty and indeed transparency it would be preferable that ‘allowable’ in-kind services be prescribed and publicly available with a methodology to assess their equivalent monetary value.

4.6.2 Time Frame for completion

The first phase calls for proposals that include a 30 dwelling minimum, but also calls for proposals that can deliver dwellings ready for occupancy by June 2010. The time frame requires a prescribed reasonable assessment period to provide investor certainty. As they stand, the time frame may mitigate against new construction of additional dwellings.

4.6.3 Training for Providers

Given the anticipated scale of the Scheme – 50,000 dwellings – and the significant role to be played by the ‘Not-for-Profit’ sector, consideration should be given to the need for appropriate co-ordinated training for people in this sector to adequately resource the objective.