

Submission  
No 63

## INQUIRY INTO HOMELESSNESS AND LOW-COST RENTAL ACCOMMODATION

**Organisation:** Department of Families, Housing, Community Services and  
Indigenous Affairs (FaHCSIA)

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**Position:** Secretary

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Australian Government

Department of Families, Housing,  
Community Services and Indigenous Affairs

THE SECRETARY

The Hon Ian West, MLC  
Committee Chair  
Standing Committee on Social Issues  
NSW Legislative Council  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

Dear Mr West

#### **INQUIRY INTO HOMELESSNESS AND LOW COST RENTAL ACCOMMODATION**

Thank you for the invitation for my Department to make a submission to the NSW Standing Committee on Social Issues' Inquiry into homelessness and low cost rental accommodation. Please find attached the submission prepared by the Office of Housing responding to your request. This submission includes some general information about Australian Government housing assistance and homelessness prevention measures, as well as some specific comments relating to the Terms of Reference of the Committee. I apologise that for the delay in providing this Submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J Harmer'.

Dr Jeff Harmer  
Secretary

2 June 2009  
Encl.



Australian Government

Department of Families, Housing,  
Community Services and Indigenous Affairs

## Submission to the NSW Standing Committee Inquiry into homelessness and low cost rental accommodation

### Australian Government's recent initiatives in relation to housing and homelessness

The **National Affordable Housing Agreement (NAHA)**, which was agreed by the Council of Australian Governments (COAG) in late 2008, brings together specific purpose payment (SPP) funding for affordable housing and homelessness into a single, overarching housing agreement involving all levels of Government.

The NAHA encompasses the programs and services previously funded through the Commonwealth-State Housing Agreement and the Supported Accommodation Assistance Program as well as other housing measures, including Commonwealth Rent Assistance, the National Rental Affordability Scheme, and the Housing Affordability Fund.

The National Affordable Housing Agreement and the associated National Partnership Payments provide almost \$10 billion over five years.

\$6.2 billion – base funding;

\$400 million – to build up to 2,100 more public and community housing dwellings;

\$800 million – to provide additional services to prevent and reduce homelessness;

and

\$2.5 billion – to build more housing in remote Indigenous communities

The **Nation Building and Economic Stimulus Plan**, announced in February 2009, was developed to support jobs in Australia's economy and progress the Government's long term reform aims. An additional \$6.4 billion is being provided over three and a half years to construct 20,000 new social housing dwellings and fund the repair of around 45,000 existing dwellings. It is expected that 75 per cent, or 15,000 dwellings, will be completed by December 2010.

Associated with this additional funding, the Australian Government is requiring the States and Territories to commit to a reform agenda to transform the social housing system. A key initiative of this reform agenda is to increase the number of sophisticated not for profit housing organisations that will operate along side existing state-run housing authorities. Further details are provided below, in the comments linked to the Inquiry's Terms of Reference. The Minister for Housing, the Hon. Tanya Plibersek MP, provided the context for this reform agenda in a speech to the Sydney Institute on 19 March 2009. A copy of that speech is attached.

Through the **National Partnership on Homelessness** the Commonwealth and the States and Territories (the States) have committed to work together to significantly reduce homelessness by 2013. The Partnership recognises that providing more crisis beds is not the long-term solution and that while extra housing is important, it will not be sufficient to resolve homelessness. The Commonwealth and the States are providing \$800 million over the four years from 2009-10 to implement this Agreement. Measures in this National Partnership Agreement are linked to the reforms identified in the White Paper on Homelessness. This is in addition to the commitment to provide \$300 million of matched Commonwealth and State funding to provide longer-term accommodation for 600 homeless families and individuals under A Place to Call Home.

The **White Paper on Homelessness: *The Road Home*** was launched by the Prime Minister and the Commonwealth Minister for Housing on 21 December 2008.

The White Paper has set two specific goals to be achieved by 2020:

- Halve overall homelessness; and
- Offer supported accommodation to all rough sleepers who need it.

In implementing the White Paper, the Commonwealth will continue to work closely with State and Territory Governments, business and the community to reduce homelessness:

- The Prime Minister's Council on Homelessness will drive national reforms and guide the implementation of the White Paper;
- The Bea Miles Foundation will work in partnership with the business and corporate sectors to harness their efforts in reducing homelessness; and
- The COAG Reform Council will monitor, analyse and report on outcomes under the National Affordable Housing Agreement and the National Partnership Agreements.

The additional funding under the **National Partnership on Social Housing** and the **National Partnership Agreement on Remote Indigenous Housing** will also increase housing options for people who are homeless or at risk of homelessness.

These recent initiatives are in addition to a range of other Australian Government housing assistance measures, including:

- **The First Home Owners Boost (FHOB)** which will provide \$1.5 billion to increase investment in the housing market for first home buyers entering into contracts between 14 October 2008 and 30 June 2009. First home buyers purchasing newly constructed homes will receive \$21,000. This is \$14,000 more than the pre-existing \$7,000 grant. First home buyers purchasing existing homes will receive \$14,000, which is a doubling of the pre-existing \$7,000 grant. In the 2009-10 Budget it was announced that FHOB would be extended to 31 December 2009.
- **The Housing Affordability Fund (HAF)** is providing \$512 million over 5 years to address supply side barriers to housing provision, through reducing delays in the development process and funding infrastructure associated with new housing provision.
- **The National Rental Affordability Scheme (NRAS)** is providing \$623 million over four years for incentives to encourage institutional investors and the not-for-profit sector to build and manage affordable rental homes.
- **The National Housing Supply Council** is improving housing planning by publishing an annual State of Supply Report on the adequacy of construction and land supply to meet future demand. The Council's first report was released in March 2009.
- **A Place to Call Home** is a joint initiative with the States and Territories for the provision of at least 600 new homes for homeless people. The Australian Government is providing \$150 million for this initiative over 5 years, matched by states and territories.
- A revamped **Commonwealth Property Disposals Policy** has recently been released. Through this policy, surplus Commonwealth land is being released for residential and community development.

- **First Home Saver Accounts** have been set up to help aspiring first home buyers to save for their own home. Under this arrangement, the Australian Government is providing a 17 per cent contribution on the first \$5,000 of individual contributions each year. This means that any individual contributing \$5,000 to their First Home Saver Account will receive a Government contribution of \$850.
- The Australian Government also provides financial assistance to low to moderate income households to access private rental housing through **Rent Assistance**. Residents of community housing and NRAS-funded housing are eligible to apply for Rent Assistance, but public housing tenants are not generally eligible.
  - The rates of Rent Assistance depend on family situation and the amount of rent paid. Claimants must pay a minimum amount of rent to qualify for assistance. Rent Assistance is then paid at the rate of 75 cents for each extra dollar of rent up to a maximum rate. Rates are indexed twice a year, in March and September.
  - In NSW in the fortnight ending 5 December 2008 there were around 332,000 individuals or families in receipt of Commonwealth Rent Assistance. The amount paid in Rent Assistance for that fortnight was \$15.4m.

More information on these initiatives and measures is available on the websites [www.coag.gov.au](http://www.coag.gov.au) and [www.fahcsia.gov.au](http://www.fahcsia.gov.au).

The Australian Government's review of taxation, **Australia's Future Tax System** (the Henry Review), also covers a range of social and housing issues in its Terms of Reference, including:

- enhancing the taxation arrangements on consumption (including excise taxes), property (including housing), and other forms of taxation collected primarily by the States;
- making coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for individuals to save and provide for their future, including access to affordable housing;
- taking into account the relationships of the tax system with the transfer payments system and other social support payments, rules and concessions, with a view to improving incentives to work, reducing complexity and maintaining cohesion;

The final report on Australia's Future Tax System is due to the Treasurer in December 2009.

Specific comments in relation to the Terms of Reference of the Legislative Committee's Inquiry are provided below.

**Term of Reference 1(a) - Models of low cost rental housing outside of mainstream public housing, including but not limited to co-operative housing and community housing**

As mentioned above, associated with the additional \$6.4 billion being provided for social housing through the Nation Building and Economic Stimulus Plan, are a package of reforms including the development of a stronger not-for-profit and community housing sector to generate greater innovation and a more diverse range of products than have been provided in the past. These measures will link with the funding provided through the National Rental Affordability Scheme, which is discussed in more detail under 1 (c) below.

The reforms will provide more choice and greater social and economic opportunities for social housing tenants, an increased supply of affordable housing, more efficient use of resources and greater accountability.

States and Territories will be required to:

- Integrate public and community housing waiting lists;
- Implement support arrangements to assist social housing tenants to transition from social housing arrangements to affordable private rental and home ownership as their circumstances change;
- Ensure better social and economic participation for social housing tenants by locating housing close to transport, services and employment opportunities; and
- Reduce concentrations of disadvantage through appropriate redevelopment to create mixed communities that improve social inclusion.

The reforms will also facilitate the establishment of a small number of large, well-governed and regulated not-for-profit housing organisations that hold title to the properties that they manage, and can use their assets to deliver a more innovative and diverse range of affordable housing products.

There are a number of ways in which greater community housing capacity could emerge, such as:

- expansion of existing housing providers;
- other organisations already in the business of asset and tenancy management (e.g aged care providers) moving into broader social housing provision; and/or
- existing charitable and church organisations working with low income and disadvantaged Australians becoming more involved in direct housing provision and management.

Larger scale community and not-for-profit housing providers will generally be better placed than traditional state housing authorities to draw on and link a wider range of funding sources including social housing grants, NRAS funds and commercial borrowings. This will make it easier to assist people move through the housing system – from social housing to NRAS-funded accommodation, and potentially on to shared equity and home purchase. Given their more flexible funding arrangements community housing and not-for-profit housing providers may also be able to do this without requiring the household to move house as their financial circumstances improve.

Funding provided through the **National Affordable Housing Agreement** can also be used flexibly by the States and Territories, as long as funds are directed to the achievement of outcomes which include:

- people who are homeless or at risk of homelessness achieve sustainable housing and social inclusion;
- people are able to rent housing that meets their needs people; and
- Indigenous people have the same housing opportunities as other Australians.

Assistance for **accommodation linked to support services for frail older people** is also provided by the Australian Government through the Department of Health and Ageing.

#### **Term of Reference 1(b) – Methods of fast tracking the capacity of providers to deliver low-cost rental accommodation in a short time frame**

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) is currently working with the States and Territories on strategies to create a mature and highly functioning community housing sector in Australia, enabling the industry to become a significant provider of social and affordable housing.

The Industry Development Strategy for the not-for-profit housing sector will:

- provide a realistic assessment of the capacity of the not-for-profit sector to grow substantially within a five year period

- identify the policy settings, funding, business and delivery models which will:
  - develop a mature and high-functioning community housing sector in Australia that improves choice for tenants, delivers quality rental housing at affordable cost for those in the lower income brackets, and promotes competition in housing delivery
  - facilitate continued growth in affordable social housing that is not dependent on ongoing capital funding from government
  - establish minimum performance standards for the sector
  - identify any short-term investment required to develop the capability of not-for-profit housing providers to increase their scale of operations

The taxation treatment of the not-for-profit sector in relation to housing provision will be considered in the context of the Henry Review of taxation arrangements and the inquiry by the Productivity Commission into the Contribution of the Not for Profit Sector.

FaHCSIA has engaged a consultant to assess the capacity of the community housing sector to grow significantly within the next five years and advise on the policy settings, industry development strategies needed to enable the industry to become a significant provider of social and affordable housing. This work commenced in March 2009 and the final report is due in June 2009.

A Project Reference Group will guide this work, with membership drawn from peak organisations, community housing providers, a research body, the private sector, and the State Government housing authorities in New South Wales, Victoria, Queensland, Tasmania and South Australia.

There has also been some re-scoping of work relating to the development of a National Regulatory Framework - a project approved by Housing Ministers in March 2008.

A related initiative is the National Rental Affordability Scheme Enabling and Capacity Building Strategy. That strategy is designed to provide the community housing sector with a clear understanding of the capability requirements to successfully participate in the scheme. The Strategy provides for a range of products, activities, resources and tools to develop the capacity of aspirational affordable housing providers – these resources will be available to not-for-profit housing providers who are not involved in the NRAS.

Other related initiatives at the Commonwealth level include the development of a compact with the third sector, which will address workforce capacity, governance and financial management capability and red tape reduction.

As agreed by COAG, the additional \$6.4 billion for social housing over the next two years is contingent on jurisdictions implementing a number of reforms in the social housing sector and making a detailed report to COAG by December 2009 on progress. These reforms include:

- integrating public and community housing waiting lists.
- introducing contestability in allocation of funds to encourage a range of new providers and create diversification in the not-for-profit sector to enhance the ability of providers to offer housing options to a broader range of client types;
- leveraging of government capital investment to enhance provision of social housing;
- better use of government-owned land to provide more affordable housing opportunities for low income earners.

- increased transparency through the establishment of consistent and comparable accounting and reporting standards across jurisdictions that allow clear and objective assessments of performance that meet public accountability requirements;
- improved procurement practices that promote competition between proponents and provide participation opportunities for small and medium enterprises;
- introduction of a national regulatory and registration system for not-for-profit housing providers to enhance the sector's capacity to operate across jurisdictions; and
- social housing providers to be subject to independent prudential supervision to protect public investment in the sector.

**Term of Reference 1(c) - Strategies to attract private sector investment in the provision of low cost rental accommodation**

The **National Rental Affordability Scheme** has been specifically developed to address the shortage of affordable rental accommodation via annual incentives to institutional investors and other eligible bodies for ten years to create 50,000 new affordable rental properties. Rather than governments having to fund the full costs associated with provision of additional affordable rental dwellings, NRAS subsidies are being used to leverage funds from private sector and other sources.

Approved NRAS dwellings will rent to low and moderate income families at 20 per cent below market rents. The two key components of the Incentive are:

- An annual \$6,000 Commonwealth tax offset or payment indexed annually in line with the rental component of the CPI, to investors who construct new affordable rental accommodation.
- States and Territories will offer \$2,000 per year indexed annually in line with the rental component of the CPI in direct payments or in-kind financial support for investors who access the incentive.

Current income limits for tenant eligibility, and upper income limits for maintaining eligibility are:

| <b>Household Types</b>   | <b>Annual income limit for initial tenant eligibility</b> | <b>Upper income limit for maintaining eligibility</b> |
|--|---|---|
| Single person with no children                                     | \$40,501  | \$50,626  |
| Couples, couples with one child or sole parents with up to 1 child | \$55,991  | \$69,989  |
| Couples or sole parents with 2 children                            | \$69,423  | \$86,779  |
| Couples or sole parents with 3 or more children                    | \$82,855  | \$103,569   |

This kind of investment has occurred successfully overseas but institutional investors have not, until now, been significant investors in residential property in Australia.

NRAS has attracted a large degree of interest from the not-for-profit housing sector, with 62.5% of successful applicants during Round One coming from this sector.

- In designing the assessment process for applications received under the National Rental Affordability Scheme, FaHCSIA has paid significant attention to the need to



ensure that approved participants in the Scheme have capacity to deliver proposed projects and that the organisations and projects are financially viable.

As a result of Round One allocations, a total of 1074 National Rental Incentives have been allocated to affordable rental homes in NSW out of a total offer of 3799 incentives across Australia. This represents over 28 per cent of NRAS Round One allocations going to projects in NSW.

To further support the Community Housing Sector in maximising the growth opportunities available under the NRAS, the Australian Government has also allocated approximately \$1.7 million over two years for a Capacity Building Strategy – for more detail see Term of Reference 1(b), above.

#### **Term of Reference 1(d) - Current barriers to growth in low cost rental housing**

One particular issue of concern is that up until now, much of the private investment in rental housing has not been targeted to the affordable end of the market.

Most community housing providers have lacked the entrepreneurial capacity and financial acumen and credibility to attract substantial private sector funding.

New initiatives currently being implemented for the expansion of larger scale not-for-profit and community housing providers within a well regulated environment, when linked with NRAS and increased funding for social housing, will support the creation of institutional arrangements for better partnering of private funds and affordable housing provision.

The Government recognises that this Scheme is new to the Australian investment landscape and it will take time for institutional investors to become familiar and comfortable with a Scheme of this type, especially given the current economic circumstances globally.

NRAS was designed in consultation with industry so that they could assess the risks and opportunities of what is a new, innovative asset class. Investors do their own modelling taking into account their financial arrangements and other factors such as the location of the proposed dwellings. Investors will factor in their own estimates of capital gains and rental yields.

Private investors have accounted for nearly 25 per cent of incentive allocations for homes that are available as a result of NRAS Round One (or already rented) and 57 per cent of allocations reserved for homes that will become available soon.

FaHCSIA is currently developing a range of activities in preparation for the commencement of the expansion phase of the scheme which will seek to lift the level of interest from financial institutions, including a targeted communications strategy and a comparative economic analysis of NRAS investments against other common forms of alternative investment.

In seeking to encourage further interest in the Scheme from large-scale institutional investors, FaHCSIA has contracted to have a financial feasibility modelling tool and comparative analysis to assist potential large-scale, private sector investors to assess the financial outcomes of the Scheme, and to assess the impacts of the Scheme on various investor types. This work is nearing completion and is expected to be available to potential participants in the latter part of this year.

The Australian Government acknowledges the strong contribution and support by the NSW Government to the Scheme and other initiatives to address housing affordability. The NSW Government's contribution to the Establishment Phase of the Scheme was through a differentiated contribution – for 'not for profit' providers (NRAS A) and for 'for profit' providers (NRAS B).

The NSW Government's NRAS A contribution included cash grants to registered community housing providers participating in the delivery of affordable housing which were significantly in excess of the \$2 000 per dwelling Commonwealth requirement of state contributions. Additionally, under NSW's NRAS A, while an estimated 50% of the affordable housing would be retained in perpetuity by the not for profit providers, the balance of dwelling would be able to be sold at the end of the Scheme, with the sale proceeds being directed to refinancing the remaining dwellings. The NSW Government has also indicated that it will consider alternative 'in kind' contributions for specific affordable housing projects to offset any cash offsets by the NSW Government.

Other barriers to growth have been identified and are being addressed through the housing initiatives described elsewhere in this Submission.

The Committee may also wish to examine relevant research. For example, research undertaken by Professor Mike Berry<sup>1</sup> reports the rate of return required by institutional investors to invest in affordable housing is high, due to risks associated with:

- movements in financial conditions (interest rates, inflation, etc.);
- dwelling management and operating costs;
- the market value of dwellings; and
- government policies that impinge on investment outcomes in the sector.

Other barriers that constrain investment are:

- the relative illiquidity of housing (and all property) as an investment;
- poor market information on the past performance of housing investment; and
- absence of a track record for investments of this type.

The Committee may also wish to consider the findings of the Final Report of the AHURI National Research Venture 3 - Housing affordability for lower-income Australians<sup>2</sup>, by Prof Judith Yates and Prof Vivienne Milligan.

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<sup>1</sup> Mike Berry (2002), "Expanding the supply of affordable housing in Australia", AHURI Research and Policy Bulletin 13, p 3-4

<sup>2</sup> Judith Yates and Vivienne Milligan (2007) "Housing affordability: a 21st century problem" National Research Venture 3: Housing affordability for lower income Australians, AHURI Final Report 105.

### **Term of Reference 1(e) - Strategies to avoid concentrations of disadvantage and grow cohesive communities**

As noted above, the social housing component of the Nation Building Economic Stimulus Plan, which will provide an additional \$6.4 billion for social housing over the next two years, is contingent on jurisdictions implementing a number of reforms in the social housing sector. These reforms also include:

- better social and economic participation for social housing tenants by locating housing close to transport, services and employment opportunities;
- reducing concentrations of disadvantage through appropriate redevelopment to create mixed communities that improve social inclusion;
- implementing support arrangements to assist social housing tenants to transition from social housing arrangements to affordable private rental and home ownership as their circumstances change;
- introducing contestability in allocation of funds to encourage a range of new providers and create diversification in the not-for-profit sector to enhance the ability of providers to offer housing options to a broader range of client types; and
- improved tenancy management and maintenance benchmarks for social housing.

In expending the \$6.4 billion of funding for social housing provided as part of the Nation Building Economic Stimulus Plan (NBESP), the Commonwealth Government has made it clear to the States and Territories that they will be required to implement flexible procurement arrangements. These include purchase for social housing of a portion of units in new private sector developments.

Using NBESP money to purchase only a portion of units in multi-unit developments not only ensures a mix of residents in these developments, but also multiplies the economic stimulus benefit of the Government funding provided. Prior to the NBESP announcement, industry sources had indicated that a number of multi-unit developments that had received planning approval were being held up by an inadequate number of pre-sales. By agreeing to purchase a portion of the units in these developments for social housing, Governments were sometimes able to generate a much larger number of dwelling commencements.

Details associated with the implementation of these reforms are still being negotiated with the States and Territories.

The breaking down of areas of concentrated disadvantage is also a focus of the Commonwealth Government's social inclusion agenda.

Research literature highlights the adverse impacts of poverty concentration which is often linked to a concentration of public housing properties. Housing assistance programs may also influence non-shelter outcomes including physical and mental health status, education, labour market outcomes, crime, community participation and social cohesion, income/wealth distribution, poverty outcomes and locational advantage.<sup>3</sup>

The Committee may also wish to refer to the Joseph Rowntree Foundation Report, *Social cohesion in diverse communities*<sup>4</sup> which provides some suggestions for addressing disadvantage associated with concentrations of low income people.

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<sup>3</sup> Bridge, C., et al (2003), "Housing Assistance and Non-Shelter Outcomes", AHURI Final Report 74

<sup>4</sup> Maria Hudson, Joan Phillips, Kathryn Ray and Helen Barnes (2007) Joseph Rowntree Foundation