



Independent Pricing and Regulatory Tribunal

# **Review of rent models for social and affordable housing**

**Other — Issues Paper**  
November 2016





Independent Pricing and Regulatory Tribunal

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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Ms Catherine Jones

Mr Ed Willett

Inquiries regarding this document should be directed to a staff member:

Jennifer Vincent      (02) 9290 8418

Heather Dear      (02) 9290 8481

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box K35, Haymarket Post Shop NSW 1240

Level 15, 2-24 Rawson Place, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### **Submissions are due by 16 December 2016.**

We would prefer to receive them electronically via our online submission form <<https://www.ipart.nsw.gov.au/Home/Contact-Us/Make-a-Submission>>.

You can also send comments by mail to:

**Review of Rent Models for Social and Affordable Housing**  
Independent Pricing and Regulatory Tribunal  
PO Box K35,  
Haymarket Post Shop NSW 1240

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If you would like further information on making a submission, IPART's submission policy is available on our website.



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# 1 | Introduction

The Independent Pricing and Regulatory Tribunal (IPART) is conducting a review of rent models for social and affordable housing in NSW. This review is one element of the NSW Government's 10-year strategy for social housing, *Future Directions for Social Housing in NSW ('Future Directions')*, released in January 2016.

This paper explains the context and purpose of the review, outlines how we propose to conduct it, and discusses the issues on which we seek stakeholder comments.

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## **Box 1.1    What are social and affordable housing?**

Social housing is rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market. It includes:

- ▼ public housing, which is owned and managed by the NSW Government
- ▼ community housing, which is owned and/or managed by community housing providers, and
- ▼ Aboriginal housing, which is owned by the Aboriginal Housing Office and managed by the Government or owned and/or managed by Aboriginal community housing providers.

Affordable housing is rental housing delivered using some form of government intervention (eg, funding/subsidies, policy or legislation) to supply housing that is affordable for and targeted to households on very low to moderate incomes.

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## **1.1    Why are we conducting our review?**

Housing that is safe, secure and appropriate is a fundamental human requirement. Social housing and other forms of housing assistance exist to help those who cannot access suitable accommodation without support.

*Future Directions* envisions social housing that:

- ▼ continues to provide long-term support for people who need it (identified as the “safety net group”)
- ▼ offers opportunities to transition to housing independence for people who can (identified as the “opportunity group”)
- ▼ exists within a system of housing assistance that provides alternatives to social housing where this is more appropriate.

*Future Directions* considers the system of housing assistance needs to be flexible to meet these multiple objectives, so that people with different needs receive different types of assistance, and people whose needs change over time receive different levels of assistance over time. Current eligibility criteria and rental models for social housing are based on a ‘one size fits all’ approach which does not deliver this flexibility.

Our review is an action under the “opportunities to build housing independence” strategic priority, so it is clearly focused on the opportunity group. However, our terms of reference require us to look more broadly at the housing assistance system and the ways in which eligibility criteria and rental models may be used to deliver assistance more flexibly on the basis of need, efficiency and equity.

## **1.2 What have we been asked to do?**

We have been asked to recommend an appropriate rent setting framework for social and affordable housing that improves incentives for workforce participation. We have also been asked to consider the eligibility criteria for this housing and other subsidised housing assistance, including the policies for prioritising those who meet the criteria.

### **1.2.1 What is a rent setting framework?**

A rent setting framework means the method or methods by which rents are calculated, and any related rules or policies. This includes:

- ▼ Whether rents are calculated based on characteristics of a household (such as income, household size or household composition) or based on characteristics of the dwelling being occupied (such as location, size, quality or cost), or both.
- ▼ If rents are calculated by reference to cost, which costs are included (net cost of construction, maintenance, and/or replacement of the dwelling, and/or cost of tenancy management, and/or cost of non-housing services supplied).

- ▼ How the subsidy element of providing social and affordable housing is treated in rent calculations. For example, a supply subsidy may flow through to rent as lower costs. A direct subsidy to a tenant may be provided on the basis of welfare entitlement and taken into account when rent is calculated. An implicit subsidy may be provided to a tenant as the residual between market rent and rent charged.
- ▼ Whether rents are calculated in the same way for all tenants or different ways for tenants with different characteristics.

### 1.2.2 What are eligibility criteria?

Eligibility criteria are used to ration a scarce resource. They determine which households receive and retain social and affordable housing. Stricter eligibility criteria may result in fewer households on the wait list and shorter waits for housing. However, very narrow criteria might mean that some households in need are ineligible for social and affordable housing. Key eligibility criteria for social housing and affordable housing are income, NSW residency and age.

Considering eligibility criteria includes:

- ▼ The factors in addition to income, NSW residency and age which are taken into account.
- ▼ The method of assessing income, and the level of the maximum income able to be earned, to be eligible for assistance, including whether and how:
  - income from some sources might be excluded from assessment or discounted
  - maximum income eligibility levels for allocation and for the retention of tenancy differ.
- ▼ How levels of priority are determined.
- ▼ How eligibility criteria differ for different types of housing assistance.

### 1.2.3 What must we consider in making our recommendations?

Our terms of reference for this review require our recommendations to be consistent with achieving the goals of *Future Directions*, which are:

- ▼ more social housing
- ▼ opportunities, support and incentives to leave social housing, and
- ▼ a better customer experience of social housing.

In addition, our recommendations should help to ensure the housing assistance system is affordable and easy to understand for clients, and allocations of assistance are needs-based, efficient and equitable.

In making our recommendations, we must consider a range of matters, including:

- ▼ the costs and benefits of existing rent setting models in Australia and other countries
- ▼ rent models that balance the need for rents to be affordable to tenants with the need to encourage people in social housing to take up opportunities for education, employment and higher personal incomes
- ▼ the potential impact of any recommended changes to the eligibility criteria on future demand for housing assistance, and
- ▼ the total cost of running the social housing system and the impact of rent models on the financial sustainability of the system.

### 1.3 How will we conduct the review?

The provision of social and affordable housing involves complex interactions between the different levels of government, the not-for-profit sector, and the private sector. Tax, welfare and economic policy settings all affect the supply of and demand for this housing. For this reason – and the importance of housing in the lives of Australians – it is a widely studied area.

Much work has already been done on the issues related to rent models for social and affordable housing in recent years. We propose to build on this work. We will also conduct extensive public consultation and our own analysis.

We have begun our consultation process by holding preliminary discussions with some stakeholders. This Issues Paper is the next step in this process. We invite all interested parties to make written submissions in response to the paper by 16 December 2016. Information on how to make a submission can be found on page iii at the front of the paper.

We will continue to consult with stakeholders about their views and experience with rent setting frameworks and eligibility throughout the review. We propose to:

- ▼ Meet with relevant stakeholders to gather data and information to inform our review. The social housing and affordable housing sector has well-informed and engaged stakeholders, many of whom have been active participants in the process that developed the *Future Directions* strategy. We intend to continue this level of engagement and build on the work that has already been done.
- ▼ Release a Draft Report that explains our draft recommendations and invite public submissions on these recommendations.
- ▼ Hold formal public hearings/roundtables to provide stakeholders with further opportunities to comment on our draft recommendations.

- ▼ Consider stakeholder feedback on our draft recommendations and undertake further analysis before forming our final recommendations and providing a Final Report to the Minister for Social Housing.

Table 1.1 provides an indicative timetable for the review. We will update this timetable on our website as the review progresses.

**Table 1.1 Indicative timetable for review**

Milestone	Indicative date
Release Issues Paper	7 November 2016
Submissions due on Issues Paper	16 December 2016
Release Draft Report	March 2017
Hold public hearings/roundtables	March-April 2017
Submissions due on Draft Report	end April 2017
Final report to Minister	June 2017

#### 1.4 What approach will we use to reach our recommendations?

Our proposed approach for reaching our recommendations for this review includes the following broad steps:

- 1. Consider the people who require some form of housing assistance, to identify whether their needs are that of the safety-net group or the opportunity group, or a subset of either of those groups.** Our task in this review involves developing options that are flexible enough to deal with the different needs of different groups. Our first step is therefore to consider how these groups might be identified in a way that allows options to be appropriately targeted.
- 2. Consider the main issues with the current social and affordable housing system, based on a review of local and international research and reviews.** Our preliminary view is the issues relevant to our review of the eligibility criteria and rent setting framework are already well-researched and agreed upon. As noted above, we propose to build on this previous work.
- 3. Develop a set of criteria for assessing the options for change to the eligibility criteria and the rent setting framework.** The assessment criteria will reflect the matters we are required to consider under our terms of reference for this review, as well as the objectives of *Future Directions*.
- 4. Identify the options for change to the eligibility criteria and the rent setting framework.** In particular, we will aim to identify different approaches that may be appropriate for the safety net group and the opportunity group.

5. **Conduct further analysis of the options for change, including modelling of impacts on different stakeholders.** We propose to develop a model to estimate, where reliable data is available, each option's costs and benefits, as well as its impacts on supply and demand for social and affordable housing, the financial sustainability of this housing, and affordability for different tenant groups.
6. **Assess each option against the set of criteria,** without applying specific weights to the criteria.
7. **Recommend our preferred options.** It is unlikely that one set of eligibility criteria or one rent setting framework will best meet all of the assessment criteria. We will make an overall judgement on our preferred options having considered how each option meets the criteria.

### 1.5 How is this paper structured?

The rest of this paper provides further contextual information on the review and the issues with the current system, as well as our preliminary thinking on the assessment criteria and the options for change to the eligibility criteria and rent setting framework. It also sets out the questions on which we particularly seek stakeholder comment. It is structured as follows:

- ▼ Chapter 2 outlines the current social and affordable housing system in NSW, including the current eligibility criteria and rent models.
- ▼ Chapter 3 provides an overview of the issues with the current system related to the eligibility criteria and rent models.
- ▼ Chapter 4 discusses our proposed assessment criteria.
- ▼ Chapters 5 and 6 discuss our preliminary views on the options for change to the eligibility criteria and for the rent setting framework.
- ▼ Appendices A-D set out:
  - Terms of reference
  - Additional background on social housing
  - Additional background on affordable housing
  - Additional background on other housing assistance.

## 1.6 List of questions in this paper

As noted above, the questions on which we seek stakeholder comment are set out in the chapters that follow. Stakeholders may address all or some of these issues, and are also free to raise and discuss any other issues relevant to the terms of reference. For convenience, these questions are also listed below:

As a first step in the review we are seeking input on how tenant cohorts can be identified or defined to allow housing assistance to be appropriately targeted.

- 1 How should the safety net and opportunity tenant cohorts be defined? Are there additional cohorts or sub-cohorts with distinct characteristics and needs? 21

Chapter 3 outlines a number of well researched issues with the current system related to the eligibility criteria and rent models such as potential work disincentives, inequities in the system, the imbalance in the demand and supply for social and affordable housing, the gap between social and affordable housing and the private rental market, and the financial sustainability of the system.

- 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? 32

To reach our recommendations on a rent-setting framework for social and affordable housing and the eligibility criteria for this and other subsidised housing assistance, we have developed a set of criteria for assessing each of the identified options.

- 3 Do you agree with our proposed assessment criteria for the review? 37
- 4 Are some criteria more important than others, and why? 37

We have identified some aspects of social housing eligibility criteria and prioritisation policies for further analysis to ensure that appropriate housing assistance is provided to those who need it most, and that the assistance provided is able to change over time with changes in tenants' circumstances. The questions below seek input on these issues.

- 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? 39
- 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? 39

- 7 Should people receiving housing assistance have their eligibility for assistance reviewed as their circumstances change? What criteria should be used? 42
- 8 What are appropriate transfer policy settings that take into account the principles of equity, and costs of transfers as well as the benefits? 42
- 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? 42
- 10 Is the order in which clients are currently housed appropriate? 43
- 11 Is the prioritisation policy the most efficient given the current supply/demand imbalance? 44
- 12 Are the current assistance measures sufficient or are there additional assistance programs that could be offered? How can the assistance measures be targeted appropriately? 44
- 13 Could the current suite of assistance measures be simplified? 45
- 14 Are there any other options for changes to eligibility, prioritisation and wait list policies that could be considered for this review? 45

One objective in designing a new rent setting framework is to increase its flexibility to respond to the characteristics of different tenant cohorts and changes in their circumstances over time. The questions below seek input on some of the ways flexibility may be increased.

- 15 Is a segmented rental framework appropriate for social housing? Could it also be applied to affordable housing? 47
- 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? 48
- 17 Should social housing properties be able to transition to affordable housing? 49

We have identified eight rental models for consideration, where rent could be based on the characteristics of the tenant's household, the property, or a combination of both. We seek input on these options, as well as various changes that could be made to the current income-based model, if it is retained.

- 18 Which specific rent model options do you prefer and why? Does a specific option work for all types of tenant or only a specific cohort? How do the different options contribute to the financial sustainability of the system? What



further work is required on elements of the rent calculation, including subsidies, for each option?	49
19 Do you think any of the rent model options are not worth assessing, and why?	49
20 If an income-based rent model is retained, should the percentage of household income used to calculate social housing rent be changed?	51
21 If an income-based rent model is retained, should payments such as Family Tax Benefits Part A and B be assessed at the same rate as income from other sources?	51
22 If an income-based rent model is retained, should currently exempt income supplements be included in assessable household income?	51
23 If an income-based rent model is retained, should income from work be assessed on an after-tax basis?	51
24 If an income-based rent model is retained, what other possible improvements to the current rental model should we assess?	52
As part of our review we will consider measures that could be used to make the collection of rent more efficient.	
25 What are your views on automatic deduction of rent? Are there other options to make rent collection more efficient?	57

## 2 Context for the review

To provide the context for this review, the sections below give an overview of the current social and affordable housing systems and other housing assistance in NSW, including the current eligibility criteria and rent models.

### 2.1 Current social housing system in NSW

In 2014-15, around 140,500 NSW households lived in social housing. The majority of these households (around 77%) lived in public housing (Table 2.1).

**Table 2.1 NSW households living in social housing**

Housing type	2012-13		2013-14		2014-15	
	Number households	% of total households	Number households	% of total households	Number households	% of total households
Public	110,059	78.3	109,371	78.4	108,732	77.4
Community	25,973	18.5	25,624	18.4	27,249	19.4
Aboriginal	4,469	3.2	4,528	3.2	4,551	3.2
Total	140,501		139,523		140,532	

Source: FACS 2014-15 Annual Report, p 31 and IPART calculations.

#### 2.1.1 Eligibility and prioritisation in social housing

To be eligible for social housing, an applicant's assessable household income must be below a specified threshold.<sup>1</sup> The level of this threshold means that generally, only applicants who rely on some form of government income support are eligible. If an applicant owns or has a share in a property that could be a viable alternative to social housing, they are not eligible for social housing if they could live in the property or sell their equity in the property. There are no other asset limits, although savings and financial assets above \$5,000 are assessed as contributing to income, based on the Commonwealth deeming rate.

<sup>1</sup> Applicants must also meet some general eligibility criteria, such as Australian and NSW residency, age requirements and not own a dwelling in which they could reasonably live.

Applications for one or more type of social housing (public, community and Aboriginal housing owned by the Aboriginal Housing Office<sup>2</sup> (AHO)) are made through a single system, *Housing Pathways*.<sup>3</sup> Applicants may nominate a preferred area or town in an 'allocation zone'. Offers may be made in any of the suburbs in the allocation zone. Standard bedroom entitlements also apply depending on the household type and size.

Once an applicant is accepted as eligible for social housing, they are placed on the NSW Housing Register. The Department of Family and Community Services (FACS) maintains the Register (wait list) for public and community housing. This wait list is segmented into 'priority' and 'general' categories, which determines the order of housing allocation. The general category is for anyone who is eligible for social housing, while the priority category applies to people who are at risk of homelessness or domestic violence, or have complex needs and are unable to house themselves.

Aboriginal applicants on the NSW Housing Register can also ask to be listed for an Aboriginal Housing Office property. To be eligible, their Aboriginality needs to be confirmed. Vacant AHO properties managed by FACS will be allocated to applicants who are listed for an AHO property. Aboriginal Community Housing Providers (ACHPs) administer their own wait lists and they can also allocate housing to Aboriginal applicants on the NSW Housing Register.

Community Housing Providers (CHPs) are able to develop their own policies in relation to allocation, although most use the Housing Register policies and priorities. These policies are overseen by the Registrar of Community Housing NSW<sup>4</sup> and reflect local housing needs and priorities, social sustainability, organisational target groups and viability (eg, a CHP may focus on housing women escaping domestic violence, particular ethnic groups, or aged or youth clients).<sup>5</sup> ACHPs also fall into this category and this is also overseen by the Registrar of Community Housing under the AHO's Provider Assessment and Registration System.

<sup>2</sup> The AHO (a division of FACS) is a statutory body established in 1998. It owns around 4,600 properties managed either by FACS or ACHPs.

<sup>3</sup> Currently the majority of Aboriginal Community Housing Providers do not access *Housing Pathways*.

<sup>4</sup> The Registrar of Community Housing is responsible for regulating CHPs in NSW under the [National Regulatory System for Community Housing](#) (NRSCH). The Registrar is an independent statutory officer reporting directly to the Minister for Family and Community Services. The Registrar is also commissioned by the AHO to undertake and report on performance assessments of ACHPs.

<sup>5</sup> Community Housing Federation of Australia, *Allocation, eligibility and rent setting in the Australian community housing sector*, 2014, p 16.

### 2.1.2 Waiting time for housing allocation

The waiting time for housing allocation varies greatly, depending on the applicant's nominated allocation zone, and whether they are in the priority or general category. In some popular locations, the waiting time for social housing for applicants in the general category can be more than 10 years.<sup>6</sup>

An applicant in the general category may be allocated a social housing tenancy ahead of people in the priority category if the vacant property available is not suitable for anyone on the priority list (due to its size, accessibility or location). People with an urgent housing need who are homeless may be housed in emergency accommodation (eg, a shelter) or temporary accommodation (eg, a motel) while awaiting an alternative housing solution.

FACS reported that during 2015-16 the median wait time for general applicants on the wait list was 26.1 months and 2.7 months for priority applicants.<sup>7</sup> FACS also reported that:

- ▼ during 2015-16, 8,942 applicants were housed (4,064 were in the priority category and 4,878 in the general category), and
- ▼ as at 30 June 2015, 59,035 applicants were on the wait list (3,688 in the priority category and 55,347 in the general category).<sup>8</sup>

### 2.1.3 Applicant and tenant demographics

There have been substantial changes in applicant and tenant profiles since the inception of the social housing system in the 1950s. Historically, social housing was focused on providing affordable housing to working families. In recent years, it has been more tightly targeted at people on low incomes with complex needs. As at June 2015, more than 90% of social housing tenants on subsidised rent reported a Centrelink benefit as their main source of income (Table 2.2).

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<sup>6</sup> Expected Waiting Times for Social Housing June 2015 – Overview, [http://www.housingpathways.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/332274/2015-EWT-Overview-table.pdf](http://www.housingpathways.nsw.gov.au/__data/assets/pdf_file/0003/332274/2015-EWT-Overview-table.pdf) accessed on 19 September 2016.

<sup>7</sup> Internal FACS data.

<sup>8</sup> Internal FACS data.

**Table 2.2 Main source of income of head tenant in subsidised social housing 30 June 2015**

	Public housing	Aboriginal housing	Community housing
<b>% Centrelink benefits (%)</b>	93.4	91.1	89.0
-Age pension (%)	29.8	8.2	NA
-Disability pension (%)	36.7	27.6	NA
-Newstart allowance (%)	11.5	21.8	NA
-Parenting payment (%)	5.5	21.2	NA
-Carer payment (%)	5.8	8.2	NA
-Other CentreLink or Veterans Affairs payment (%)	4.2	4.0	NA
<b>Wages (%)</b>	5.2	7.2	9.0
<b>Other (%)</b>	1.4	1.7	3.0
<b>Total subsidised tenancies</b>	99,974	3,246	24,551

Note: NA – not available.

Source: Internal FACS data

*Future Directions* identifies two broad groups of social housing residents: the opportunity group and the safety net group.<sup>9</sup> The opportunity group are people who can be helped to become more independent so they no longer require social housing. The safety net group are those who, for reasons such as age or disability, will require housing support for an extended period of time.

#### 2.1.4 Rent models in social housing

In NSW, the approach used to set rents for social housing differs between public housing, community housing and Aboriginal housing. However, as in other Australian jurisdictions, most social housing tenants pay a proportion of their household income in rent.

##### Public housing rents

Public housing rents are nominally set at market rates. But if a tenant's household income is below a threshold amount, they are eligible for 'subsidised rent'. Their rent payable is calculated as a proportion of their assessable household income or the market rent, whichever is lower. In most cases, this proportion is 25%. However, as a tenant's assessable income approaches the threshold the proportion ranges from 25% to 30% (on a sliding scale).<sup>10</sup> The difference between the rent payable by the tenant and the nominal market rent is

<sup>9</sup> NSW Government, *Future Directions for Social Housing in NSW*, p 7.

<sup>10</sup> Some components of assessable income are assessed at concessional rates (eg, Family Tax Benefit Parts A and B are assessed at 15%) and most pension supplements are exempt from assessable income.

the implicit rental subsidy (or rent foregone) by the Land and Housing Corporation (LAHC).<sup>11</sup>

As at 30 June 2015, around 92% of public housing tenants paid subsidised rent (Table 2.3). The remainder paid market rent, either because the market rent in their location was lower than the calculated income-based rent or because their income exceeded the threshold for subsidisation (or they did not declare their income to FACS).<sup>12</sup>

**Table 2.3 Social housing households on subsidised rent as at 30 June 2015**

	Households on subsidised rent	As percentage of total households (%)
Public housing	99,974	92
Aboriginal housing	3,246	71
Community housing	24,551	90
Total subsidised tenancies	127,771	91

Source: Internal FACS data

### Community housing rents

Like public housing, community housing rents are nominally set at market rates, but if a tenant's household income is below a threshold amount, they are eligible for subsidised rent. However, in this case the subsidised portion of the rent is partly funded by the Commonwealth Government. Community housing tenants are eligible for Commonwealth Rent Assistance (CRA), an income supplement payable to Commonwealth benefit recipients who are not public housing tenants and whose rent is more than a threshold amount.

The rent policies under which CHPs operate require that rents are set to maximise the tenant's entitlement to CRA.<sup>13</sup> The rent payable is usually calculated as 25% of tenant's assessable household income plus 100% of the household's entitlement to CRA. The total tenant rent including CRA is capped at market rent.<sup>14</sup>

<sup>11</sup> LAHC is a Public Trading Enterprise operating under the portfolio and direction of the Minister for Family and Community Services and Minister for Social Housing. LAHC owns and asset-manages about 130,000 social housing properties. Where FACS is the tenancy manager for the properties, LAHC receives the rental income; where a CHP is the tenancy manager, the CHP receives the rent.

<sup>12</sup> All new entrants to social housing have incomes below the threshold for subsidisation. However, some existing tenants may have incomes above the threshold because their circumstances have changed. Public housing tenants housed before July 2005 have continuous leases, meaning these tenants can remain in public housing even if their income increases above the threshold, but they must pay market rent. Many community housing tenants also have continuous leases.

<sup>13</sup> FACS, *NSW Community Housing Rent Policy*, July 2014, p 7.

<sup>14</sup> *Ibid*, p 7. CRA is paid at the rate of 75 cents for every dollar above a minimum rent threshold, up to a maximum CRA payment. The rent thresholds and maximum CRA payment differ for different household types.

CHPs have reported that on average they access around \$3,000 per tenant per year in CRA.<sup>15</sup>

### Aboriginal housing rents

For properties owned by the AHO and managed by FACS, rent is set as described above for community housing.

Aboriginal housing rents for properties managed by the ACHP sector on behalf of the AHO (13%) or some properties owned by the ACHP sector are based on the *Build and Grow Rent Policy*.<sup>16</sup> Tenants pay property (market) rent or household rent, whichever is lower. The household rent is based on household composition (eg, one adult, three children, or a couple, no children) rather than income. Aboriginal housing tenants are also eligible for CRA, but some do not qualify due to low market rents in regional and remote areas where a substantial proportion of Aboriginal housing is located.

For some other ACHP owned properties rent may be based on cost recovery.

### Comparison of NSW social housing rent models to other states and territories

All jurisdictions in Australia have similar social housing rent models, whereby the rent payable by the tenant is calculated as a proportion of the household's assessable income (usually 25%). The main differences between the jurisdictions relate to how some income components are assessed. For example, the energy supplement, large family supplement, pharmaceutical allowance and carer's allowance are excluded from assessable income in all jurisdictions except Queensland and Western Australia. Likewise, Family Tax Benefits Part A and B are assessed at concessional rates of 10% to 15% in all jurisdictions except Queensland and Western Australia.

#### 2.1.5 Residential tenancy agreements in social housing

Social housing tenants have a residential tenancy agreement ('lease') with their housing provider under the *Residential Tenancies Act 2010*. Rights and obligations of both tenants and landlords are covered by this Act.

<sup>15</sup> NSW Federation of Housing Associations, *Submission to Social Housing in NSW: a discussion paper for input and comment*, February 2015, p 2. CRA is technically an income supplement rather than tied housing assistance, but it is assessed for rent at 100% by community housing providers so it functions as an explicit direct subsidy.

<sup>16</sup> The *Build and Grow Rent Policy* aims to ensure consistency in NSW across the Aboriginal community housing sector and to maximum capture of CRA to create sustainability for ACHPs registered with the AHO.

### Residential tenancy agreement terms

Tenancy agreements for **new public housing tenants** have fixed terms, usually of two, five or 10 years, of which the first year is probationary.<sup>17</sup> There are also 6-month leases which are used for a number of purposes including Recognition as a Tenant (RAAT), clients with unsatisfactory tenancy histories or where there are concerns about the capacity to sustain a tenancy. These terms also apply to AHO properties.<sup>18</sup> However, prior to 1 July 2005, continuous leases with no end-date applied for all public housing leases. As grandfathering provisions apply for tenants housed prior to July 2005, the proportion of tenants on continuous leases remains relatively high at 57% of all public housing tenants.<sup>19</sup>

Under a fixed term lease, the tenant's ongoing eligibility for public housing is reviewed prior to the end of the lease. The income threshold for ongoing eligibility is around 60% higher than that for entry into public housing. If the tenant's income exceeds this threshold, they could still be exempt from a lease termination if they meet certain criteria.<sup>20</sup> FACS has advised that in practice more than 98% of leases reviewed are renewed due either to continuing income eligibility or to circumstances warranting continuing support (eg, medical/social support, or local affordability issues relating to place of employment needs).<sup>21</sup>

Under a continuous lease, a tenant's ongoing eligibility for public housing is not reviewed. However, if their income exceeds the eligibility threshold (or they do not declare their income), they are charged market rent.

Most **community housing** is provided as continuous tenure,<sup>22</sup> except where a program specifies maximum lease terms or eligibility criteria for ongoing occupancy.<sup>23</sup> CHPs are required to review household income at least every six months to determine ongoing eligibility for subsidised rent.

### Tenant transfers

Unlike most private rental providers, social housing providers generally manage a portfolio of dwellings. Tenants may request a transfer for reasons such as changing requirements for access to medical facilities.

<sup>17</sup> <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/types-and-length-of-lease-policy>

<sup>18</sup> ACHPs have ongoing leases for their properties. AHO properties managed by FACS Housing follow the same policy settings as FACS Housing tenants with the exception of succession of tenancy.

<sup>19</sup> Internal FACS data.

<sup>20</sup> Eg, households with vulnerable children and young people at risk of abuse or neglect if required to move from social housing. <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/types-and-length-of-lease-policy#exemptions>, accessed 19 September 2016.

<sup>21</sup> Internal FACS data.

<sup>22</sup> FACS, *NSW Community Housing Access Policy*, June 2016, p 7.

<sup>23</sup> <http://www.sgch.com.au/wp-content/uploads/2015/09/End-of-Tenancy.pdf>, accessed 19 September 2016.



FACS and CHPs also have policies regarding their use of management-initiated transfers (including for AHO properties). For example, they may have asset management objectives for a dwelling, including selling, renovating or replacing the dwelling, or they may have tenancy management objectives, including allocating the dwelling to another household with needs that are a better match for the dwelling's characteristics (eg, a person without a disability occupying a house modified for persons with disability).<sup>24</sup>

## 2.2 Current affordable housing system in NSW

Affordable housing is rental housing that is delivered using some form of government intervention (eg, funding, subsidies, policy or legislation) to increase the supply of rental housing that is affordable for and targeted to households on very low to moderate incomes.<sup>25</sup>

In NSW, affordable housing has been funded by a mix of sources:<sup>26</sup>

- ▼ government grants or land contributions (eg, the Commonwealth National Rental Affordability Scheme (NRAS), NSW Affordable Housing Innovations Fund, and Social Housing Growth Fund)
- ▼ planning incentives
- ▼ CHP equity contributions and finance secured against assets owned by CHPs, and
- ▼ philanthropic sources.

It has also been delivered by a range of entities, including private developers or investors, local governments, charitable organisations and CHPs, or through partnerships between two or more of these entities. In addition, it is regulated and monitored by different bodies, generally linked to the specific mechanism through which it is delivered.<sup>27</sup>

Due to this diversity in funding sources, ownership and regulation, the approach to eligibility and rent setting for affordable housing varies across the state. However, the NSW Government has developed the *NSW Affordable Housing Ministerial Guidelines* (Guidelines) to inform the management of affordable housing and to support housing supply in NSW. The Guidelines cover registered CHPs with designated affordable housing properties acquired with

<sup>24</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#relocation1>, accessed 19 September 2016.

<sup>25</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, pp 10, 47.

<sup>26</sup> <http://www.housing.nsw.gov.au/centre-for-affordable-housing/about-affordable-housing>, accessed 18 August 2016.

<sup>27</sup> For example, properties delivered under the ARHSEPP are the responsibility of the NSW Department of Planning and Environment, and the National Rental Affordability Scheme and its participants are monitored by the Commonwealth Department of Social Services.

assistance from State or Commonwealth programs, but are also recommended for use by other affordable housing providers as best practice for consistency in managing affordable housing in NSW.<sup>28</sup>

We have used the Guidelines as a starting point in the sections below to outline the eligibility criteria, rent setting and other contextual matters applicable to affordable housing in NSW.

### 2.2.1 Eligibility and prioritisation policies

Compared to social housing, affordable housing is open to households earning higher levels of income. In addition, as there is no provision for recurrent subsidies, CHPs are required to set rents to generate sufficient income to meet their finance and other operating costs while balancing the needs of households in housing stress.<sup>29</sup>

CHPs and other housing managers do not use the social housing wait list to allocate affordable housing properties. Although the Guidelines require them to consider the needs of priority applicants, they may also consider other objectives such as achieving financial viability, a mix of income bands and household sizes, matching supply to need, applicants' connection to the local area and local conditions such as labour supply. Some CHPs also target a specific population group for a housing development, such as aged households.<sup>30</sup>

The allocation process is similar to the private rental market. Vacancies are advertised and applicants apply directly to housing managers in the location of their choice. Applicants are assessed for eligibility and offers made if a vacancy exists. Not all managers keep a waiting list.

### 2.2.2 Rent models for affordable housing

Rents for affordable housing may be calculated differently from rents for social housing, and may be determined by how a property was originally funded and any requirements of the funding contract (eg, NRAS properties must offer at least a 20% discount to market rent).

For properties covered by the Guidelines, rents must be a discount to market rent taking into account the household income and capacity to pay.<sup>31</sup> Providers are free to use different approaches whether income-based rents, rents based on the average income level of a target group or a discount to local market rent.

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<sup>28</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 5.

<sup>29</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17 pp 1, 5 and 9.

<sup>30</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 8.

<sup>31</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 9.

Under the Guidelines, CHPs must set rents according to the following principles:<sup>32</sup>

- ▼ ensure households on very low and low incomes pay no more than 25% to 30% of gross income in rent
- ▼ maximise CRA and take advantage of the ATO's rulings on GST (consequently most CHPs charge 74.9% of market rent or below)<sup>33</sup>
- ▼ ensure financial viability of the affordable housing portfolio.

### 2.2.3 Lease agreements and tenancy reviews

The Guidelines state that affordable housing can be provided on a fixed term or continuous basis. Tenancies may be renewed or continued indefinitely provided the tenant remains eligible and regular eligibility reviews are held.<sup>34</sup>

To remain eligible, households must continue to meet all criteria except that existing tenants are permitted to earn up to 25% above the maximum eligibility income for 'moderate' income before becoming ineligible.<sup>35</sup>

## 2.3 Other subsidised housing assistance

FACS provides a range of additional products and services to help prevent people falling into homelessness, to provide support for people to stay in the private rental market, and/ or to help people transition from the social housing system to the private rental market. This assistance includes:

- ▼ private rental subsidies and products, eg, private rental brokerage, tenancy facilitation, tenancy guarantee, 'Rentstart' products, Youth Private Rental Subsidies and the 'Start Safely' program
- ▼ temporary accommodation, and
- ▼ supported and crisis accommodation.

Some private rental subsidies and products aim to help clients establish a successful tenancy record in the private rental market and/or provide private market renting assistance for at-risk clients waiting for a suitable social housing property to become available.

<sup>32</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, pp 9-10.

<sup>33</sup> The ATO rules that the non-commercial supply of accommodation by charities will not attract GST if the rent is less than 75% of market rent. The Guidelines note that in some localities, discounts of greater than 25% may be required to attract GST free status.

<sup>34</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 10.

<sup>35</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 11. This aligns with NRAS ongoing eligibility criteria for existing tenants.

As of 2012-13 around 30,000 households or 70,000 people received other social housing products or services (specifically, private rental assistance or temporary accommodation) in addition to the more than 140,000 households living in social housing.<sup>36</sup>

Appendix D provides more detail on the specific housing assistance programs currently operated by FACS.

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<sup>36</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 21. This is the latest data available.

## 3 People in and issues with the current system

As Chapter 1 noted, the first steps in our approach for making our recommendations on the eligibility criteria and rent setting framework are to consider the people who require housing assistance, and the main issues with the current social and affordable housing system. The sections below provide information on these steps, and outline our preliminary thinking.

### 3.1 Considering the people who need housing assistance

Our task in this review involves developing options that will improve the flexibility of the social and affordable housing system, so it can respond more effectively, efficiently and equitably to the different needs of the diverse people who require housing assistance. For example, we will need to consider if different eligibility and rental models for housing assistance should apply to different types of tenants.

*Future Directions for Social Housing in NSW*<sup>37</sup> identifies two broad cohorts of social housing tenants:

- ▼ A “safety net group” - people who require support for an extended period of time (for example, the elderly, people with a disability or severe and chronic mental illness, carers with long term caring responsibilities)
- ▼ An “opportunity group” - people who can be helped to become more independent so they no longer require social housing and government assistance (for example, families with children, young people and job seekers).

We propose to consider how these groups can be identified or defined in a way that allows housing assistance to be appropriately targeted. This could be based, for example, on the main source of income for the tenant, or it could also take into account the composition of the household (such as the presence of children or young adults), and whether the tenant or household members have additional needs.

IPART seeks comment on the following:

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

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<sup>37</sup> NSW Government, *Future Directions for Social Housing in NSW*, 2016, p 4.

We will also consider the specific circumstances and needs of Aboriginal and Torres Strait Islander people living in social housing, and how their needs and circumstances might best be addressed by our proposals regarding eligibility and the rent setting framework.

We will also consider any differences between the needs and circumstances of people living in urban areas from those in rural and regional areas.

### **3.2 Considering the issues with the current social and affordable housing system**

We also need to consider how the eligibility criteria and rental models can be used to help address the issues with the current social and affordable housing system raised in our terms of reference, including:

- ▼ incentives for workforce participation
- ▼ inequities in the system that mean that households in similar circumstances receive very different levels of housing assistance
- ▼ issues around the supply and demand for social and affordable housing
- ▼ the gap between social and affordable housing and the private rental market
- ▼ the financial sustainability of the system, and
- ▼ any changes to Commonwealth and State roles and responsibilities.

Some of these issues are well-researched and our review provides an opportunity to build on this work (see Box 3.1). The following sections outline how issues with the current system are relevant to our review, and how we will seek to address them in making our recommendations for the review.

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### **Box 3.1 Previous reviews of housing assistance**

Recent reviews and reform proposals that are relevant to our review include:

- ▼ *Australia's Future Tax System* (the 'Henry Review' - Final Report, 2010), which investigated housing assistance provided by the Commonwealth to individuals and States as part of its remit.
- ▼ *Making the best use of public housing* (NSW Auditor-General's Report – 2013), which identified a large and increasing shortfall between rental income and costs of providing public housing.
- ▼ *Towards Responsible Government* (National Commission of Audit Report – 2014), which recommended that the Commonwealth limit its involvement in housing to providing rent assistance payments.
- ▼ *A New System for Better Employment and Social Outcomes* (the 'McClure Review' – Final Report 2015), which made similar recommendations to the Henry Review in terms of making housing assistance more equitable and needs-based.
- ▼ *Housing Assistance and Employment in Australia* (Productivity Commission Research Paper – 2015) undertook an empirical study of housing assistance and its impact on employment.

Many other papers published by research groups such as the Australian Housing and Urban Research Institute (AHURI) and stakeholders such as the Federation of Housing Associations and National Shelter have also dealt with issues of rent affordability and work disincentives associated with income-based rent models.

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### **3.2.1 Incentives for workforce participation**

Our terms of reference require us to recommend an appropriate rent setting framework for social and affordable housing that improves incentives for workforce participation. As Table 2.2 noted, around 30% of current public housing tenants receive an aged pension. For this cohort any changes to the rental model to provide incentives to join the workforce are not applicable. For an even larger proportion, disability or chronic health problems may preclude working.

The cohorts for whom employment incentives are most relevant include tenants on Newstart benefits, as well as young adults living in public housing, many of who are living with their families rather than being primary tenants.

We note that many previous studies have argued that housing assistance, in particular rent models based on income, is a disincentive to employment.<sup>38</sup> As rent increases with income, tenants can be discouraged from entering the workforce or increasing their amount of work. Households in social housing that are not in employment can face very high effective marginal tax rates (EMTRs) on any earnings. However, the main cause of these high EMTRs is the withdrawal of various benefits as income increases, while also having to pay more tax.<sup>39</sup> Eligibility for housing assistance based on income thresholds can also act as a disincentive, if applicants are unwilling to take up employment that may make them ineligible for social housing.

However, a recent report by the Productivity Commission found that receipt of housing assistance plays a very small role in public housing tenants' relatively low employment rates. The report found that it is the characteristics of individuals, and not the characteristics of the housing assistance that they receive, that matter to participation in employment.<sup>40</sup> National Shelter drew a similar conclusion that much of the higher unemployment rate may be explained by the tenant profile of social housing in general, which has changed substantially over the past several decades reflecting the rationed allocation to high needs applicants.<sup>41</sup>

Rather than being a disincentive to work, the Productivity Commission found that employment rates tended to increase following a move into public housing, suggesting that housing stability had a positive effect on employment. The report also found that employment rates among successful applicants for public housing in both South Australia and Western Australia increased while they were on the waiting list.<sup>42</sup> The security of tenure that social housing offers can also have a positive effect on workforce participation.

As an initiative to help overcome potential work disincentive associated with the current income-based rent model, the NSW Government has recently introduced

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<sup>38</sup> For example, Industry Commission, *Public Housing, Volume 1*, 1993; Report of the Reference Group on Welfare Reform to the Minister for Social Services, *A New System for Better Employment and Social Outcomes*, 2015 p 59; Hulse K. and Randolph B., *Work disincentives and housing assistance*, AHURI Final Report No. 67, 2004; and Dockery et al, *Housing assistance and economic participation*, AHURI Final Research Paper, July 2008.

<sup>39</sup> Productivity Commission, *Housing Assistance and Employment in Australia*, Research Paper, Volume 1: Chapters, April 2015, pp 51-52.

<sup>40</sup> Productivity Commission, *Housing Assistance and Employment in Australia*, Research Paper, Volume 1: Chapters, April 2015, p. 49.

<sup>41</sup> National Shelter, *Response to the Interim Report of the Reference Group on Welfare Reform to the Minister for Social Services*, 2014, pp 7-8.

<sup>42</sup> Productivity Commission, *Housing Assistance and Employment in Australia*, Research Paper, Volume 1: Chapters, April 2015, p. 51.



a Start Work Bonus, available on application to FACS. Under the Start Work Bonus, extra income from starting a new job will not be included for up to 26 weeks in the calculation of rent.<sup>43</sup>

However, for the cohort that may have the potential to participate in the workforce, there may be other non-rent barriers to employment. AHURI's survey of 400 public and private renters actively seeking work found that many faced significant barriers to employment such as discrimination by employers, the location of current residence relative to jobs, lack of skills, education and poor health status.<sup>44</sup>

A segmented rent setting model that allows variation to respond to the characteristics of different social housing tenant cohorts may be one way to target these incentives appropriately. There may also be benefits in terms of flexibility, choice and rental revenue. However, there might be costs in terms of administrative complexity and assessing eligibility for different rent models. The options for segmented rent models are discussed further in Chapter 6.

### 3.2.2 Inequities in the current system

The way housing is currently subsidised by the State and Commonwealth Governments can lead to inequities between households. Households in similar circumstances may receive very different levels of assistance. Critically, those in worse circumstances are sometimes receiving less assistance than others in better circumstances.

For example, there is a significant difference between the level of subsidy received by social housing tenants and private tenants who receive Commonwealth Rent Assistance (CRA). The Henry Review found that public housing rents set as proportion of incomes resulted in support averaging around \$220 per fortnight, while the average assistance per fortnight for private tenants receiving CRA was around \$90.<sup>45</sup> This is an average difference in subsidy between the two tenure types per household of \$3,380 per annum. Similarly, a study by the Queensland Government found that in 2012 the average annual subsidy to public housing tenants was \$7,252 compared to the average CRA subsidy of just under \$3,000 per annum.<sup>46</sup>

<sup>43</sup> <http://www.housing.nsw.gov.au/living-in-public-housing/rent-and-other-charges/start-work-bonus>, accessed on 28 September 2016.

<sup>44</sup> Hulse K. and Randolph B., *Work disincentives and housing assistance*, AHURI Final Report No. 67, 2004, p ii.

<sup>45</sup> Australian Government, *Australia's future tax system, Report to the Treasurer*, December 2009; Part 2 - Consolidated Report, Vol. 2, p 604.

<sup>46</sup> Queensland Department of Housing and Public Works, *Social Housing - Factors affecting sustainable delivery in Queensland*, July 2013, p 5.

In addition, public tenants effectively have greater security of tenure than private renters. The Industry Commission considered that the security of tenure offered by social housing was worth a premium of 2-3% to market rent.<sup>47</sup>

The long waiting list for social housing means that there are many people who are in need receiving less assistance than others in similar or better circumstances. Annually there are very few exits from social housing, despite the introduction of fixed term leases. Income eligibility thresholds for lease renewals are around 60% higher than at application.<sup>48</sup> This could mean that some current tenants are able to remain in social housing while those in greater need remain on the waiting list and are unable to be offered social housing.

Almost 10% of tenants in social housing pay market rent.<sup>49</sup> This can be as a result of a tenant's household income exceeding the rental subsidy eligibility threshold, because they have elected not to disclose their income, or because their income-based rent exceeds market rent, which can occur in less expensive rental markets. While this increases revenue for the provider, it can also mean that housing is not being freed up for applicants on the waiting list in greater need.

Income-based rent models can also create inequities as rents do not reflect the location, quality or amenity of dwellings. This can result in tenants paying the same rent receiving a very different service. It also means that tenants in similar circumstances may receive very different levels of subsidy. This implicit subsidy, reflecting the difference between rent paid by the tenant and market rent (or costs of delivery) is borne by the provider.

As part of our review we will seek to identify how the rental framework can be used to address inequities in the current system. As Chapter 4 discusses, as part of our assessment we will consider how the various options for change in the eligibility criteria and rent setting framework affect the horizontal and vertical equity of the system. We will also consider the implicit and explicit subsidies associated with different forms of housing assistance, and how these could be made more equitable.

### 3.2.3 Imbalance in demand for and supply of social housing

The demand for social and affordable housing is increasing. As at June 2015 the waiting list for social housing was 59,035, up from just under 45,000 in 2006/07.<sup>50</sup> In part, this 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

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<sup>47</sup> Industry Commission, *Public Housing Volume 1: Report*, 1993, p xxv.

<sup>48</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#ilalr>, accessed on 30 September 2016.

<sup>49</sup> Internal FACS data.

<sup>50</sup> Internal FACS data.

Greater Sydney and the Illawarra were affordable for income support recipients. Minimum wage recipients, particularly singles (with or without children), face similar rental unaffordability.<sup>51</sup>

In addition, people are staying longer in social housing. More than half of public housing tenants have held a lease continuously for longer than 10 years.<sup>52</sup> The average tenure length has increased despite the introduction of fixed-term leases in 2006.<sup>53</sup> As the Auditor-General found in 2013, this policy change has had little impact in freeing more housing for those most in need as there are very few exits.<sup>54</sup> With fewer exits from social housing, the number of new tenants housed each year is well below the demand.<sup>55</sup>

At the same time, 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.<sup>56</sup>

#### Imbalance in the type of demand and supply

There is also currently a significant mismatch between the housing stock profile and that required by current tenants and those on the waiting list. This is resulting in underutilisation of dwellings, fewer people being housed and declining rent revenues.

Most of the current social housing stock was built at a time when the main focus of the social housing system was on housing families. For example, in 1970, 70% of public housing tenants were couples with children. In 2013, couples with children comprised only 4% of public housing tenants and 58% of tenants are single person households.<sup>57</sup>

The current housing mix is 43% three- or four-bedroom, 30% two-bedroom and 27% one-bedroom.<sup>58</sup> This has resulted in significant under-occupation, with 30% of properties having two or more spare bedrooms.<sup>59</sup>

The current income-based rent model does not provide an incentive for people to move to more appropriately-sized housing, as a tenant is charged the same rent whether they are a single person in a one-bedroom unit or a single person in a 4-bedroom house.

<sup>51</sup> Anglicare, *Rental Affordability Snapshot (Greater Sydney and Illawarra) 2016*, p 4. Properties considered affordable where rent was 30% of income or less.

<sup>52</sup> Internal FACS data.

<sup>53</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 64.

<sup>54</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, p 34.

<sup>55</sup> Internal FACS data.

<sup>56</sup> Internal FACS data. This includes public housing and community housing properties, as well as properties owned by the Aboriginal Housing Office.

<sup>57</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 58.

<sup>58</sup> Internal FACS data.

<sup>59</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, p 3.

In June 2013 FACS introduced a ‘vacant bedroom charge’ of \$20 a week for a single tenant, or \$30 a week for couple tenants, with two or more vacant bedrooms.<sup>60</sup> However, given the limited number of suitable properties to move to, FACS is only implementing the charge where they have been able to offer an alternative more suitably sized home and tenants have refused to move (or declined to go on a transfer list to await a more suitably-sized dwelling). In 2015-16 it was only applied around to 225 tenancies on average per quarter.<sup>61</sup>

### Addressing the demand and supply imbalance

*Future Directions* sets out a range of initiatives aimed at addressing the imbalance of supply and demand, some targeted at supply (“more social housing”) and some at demand (“more opportunities, support and incentives to avoid and/or leave social housing”).

On the supply side, the *Communities Plus* program is aimed at redeveloping Land and Housing Corporation sites to deliver a mix of social, affordable and private dwellings throughout metropolitan Sydney and regional NSW through private and non-government partnerships.

The Government has also recently announced the Social and Affordable Housing Fund to provide additional social and affordable housing. Phase 1 of the program involves \$1.1 billion in seed funding invested by Treasury Corporation in financial markets with the proceeds to support social and affordable housing projects in the form of a stable 25-year income stream.

In recent years, the NSW Government has also looked to the community housing sector to increase the social housing stock. One of the objectives of transferring either the management (via long term leases) or ownership of public housing stock to CHPs was to allow the sector to leverage private investment to deliver new housing.

In addition to these strategies to increase supply, the NSW Government has various programs aimed at managing demand. These include private rental assistance programs which can divert people from the social housing system or prevent them becoming homeless, or assist them transitioning out of social housing. As part of *Future Directions* the NSW Government aims to increase the use of private rental assistance products by 60% by 2025 to help households avoid or leave social housing. Products include new initiatives such as Rent Choice, expansion of Start Safely, Private Rental Brokerage Services, Rent Start products (Advance Rent, Bond Loan, and Rental Arrears) and Bond Plus.<sup>62</sup>

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<sup>60</sup> <http://www.housing.nsw.gov.au/forms,-policies-and-fact-sheets/policies/charging-rent-policy> (accessed 28 September 2016)

<sup>61</sup> FACS, *Housing Services Performance Report*, June 2016, p 7.

<sup>62</sup> NSW Government, *Future Directions for Social Housing in NSW*, 2016, pp 15-16.

Our review will examine how rent models and eligibility criteria affect the demand for social housing and other forms of housing assistance.

### 3.2.4 Gap between social and affordable housing and the private rental market

One of the objectives of *Future Directions* is to increase successful transitions out of social housing.<sup>63</sup> However, the gaps between social housing, affordable housing and the private market, in terms of affordability and security of tenure, mean that for many tenants the transition is currently very difficult.

A recent AHURI report found that the largest barrier to exit listed by tenants intending to leave public housing and enter the private rental market was affordability. Security of tenure in social housing also acts as a barrier to exit to private rental.<sup>64</sup>

In June 2016, the median market rent in Sydney inner ring local government areas was \$900 per week for a three-bedroom house, and \$660 for a two-bedroom unit.<sup>65</sup> For Greater Sydney the median rent was \$470 per week for a three-bedroom house and \$520 per week for a two-bedroom flat/unit. This compares with an average rent of \$130 per week paid by subsidised tenants in public housing.<sup>66</sup> There can also be a considerable gap between rent levels in social housing and rent levels in affordable housing, particularly in areas where market rent levels are high.

The difference in the security of tenure for social housing, affordable housing and for private rental properties can create barriers to exit. Currently affordable housing is less secure than social housing as tenants must stay within income bands to remain eligible. In the private rental market leases tend to be 12 months or less, leases can be terminated without cause and landlords are not obliged to renew.

As section 3.2.3 noted, the NSW Government is targeting increased use of private rental assistance products to help bridge the gap for tenants transitioning from social housing to the private rental market. Such products include Private Rental Brokerage Services and Rent Start products.

The NSW Government has also committed to encouraging the development of more affordable housing as a 'stepping stone' out of the social housing system through the Social and Affordable Housing Fund and redevelopment of Land and Housing Corporation properties.<sup>67</sup>

<sup>63</sup> NSW Government, *Future Directions for Social Housing in NSW*, 2016, p 5.

<sup>64</sup> AHURI, *Social housing exits: incidence, motivations and consequences*, 2014, p 1.

<sup>65</sup> Department of Family and Community Services, *Rent and Sales Report, No.116*, 2016, Tables 3 and 4. The LGAs in Greater Sydney comprise the Inner, Middle and Outer rings.

<sup>66</sup> Internal FACS data.

<sup>67</sup> NSW Government, *Future Directions for Social Housing in NSW*, 2016, p 17.

Our review will consider how rent models and eligibility criteria can be used to reduce these gaps and assist transition to private rental markets. This will involve looking at ways of coordinating tenancy conditions and rent setting arrangements between social and affordable housing, as well as private rental assistance products and arrangements.

### 3.2.5 Financial sustainability of the social housing system

As part of our review we are also required to consider the total cost of running the social housing system, and the impact of rent models on the financial sustainability of the system. Currently the system is constrained by the level of rent and grant funding providers receive. Given these constraints, new ways of funding and financing housing assistance are being explored. Our review is an opportunity to develop a sustainable financial model for the social and affordable housing sectors. However, this will require looking more broadly than rent models to appropriate models for subsidising and financing social housing.

In 2012-13, the NSW Auditor-General examined the ability of the NSW public housing agencies to meet the changing public housing need, and found that in recent decades the financial sustainability of the social housing system has worsened due to a combination of increasing maintenance costs, declining average rents and declining grant funding. The Auditor-General found that current rental income and grant funding is not sufficient to cover operating costs of the existing public housing stock.<sup>68</sup>

#### An increasing implicit subsidy

The difference between nominal market rent and the rent paid by tenants (including CRA) is an implicit subsidy, usually borne by the provider. For public housing this implicit subsidy has increased over the last five years from \$797 million to close to \$1.1 billion (Table 3.1).

**Table 3.1 Implicit rental subsidy – public housing 2010-11 to 2014-15 (\$m)**

	2010-11	2011-12	2012-13	2013-14	2014-15
Gross rent <sup>a</sup>	1,464	1,550	1,629	1,758	1,870
Net rental income	667	693	732	783	813
Rental subsidy	797	857	897	975	1,057

<sup>a</sup> Gross rent is the sum of market rents for all public housing tenancies during the year.

Source: Internal FACS data.

Where the implicit subsidy is borne by the provider, funds that could be used for maintenance and new housing are required to meet operating costs, exacerbating the shortfall in the supply of social housing.

<sup>68</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, pp 18-22.

### Grant funding being used for operational rather than capital expenditure

Grants are based on the population of each state, not the number of social housing tenants, dwellings or level of housing assistance required. Increasingly Commonwealth grant funding has been used to meet operational shortfalls, rather than capital expenditure to expand the housing stock.

The National Affordable Housing Agreement Specific Purpose Payment to NSW is estimated at \$430 million in 2016-17, and is expected to average growth of 1.5% over the period 2015-16 to 2019-20.<sup>69</sup> This follows a decline over the last two decades.<sup>70</sup>

### Increasing costs not matched by rental income

The cost of providing social housing, including maintaining the housing stock, is growing at a much greater rate than the growth in rental income. The net annual cost per dwelling has risen from \$4,743 in 2004-05 to \$8,133 in 2014-15.<sup>71</sup> In 2015-16 LAHC's average maintenance cost per dwelling was \$3,899.<sup>72</sup>

However, with a higher proportion of tenants coming from very low to low income groups, average rents have declined. As the majority of tenants are reliant on income support payments, under the current income-based rent model, growth in rent is limited to increases in these payments.<sup>73</sup> LAHC estimate that the rent received relative to market rent is around 45%.<sup>74</sup>

Community housing providers face similar problems, although they can set rents that capture CRA, which public housing cannot. However, CRA is indexed to CPI<sup>75</sup> and has not kept pace with the growth in market rents.

### 3.2.6 Commonwealth-State roles and responsibilities

Our terms of reference require us to consider the potential impacts of any change to the National Affordable Housing Agreement (NAHA) and CRA. Any significant changes to either will impact on the financial sustainability of both the public and community housing sectors.

A key source of funding underpinning the provision of social housing in NSW is the NAHA, budgeted at \$430 million in 2016-17. As discussed in section 3.2.5, no significant growth is expected in the funding for NSW under the NAHA over the

<sup>69</sup> NSW Government, *Budget Paper No.1 Budget Statement 2016-17*, p 5.10.

<sup>70</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, p 21.

<sup>71</sup> Internal FACS data.

<sup>72</sup> Internal FACS data.

<sup>73</sup> NSW Auditor-General, *Performance Audit: Making the best use of public housing*, 2013, p 20.

<sup>74</sup> Land and Housing Corporation, *Statement of Business Intent 2015-16*, p 7.

<sup>75</sup> <https://www.dss.gov.au/housing-support/programmes-services/commonwealth-rent-assistance>, accessed on 19 October 2016.

period to 2019-20. The Housing National Partnership agreements conclude in 2016-17, with NSW budgeted to receive funding of \$30 million in the final year.<sup>76</sup>

Certainty and stability regarding funding from the Commonwealth Government is critical for the social housing system. The final report to the Commonwealth Government by the *Reference Group on Welfare Reform* recommended:

- ▼ extending CRA to public housing tenants
- ▼ reviewing the level and indexation of CRA to ensure it appropriately reflects the cost of rental housing to tenants, and
- ▼ reducing disincentives to workforce participation by moving from income-based rents in public housing.<sup>77</sup>

Work is also occurring federally on financing and structural reform options. The Affordable Housing Working Group, established under the Council on Federal Financial Relations, is to identify potential financing and structural reform models that increase the provision of affordable housing (social housing and housing in the private rental market) for those on low incomes. The Working Group was to provide its final report to Heads of Treasuries by 30 June 2016.<sup>78</sup> This is now expected in November 2016.

IPART seeks comment on the following

- 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?

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<sup>76</sup> NSW Government, *Budget Paper No.1 Budget Statement 2016-17*, pp 5.10-5.11.

<sup>77</sup> Reference Group on Welfare Reform, *A New System for Better Employment and Social Outcomes*, Final Report, 2015, (McClure Review), p 20.

<sup>78</sup> <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/CFFR-Affordable-Housing-Working-Group>, accessed on 28 September 2016.



## 4 Our proposed assessment criteria

As Chapter 1 indicated, to reach our recommendations on a rent setting framework for social and affordable housing and the eligibility criteria for this and other subsidised housing assistance, we propose to develop a set of criteria for assessing each of the identified options.

We have developed 11 proposed criteria, which we have drawn from our terms of reference for this review and the NSW Government's *Future Directions for Social Housing in NSW* strategy. Some of the criteria are focused on outcomes for tenants, and some are focused on outcomes for housing providers and the broader community (see Table 4.1).

**Table 4.1 Proposed assessment criteria**

<b>Tenant focused</b>	<b>Housing Provider/community focused</b>
Incentives for workforce participation	Efficiency – allocative and productive
Affordability for tenants	Impact on future demand for social housing
Simplicity for tenants	Impact on demand for other housing tenures and products
Horizontal and vertical equity	Impact on financial sustainability of the social housing system
Flexibility and choice for tenants	Impact on concentration of disadvantage.
Circumstances and needs of Aboriginal people living in social housing	

It is unlikely that any one rental or eligibility and prioritisation model will best meet all these criteria. For example, a rental model may be simple to administer, but lack flexibility and create disincentives to work. A model that improves the financial sustainability of the social housing system may be less affordable for tenants. We do not propose to apply specific weights to the criteria, but will make an overall judgement on preferred options having considered how each option addresses the criteria.

### 4.1 Proposed assessment criteria

The sections below discuss each of our proposed criteria in more detail.

#### 4.1.1 Incentives for workforce participation

The way rents are charged and tenancies administered can have an impact on social housing tenants' participation in work and education. As Chapter 3 discussed, a rent model based on income is often considered a disincentive to employment because as tenants earn more their rent increases. Tenants receiving income support payments potentially face a further disincentive as support payments reduce and rent increases with higher incomes.

For the relevant cohort of tenants, we will assess the impact of various options on incentives for workforce participation, and where possible recommend options likely to encourage workforce participation.

#### 4.1.2 Affordability for tenants

We will assess options for their impact on the affordability of social housing for different groups of tenants. We will consider the impacts on the safety net and opportunity cohorts, and develop a more finely graded set of tenant cohorts and circumstances to assess the impact of various rent models on affordability.

Rents are set at an affordable level when households are able to pay the required rent and meet other basic living costs such as food, clothing, transport, medical care and education. Housing is usually considered affordable if it costs less than 30% of a household's gross income.

#### 4.1.3 Simplicity for tenants

Our terms of reference ask us to aim for a system that is easy for tenants to understand. We will consider the complexity of each option including:

- ▼ Will it be difficult for tenants to understand what they are being charged and why?
- ▼ Will the option be administratively complex?
- ▼ What types of information will tenants need to provide and how often?

#### 4.1.4 Horizontal and vertical equity

Horizontal equity refers to people with similar income and circumstances being treated equally. Vertical equity refers to the levels of assistance varying with need. For each option, we will consider whether it would result in:

- ▼ households in similar circumstances receiving equivalent assistance
- ▼ households in greater need receiving more assistance than households in better circumstances, and
- ▼ the system responding to different levels of need for assistance.

Allocating subsidised housing equitably and based on needs means allocating appropriate housing first to those who are most in need of it. This means identifying what makes one household's need for assistance more urgent or a higher priority than others and fairly applying accessible, documented policies on this.

#### **4.1.5 Flexibility and choice for tenants**

Currently, tenants applying for social housing can nominate areas where they would prefer to be housed, but the rents they pay do not reflect the location, size or amenity of the dwelling they are allocated. We will consider how each option might impact on tenants' ability to choose the location, type of housing and housing assistance they receive at different stages.

#### **4.1.6 Circumstances and needs of Aboriginal people living in social housing**

Our review will consider the circumstances, needs and impacts on Aboriginal people living in social housing through consultation and our analysis of tenant impacts of different rent models. The cohort groups we develop to assess impacts of different rent models will be selected to help assess impacts on typical Aboriginal households. In addition to Aboriginal people residing in Aboriginal housing, around 10% of households in public and in community housing identify as Aboriginal.

Aboriginal households can apply for mainstream or specialised Aboriginal housing assistance. The AHO and ACHPs provide culturally appropriate housing for Aboriginal people, consistent with the principles of self-determination and self-management.

The providers, sources of funding,<sup>79</sup> eligibility<sup>80</sup> and rent setting rules for specialist Aboriginal housing differ from mainstream social housing. A mix of rent models have applied in Aboriginal Community Housing. As Chapter 2 noted, rents in specialised Aboriginal Community Housing are currently being transitioned under the *Build and Grow Rent Policy* to a model where tenants pay a rent based on household type or property rent, whichever is lower, for two years with a view to transition to income assessed rents.<sup>81</sup>

#### 4.1.7 Efficiency – allocative, productive and dynamic

Allocative efficiency refers to resources being allocated to meet the needs of people. Productive efficiency refers to minimising the costs of producing a certain level of output. We will consider the extent to which each option facilitates productive and allocative efficiency, including whether it gives housing providers the flexibility to:

- ▼ Manage social housing in a way that addresses the needs of the community and tenants
- ▼ Deliver assistance to the households that benefit most from it
- ▼ Deliver appropriate housing to those who need it.

Dynamic efficiency involves improving allocative and productive efficiency over time. We will consider the extent to which each option is able to facilitate dynamic efficiency, including whether it gives housing providers the flexibility to respond to changing needs for levels and types of housing assistance.

#### 4.1.8 Impact on future demand for social housing

Rent and eligibility policies influence the number and characteristics of people waiting for and leaving social housing. We will consider how alternative rent and eligibility models may affect the demand for various types of housing assistance. We will consider how each rent model encourages or discourages applications for, exits from, and transition from social to affordable housing.

#### 4.1.9 Impact on demand for other housing tenures and products

The markets for social and affordable housing and private housing interact, as do the demands for alternative kinds of housing assistance. Rent models that

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<sup>79</sup> For example, funding under the Remote Indigenous Housing National Partnership Agreement.

<sup>80</sup> For example, tenants of housing owned by the Aboriginal Housing Office and managed by public housing are eligible to receive CRA (unlike tenants of dwellings owned by LAHC and managed by FACS). See *Build and Grow Aboriginal Community Housing Strategy Rent Policy*, p 9.

<sup>81</sup> . Build and Grow Fact Sheet, Aboriginal Housing Office website <http://www.aho.nsw.gov.au/-ASSETS/media-publications/publications/factsheets/build-and-grow/RentPolicyFactsheetUpdate.pdf> accessed 13 October 2016

entrench a valued aspect of housing are likely to make demand more ‘sticky’ than models that facilitate or reward transition between different types of housing. For example, significant differences in rents and lease terms in public/social/affordable and private housing markets will tend to hinder the flow of households across market segments where only one or two segments offer a valued aspect of housing assistance (such as security of tenure and rents well below market rent). We will consider how and the extent to which various rent and eligibility models distort the demand for other housing tenures and products.

#### 4.1.10 Impact on financial sustainability of the social housing system

Many bodies and researchers have commented on the unsustainability of the social housing system. Currently public housing providers (LAHC), community housing providers (CHPs) and Aboriginal housing providers (AHO and ACHPs) all receive less revenue from rents than covers the cost of maintaining and replacing housing.<sup>82</sup> In considering the financial sustainability of the social housing system, we will estimate the revenue and cost impacts of different models.

#### 4.1.11 Impact on concentration of disadvantage

Concentration of disadvantage occurs when socio-economically disadvantaged groups cluster into certain areas. This can have adverse consequences for the residents and the broader community. For example, it can create barriers to employment and education; limit access to transport and other services (eg, where concentrations of disadvantage are in outlying areas of the city); and limit exposure to models of successful education and employment. Inclusionary zoning policies<sup>83</sup> and the *Communities Plus* redevelopment of existing LAHC properties directly address this, and the related issue of providing housing accessible to employment for key workers (teachers, nurses, police, among others) on low to moderate incomes.

We will consider the extent to which different rent models tend to concentrate or decentralise the location of social and affordable housing and concentrations of disadvantage.

IPART seeks comment on the following

- 3 Do you agree with our proposed assessment criteria for the review?
- 4 Are some criteria more important than others, and why?

<sup>82</sup> NSW Family and Community Services, *Social Housing in NSW: A discussion paper for input and comment*, 2014, p 36.

<sup>83</sup> Requiring a proportion of housing in a development to be provided as affordable housing.

## 5 Preliminary options for eligibility criteria and prioritisation policies

Based on our preliminary thinking on the different groups that require some form of housing assistance, and the issues with the current social and affordable housing system, we have identified some aspects of eligibility criteria and prioritisation policies for further analysis. These include:

- ▼ The entry eligibility criteria for social housing.
- ▼ What social housing clients are 'eligible for'.
- ▼ The eligibility criteria, particularly the income threshold, for renewal of fixed-term leases.
- ▼ The priority order in which social housing clients are housed.
- ▼ The range of other subsidised housing assistance products and services provided to divert or transition people from social housing.

The sections below discuss each item and set out the questions on which we particularly seek stakeholder feedback. This feedback will help us develop options for assessment in our review.

### 5.1 The entry eligibility criteria for social housing

Social housing is just one form of housing assistance provided to support people who find it difficult to access suitable accommodation. Different types of assistance may be more appropriate for different types of people, and people's need for assistance may vary at different stages of their life and as their circumstances change.

Currently, around 20,000 people per year apply and are approved for social housing in NSW.<sup>84</sup> As at 30 June 2015, there were 59,035 people on the NSW Housing Register, of which 3,688 were on the 'priority' wait list, and 55,347 were on the 'general' wait list.<sup>85</sup> As at September 2016 there were 2,898 people on the AHO wait list.

In practice, only a small proportion of the total number of approved applicants for social housing are allocated a dwelling each year (Box 5.1). In some popular

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<sup>84</sup> Internal FACS data.

<sup>85</sup> Internal FACS data.

locations, the waiting time for those in the general category can be more than 10 years.<sup>86</sup>

**Table 5.1 Applicants allocated social housing 2014-15**

	Priority status	General status	Total
Applicants on Housing Register as at June 2014	3,945	55,589	59,534
Applicants housed in 12-month period 2014-2015	3,921	5,702	9,623
Applicants on Housing Register as at June 2015	3,692	55,343	59,035

**Note:** In addition to new tenants, 'Applicants housed' includes housing for reasons of overcrowding, tenancy reinstatements and refuge, but excludes applicants waiting for rehousing.

**Source:** Internal FACS data and FACS, *Expected Waiting Times for Social Housing June 2015 Overview*. [http://www.housingpathways.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/332274/2015-EWT-Overview-table.pdf](http://www.housingpathways.nsw.gov.au/__data/assets/pdf_file/0003/332274/2015-EWT-Overview-table.pdf)

The large number of people on the general wait list for social housing, and 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. Potentially, immediate access to a different form of housing assistance could alleviate their housing stress more promptly and efficiently.

Directing people to more appropriate forms of assistance could involve amending the eligibility criteria so that social housing is only offered to the people most in need of this form of housing assistance, but ensuring that eligibility for other forms of housing assistance is complementary. For example, social housing eligibility could be restricted to the clients who currently meet the criteria for the priority wait list – that is, people who meet the income threshold and are also at risk of homelessness or domestic violence, or have complex needs and are unable to house themselves.

IPART seeks comment on the following

- 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?
- 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?

<sup>86</sup> Expected Waiting Times for Social Housing June 2015 – Overview, [http://www.housingpathways.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0003/332274/2015-EWT-Overview-table.pdf](http://www.housingpathways.nsw.gov.au/__data/assets/pdf_file/0003/332274/2015-EWT-Overview-table.pdf) accessed on 19 September 2016.

## 5.2 What social housing clients are 'eligible for'

In the past, allocation of public housing was considered to be a housing issue only, unrelated to other needs for assistance a tenant might have. However, there has been a growing recognition from Government that services should be delivered to people in a more coordinated way. At the same time, there has been an increase in the number (and proportion) of social housing tenants with complex needs. As a result, the social housing offering is more than 'just a house', and may encompass individual tenant support (such as referral to and liaison with health, mental health, employment support or other services) and other community development activities.

The complexity of what is being offered has consequences for how and when tenant eligibility is assessed, and how housing providers are able to manage the way assistance is delivered. Services need to be delivered in a way that both matches a tenant's needs and equitably and efficiently allocates assistance.

The sections below discuss how eligibility is assessed and how it relates to what social housing clients are eligible for, and how changes in circumstances and needs might be best addressed.

### 5.2.1 How and when eligibility is assessed

A tenant's needs and circumstances are considered at the point of entry into social housing, and taken into account in allocating a dwelling.

If a tenant is on a continuous lease<sup>87</sup> (57% of current public housing tenants), there is no further consideration of eligibility, needs or circumstances, unless a tenant requests a transfer. If a tenant is on a fixed term lease, their eligibility is reassessed at the end of the lease term. However, this assessment is limited to their eligibility to renew the specific lease agreement they have, rather than an assessment of its suitability for them or how their needs apart from housing can be met.

### 5.2.2 Transfers between tenancies when circumstances or needs change

Tenants may request a transfer to another dwelling, and policies are in place to allow social housing providers to initiate transfers for management reasons. However, the excess of demand over supply means that tenants in practice have limited ability to move by choice to another dwelling. We also understand that management-initiated transfers for tenancy management reasons are relatively uncommon.

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<sup>87</sup> Continuous leases are no longer granted in public housing, but all pre-July 2005 ones were grandfathered.



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### **Box 5.1 Current management-initiated transfer framework**

The Residential Tenancies Act permits any landlord, including social housing providers, to terminate a lease for breach of the lease conditions, for non-payment of rent, for serious damage to premises or a number of other specified reasons.

The Residential Tenancies Act also gives landlords the right to terminate a lease without cause, provided sufficient notice is given. However, social housing providers do not usually exercise this right.

FACS policy is that there must be a reason for ending a public housing tenancy (eg, tenant request, tenant abandonment, breach of agreement, or ineligibility). Our review of CHP tenancy policies suggests that most CHPs have similar policies requiring a reason for ending a tenancy.

Both FACS and CHPs have policies permitting them to terminate a lease on a specific dwelling and offer a lease on a suitable alternative dwelling as a means of effecting a management-initiated transfer (under the Residential Tenancies Act, this would be considered a termination of the original agreement without cause, as transfer of tenancy is not a specified reason within the Act).

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This means that as their personal circumstances and needs change, many tenants remain in dwellings that are no longer suitable for them, or that may be a better match for another tenant with different circumstances or needs. For example, this could include:

- ▼ tenants whose children have left home remaining in 3-bedroom houses with good access to education facilities
- ▼ tenants who are no longer looking for work remaining in locations with good access to employment opportunities, and
- ▼ tenants who have developed chronic health issues remaining in houses with poor access to medical facilities.

This creates inequities between tenants, and between tenants and wait list clients, where the level of assistance people receive is based on the luck of the draw and not on their level of need. It also creates inefficiencies in the system, because housing providers do not have the flexibility to allocate the available social housing stock in a way that maximises the value all tenants derive from this stock.

### **5.2.3 Options to improve the management of changes in needs and circumstances**

It may be better to explicitly define what social housing clients are eligible for as their circumstances change and put in place policies and procedures to facilitate tenant transfers between dwellings. This will enable the housing providers to

better match tenants to a social housing service with features that meet their current needs and circumstances.

Any transfer policy would need to take into account the potential cost of transfers (eg, the social cost of moving tenants from existing social supports) as well as the benefits of better matching of level of need with level of assistance.

IPART seeks comments on the following

- 7 Should people receiving housing assistance have their eligibility for assistance reviewed as their circumstances change? What criteria should be used?
- 8 What are appropriate transfer policy settings that take into account the principles of equity, and costs of transfers as well as the benefits?

### **5.3 Eligibility criteria for renewal of public housing fixed-term leases**

Since 2006, all tenancy agreements for new public housing tenants have had fixed terms (usually two, five or 10 years). A review of a tenant's ongoing eligibility for public housing is conducted prior to the end of the lease. As for entry eligibility, the main criterion for ongoing eligibility is assessable household income below a certain threshold.<sup>88</sup> However, this income threshold is 60% higher than for entry eligibility. Currently for a single adult household, the gross weekly assessable income limit is \$595 at entry compared to \$944 at review.

The higher income threshold at review may help address the disincentive to obtain employment. However, this more generous threshold may also encourage tenants to remain in public housing for longer than necessary and lower exit rates. Thus, it may contribute to the low availability of housing stock for new entrants, who may have a greater need for housing assistance.

We propose to review the income threshold for eligibility for lease renewal, to ensure it is set at an appropriate level. We note that the average rent for a one-bedroom dwelling as at 30 June 2016 in NSW ranged between \$190 (rest of NSW) and \$480 (Greater Sydney).<sup>89</sup> This suggests that at the higher threshold of \$944, renting in the private rental market in certain locations may be affordable for some single adult households.

IPART seeks comment on the following

- 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?

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<sup>88</sup> Other factors are also considered at the lease review, including age of household members and any medical/disability requirements.

<sup>89</sup> <http://www.housing.nsw.gov.au/about-us/reports-plans-and-papers/rent-and-sales-reports/issue-116>, Rents, Trend March 1990 - June 2016, Metropolitan LGAs, accessed 6 October 2016.

## 5.4 Allocation priority in social housing

As Chapter 2 outlined, FACS maintains a list of clients waiting for social housing on the NSW Housing Register, categorised as either priority or general. To be eligible for priority status, a client must:

- ▼ be eligible for social housing
- ▼ have an urgent housing need, and
- ▼ be unable to resolve that need in the private rent market.<sup>90</sup>

An urgent housing need is defined as:

- ▼ unstable housing circumstances
- ▼ risk factors in their current housing, or
- ▼ existing accommodation which is inappropriate for basic housing needs.

In terms of allocation, social housing providers generally house clients in the following priority order:

- ▼ clients approved for emergency temporary accommodation
- ▼ clients approved for urgent housing (per the above eligibility criteria) and clients approved for transfers or relocations on the grounds of under-occupancy
- ▼ elderly clients (clients who are aged 80 and over, or 55 and over if Aboriginal or Torres Strait Islander)
- ▼ clients approved for a transfer on a priority basis, or clients being relocated for management purposes
- ▼ clients approved for wait-turn housing and wait-turn transfer.<sup>91</sup>

CHPs may have slightly different prioritisation rules and in some cases additional eligibility criteria. For example, a CHP that only provides housing to single women will pass over a person with a higher priority if they are not a single woman.

We propose to consider whether the current prioritisation policies and practices are appropriate as part of our review.

IPART seeks comment on the following

- 10 Is the order in which clients are currently housed appropriate?

<sup>90</sup> Family and Community Services, *Social Housing Eligibility and Allocations Policy Supplement*, <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#efphuhn>, accessed 28 October 2016.

<sup>91</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/matching-and-offering-a-property-to-a-client-policy> accessed 12 July 2016.

- 11 Is the prioritisation policy the most efficient given the current supply/demand imbalance?

## 5.5 The range of other subsidised housing assistance provided

As noted above, social housing is just one form of housing assistance provided to support those who find it difficult to access suitable accommodation.

In 2014-15, FACS assisted 18,880 households with rental assistance in the private sector, and 11,993 households with an interest free loan to assist their payment of a private market rental bond under the *Rentstart Bond Loan Scheme*.<sup>92</sup> (See Appendix D for more detail on the forms of and eligibility criteria for this assistance.)

It may be that changes to the range and quantum of other subsidised housing assistance will help to address some of the issues with the social and affordable housing system, and achieve the goals of *Future Directions*. In addition, if the eligibility criteria for social housing were to be narrowed to target those with the greatest needs (see section 5.1), it would be essential to ensure that other appropriate forms of assistance are available to those who would no longer be eligible.

In its submission to the FACS Discussion Paper, Pacific Link Housing noted that “there are insufficient ‘intermediate housing products’ to assist low to moderate income households transition along the housing continuum” and that “a more cohesive approach is needed to deliver better stepping stones to transition along the housing continuum, out of social housing.”<sup>93</sup> Other stakeholders, including the Housing Alliance of NSW, St George Community Housing and Bridge Housing, also noted that “intermediate”, “more flexible” and “a range of housing options” need to be developed to match tenant circumstances.<sup>94</sup>

We also note that as part of *Future Directions* the NSW Government aims to increase the use of private rental assistance products by 60% by 2025 to help households avoid or leave social housing.<sup>95</sup>

IPART seeks comment on the following

- 12 Are the current assistance measures sufficient or are there additional assistance programs that could be offered? How can the assistance measures be targeted appropriately?

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<sup>92</sup> FACS, *Annual Report 2014-15, Volume 1*, p 29.

<sup>93</sup> Pacific Link Housing, *Submission to NSW Department of Family and Community Services Social Housing in NSW Discussion Paper*, February 2015, pp 17-18.

<sup>94</sup> Housing Alliance, *Submission to Social Housing in NSW: A discussion paper for input and comment*, p 10, St George Community Housing, *Submission to Social Housing in NSW Discussion Paper*, 20 February 2016-5, p 6 and Bridge Housing, *Submission to Social Housing in NSW discussion paper*, February 2015, p 5.

<sup>95</sup> NSW Government, *Future Directions for Social Housing in NSW*, 2015, pp 15-16.

- 13 Could the current suite of assistance measures be simplified?
- 14 Are there any other options for changes to eligibility, prioritisation and wait list policies that could be considered for this review?

## 6 Preliminary options for rent setting framework

Our task in this review involves developing options that will improve the flexibility of the social and affordable housing system, so it can respond more effectively, efficiently and equitably to the different needs of the diverse people who require housing assistance. We have identified some preliminary options for increasing flexibility within the rent setting framework to better account for the different characteristics of different tenant cohorts and changes in their circumstances over time.

We have also developed a preliminary set of options for the rental models within the rent setting framework, based on our review of local and international research on social and affordable housing.

In addition, we have identified some preliminary options for making the collection of social and affordable housing rents more efficient.

The sections below provide more information and some preliminary analysis on options for increasing flexibility, options for rent models and options for making rent collection more efficient, and set out the questions on which we particularly seek stakeholder feedback. This feedback will help us refine the set of options for assessment in our review.

### 6.1 Options for increasing flexibility within the rent setting framework

One objective in designing a new rent setting framework is to increase its flexibility to respond to the characteristics of different tenant cohorts and changes in their circumstances over time. We have identified some ways in which the rental models discussed below could be applied to provide this increased flexibility, including:

- ▼ segmented rental framework (applying different rent models to different tenant cohorts)
- ▼ a tapered subsidy model (tapering rents or subsidies over time), and
- ▼ different rent models and tenure for the same property over time (to facilitate tenants transitioning from social to affordable housing).

### 6.1.1 Segmented rental framework

The impacts and effectiveness of different rental models vary depending on the tenant household characteristics. Our terms of reference require us to consider a more flexible approach such as applying different rent models for different tenant cohorts. In practice this may mean that:

- ▼ those in the opportunity group could be charged a property-based rent that better aligns with the cost of providing housing, and
- ▼ those in the safety net group could continue to be charged a household rent, such as the current income-based rent.

We also need to consider whether there are other tenant cohorts with distinct needs and circumstances, such as Aboriginal and Torres Strait Islander people, or people living in urban vs rural or regional locations.

A segmented rental framework could support *Future Directions'* goal of a social housing system that offers opportunities to transition to housing independence for the opportunity group, and remove potential work disincentives for this group. It would also improve the equity of the current system, as households in greater need (the safety net group) would receive more assistance than those in better circumstances, as well as its dynamic efficiency.

At the same time, a segmented rental framework could improve the financial sustainability of social housing by increasing rent revenues from the opportunity group, and have a positive impact on future demand for social housing.

IPART seeks comment on the following

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

### 6.1.2 Tapered subsidy model

Within a segmented rental framework, it would also be possible to introduce a tapered subsidy model. Under a tapered subsidy model, rent levels for targeted tenant cohorts could be gradually increased so that the subsidy reduces to zero over a period of time. For example, rent could be incrementally increased annually by 20% of the difference between market rent and tenant rent to arrive at market rent at the end of 5 years.

FACS' Transition Housing Plus is an example of a tapered subsidy model targeted at vulnerable young people and women with children experiencing domestic and family violence. Under this model, rent is scaled to increase over the tenure period, on an annual basis, reaching a benchmark market rent for the property in Year 5.<sup>96</sup>

This model may be appropriate for households capable of transitioning to the private rental market, and could increase the potential benefits of a segmented rental model. In particular, it could improve opportunities to transition to housing independence, and thus improve the positive impact on the future demand for social housing.

IPART seeks comment on the following

- 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?

### 6.1.3 Different rent models and tenure for the same property over time

As Chapter 3 discussed, one of the issues with the current social and affordable housing system is that social housing provides tenants with more affordable rent and greater security of tenure than affordable housing. In addition, when a tenant moves from social housing to affordable housing, they give up their place in the social housing system. If their circumstances deteriorate in the future and they need to reapply for social housing, they have to re-join the waiting list. This creates a significant barrier to tenants transitioning from social housing to affordable housing (and then to the private market).

In submissions to the NSW Government's *Discussion Paper*, a number of stakeholders suggested that to reduce this barrier, different rent models and tenure could be applied to the same dwelling if the tenant's needs changed. For example, if a social housing tenant's circumstances improved, the rent model and tenure applicable to the dwelling they occupy could transition to those of an affordable housing dwelling, with the option of returning to social housing if the tenant's support needs change.<sup>97</sup> As an extension of this approach, the rental model and tenure of an affordable housing dwelling could transition to those in the private rental market if the tenant's situation continued to improve.

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<sup>96</sup> FACS, *Transitional Housing Plus, Policy Guidance Note*, May 2014. [http://www.housing.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0008/333296/FactSheetTransitionalHousingPlusFINALMAY2014.PDF](http://www.housing.nsw.gov.au/__data/assets/pdf_file/0008/333296/FactSheetTransitionalHousingPlusFINALMAY2014.PDF), accessed on 21 October 2016.

<sup>97</sup> For example, City of Sydney, *Response to the NSW Social Housing Discussion Paper*, February 2015, p 13.



The benefits of this model include the potential for greater revenue from rents for housing providers as well as security of tenure for the tenant as their circumstances change. One concern might be that the stock of social housing properties is maintained, and strategies would be required to ensure that there was not a net loss of social housing properties.

IPART seeks comment on the following

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

## 6.2 Preliminary rental model options

Rents in social and affordable housing are required to meet numerous different objectives, including affordability for tenants and contributing to the cost of providing the housing. By their nature, social and affordable housing will always require subsidisation, but where the subsidies are applied (eg, to building the housing, as income supplements to tenants or as operating subsidies to housing providers) and how they are calculated also affects the way rent can be set. Different rental models achieve these objectives to greater or lesser extent and our analysis will consider the trade-offs between them.

We have identified eight rental models that fall into three different categories. These include:

- ▼ two household rental models (where rent is based on the characteristics of the tenant's household, such as its income or composition),
- ▼ two hybrid household-property rental models (where rent is based both on the characteristics of the household and characteristics of the property), and
- ▼ four property rental models (where rent is based on characteristics of the dwelling and movements in the rental market).

The following sections set out a brief description of each of these models and a preliminary analysis of some of the identified benefits and drawbacks of each.

IPART seeks comment on the following

- 18 Which specific rent model options do you prefer and why? Does a specific option work for all types of tenant or only a specific cohort? How do the different options contribute to the financial sustainability of the system? What further work is required on elements of the rent calculation, including subsidies, for each option?
- 19 Do you think any of the rent model options are not worth assessing, and why?

### 6.2.1 Income-based rent

NSW, like all Australian states and territories, currently uses an income-based rental model for social housing. As Chapter 2 discussed, public and community housing rents are generally set at 25% of the tenant's assessable household income or the market rent, whichever is lower. This percentage is based on the '30:40' rule of housing stress: that is, a household in the lowest 40% of income distribution is in housing stress if it pays more than 30% of its income on housing. The rate for social housing is lower than 30% because social housing tenants are from the very lowest deciles of income distribution.

The gap between the tenant's income-based rent and the notional market rent for public housing is funded through an implicit subsidy by the housing provider (ie, foregone rent). For community housing, it is funded partly through an implicit subsidy from the housing provider and partly through an explicit subsidy from the Commonwealth Government (ie, the CRA the community housing tenant is entitled to).

The key strength of an income-based rent model lies in its affordability for social housing tenants, particularly for those in the safety net group whose incomes are likely to remain low. However, it also has weaknesses, including:

- ▼ It can create a disincentive to employment for the opportunity group, as the combined effect of withdrawal of benefit payments, higher rent and low-paid jobs create very high effective marginal tax rates for tenants who obtain employment.
- ▼ It is not related to the cost of social housing in any way, and this has led to a growing gap between rent revenues and the costs of providing social housing.
- ▼ It can result in inequities between social housing tenants. Because the rent does not bear any relationship to the amenity of the dwelling being rented (eg, its location, size or quality), tenants in the same circumstances can receive very different (implicit) rent subsidies. A number of submissions to the Government's consultation on its social housing strategy raised this issue.<sup>98</sup>

If the current income-based model is retained, it may be possible to make some modifications to manage some of these weaknesses. For example, possible modifications include varying the percentage of income used to calculate rent, and changing what is included in calculating the tenant's assessable household income. These changes may help to reduce the gap between rent revenues and the costs of providing social housing. However, they would not be sufficient to address the inequities between social housing tenants as the rents would not be linked to location, size or quality. In addition they would not address the financial sustainability of the system (a particular focus of the NSW Government and a consideration for this review).

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<sup>98</sup> For example, Evolve Housing submission to *Social Housing in NSW, A discussion paper for input and comment*, p 21.

### Varying the percentage of income used to calculate rent

As noted above, social housing rents are generally set at 25% of a tenant's assessable household income. In addition, a sliding scale up to 30% applies as this income nears a threshold. However, Family Tax Benefits Part A and B are assessed at a concessional rate (15%) and income of household members (other than the tenant or partner) aged between 18 and 20 is also assessed at 15%. Together with the range of exemptions from assessable income (see next section), this means that the average effective percentage of income charged to subsidised tenants is 24%.<sup>99</sup>

Varying these percentages could increase revenue received without compromising the 30% affordability benchmark. Options to consider include changing the thresholds at which the different rates apply and removing the concessional charging (as Queensland and WA have recently done).

### Changing what is included in assessable household income

In NSW (and most other states and territories) assessable household income includes gross income from wages (ie, before tax). In addition, it excludes some government income supplements – such as the pension supplement and clean energy supplements, and many less common allowances and supplements (eg, the war service, disability and foster care allowances) are exempt.

Reducing exemptions, as Queensland and Western Australia have recently done, could increase revenue received without compromising the 30% affordability benchmark.

Assessing net income from wages (after tax) rather than gross income, as Queensland currently does, may help to reduce disincentives for workforce participation for the opportunity group.

IPART seeks comment on the following

- 20 If an income-based rent model is retained, should the percentage of household income used to calculate social housing rent be changed?
- 21 If an income-based rent model is retained, should payments such as Family Tax Benefits Part A and B be assessed at the same rate as income from other sources?
- 22 If an income-based rent model is retained, should currently exempt income supplements be included in assessable household income?
- 23 If an income-based rent model is retained, should income from work be assessed on an after-tax basis?

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<sup>99</sup> Internal FACS data.

- 24 If an income-based rent model is retained, what other possible improvements to the current rental model should we assess?

### 6.2.2 Residual income-based rent

This rental model uses an alternative method to measure housing affordability, rather than the more common 30:40 indicator. It involves calculating the residual income after relevant expenditure items for different household types are accounted for. If insufficient funds are left for rents after meeting a 'budget standard', a household is deemed to have an affordability problem.

AHURI undertook a study using this method, and definitions of 'low-cost budget standard' and 'modest-cost budget standard' developed elsewhere. It found that for the lowest 20% of household incomes, the 30:40 indicator understates the housing affordability problem, with many public tenants facing hardship despite paying an 'affordable' (25%) rent.<sup>100</sup>

On this basis, AHURI proposed that social housing rents be calculated to align with the tenant's residual income after a low-cost budget standard is subtracted. This rental model prioritises affordability over any other consideration, and has the same problems in terms of disincentives to workforce participation for the opportunity group as the more common income-based rent model. AHURI also commented that its net effect would likely be a major reduction in rental revenues for housing providers when financial viability is already problematic.<sup>101</sup> We are not aware of a social housing system that currently uses this model.

### 6.2.3 Hybrid household-property rental model options

As noted above, one of the weaknesses of a solely income-based rental model is that tenants with similar incomes and family and circumstances can be charged the same rent for dwellings of very different amenity. In its 1993 report, the Industry Commission (now the Productivity Commission) considered this was inefficient, as the resulting rents do not reflect the value of the service the tenants received.<sup>102</sup> An AHURI study similarly noted this weakness in the income-related rental system.<sup>103</sup>

To address this weakness without compromising affordability, a hybrid model can be formulated which is income-based with the potential for additional amenity charges that reflect the characteristics of the property.

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<sup>100</sup> AHURI, *The residual income method: a new lens on housing affordability and market behaviours*, October 2011, pp 2 and 61.

<sup>101</sup> AHURI used data for Melbourne and Adelaide in this study.

<sup>102</sup> Industry Commission, *Public Housing*, Volume 1: Report, 1993, p xxiii.

<sup>103</sup> AHURI, *Rental systems in Australia and overseas*, June 2006, p 24.

We have identified two options for hybrid models: a ‘fixed subsidy’ model as proposed by the Industry Commission in its 1993 report, and a ‘fixed property-based amenity charge’ model. We note that both of these models require sufficient housing stock with a range of amenity to permit tenants to manage the trade-off between price and amenity.

#### Industry Commission fixed subsidy model

The Industry Commission proposed a fixed subsidy model that takes account of both household income and household category. Under this model, tenants with similar incomes in the same household category would receive the same fixed subsidy. The residual difference between this subsidy and market rent is then the tenant rent.<sup>104</sup>

To calculate the fixed subsidy, the Industry Commission proposed setting a **standard market rent** for each household type, based on the average of market rents for all suitable public housing (eg, 3 bedroom dwellings for a family of 4) or segmented by location. The subsidy would equal the standard market rent less 25% of household income.

The Industry Commission also proposed that tenants be offered a choice of appropriate dwellings in the same local area. The household subsidy is the same irrespective of the rent for the house chosen by the tenant. If the rent is above standard market rent, the tenant pays extra for the higher amenity of the dwelling.

This model maintains affordability for tenants who choose a standard dwelling and satisfies the principle of horizontal equity as tenants in equivalent circumstances are treated similarly. Tenants may choose to pay more for a ‘better’ house or be financially compensated by paying less for a house below standard market rent.

#### Fixed property-based amenity charges

The Industry Commission model incorporates a fixed subsidy, so any amenity charge is the residual between the market rent on one hand and the tenant’s income-based rent calculation plus the fixed subsidy on the other hand.

Another way of reflecting the amenity of a property in the rent is to charge a fixed amount for a particular feature, such as size, location or quality, where this is better than the standard offering for this feature. The vacant bedroom charge described in Chapter 3 is effectively one such amenity charge. Where a tenant chooses to stay in a dwelling with more than one vacant bedroom, they are charged a fixed amount for the additional room, reflecting the additional amenity.

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<sup>104</sup> Industry Commission, *Public Housing, Volume 1: Report*, p 82.

Potentially, other property-based charges could be added to the income-based rent to reflect a dwelling's relative amenity. Such charges could reduce the current implicit subsidy for high-value properties and the inequities between tenants in similar circumstances discussed above.

#### 6.2.4 Property rental model options

The property rental models we have identified include:

- ▼ full market rent with a subsidy (rent is set at the market rate for the dwelling, and tenants receive an explicit income subsidy)
- ▼ discounted market rent with a subsidy (rent is set at a percentage below the market rate for the property, and tenants receive an explicit income subsidy)
- ▼ approximated market rent with a subsidy (rent reflects the relative amenity of the dwelling and tenants receive a subsidy which may be explicit and/or implicit), and
- ▼ cost rent (rent is set to recover operating and replacement costs of the dwelling).

Rent which is related to property characteristics sends price signals to prospective tenants about the relative merits of a dwelling; however, the extent to which tenants are able to respond to such signals is limited by their low incomes, and depends on how the subsidy is determined in each case.

##### Full market rent with a subsidy

In recent years, three different reform initiatives – the National Commission of Audit, the Henry tax review, and the McClure welfare review – have recommended that social housing shift from an income-based rent model to a market rent model, with an explicit subsidy.

In 1993, the Industry Commission proposed that social housing tenants whose income does not qualify them for a subsidy pay a premium of 2-3% on market rent to reflect the tenure security of social housing.

The market rent for a social housing property could be calculated by reference to either:

- ▼ similar private rental market properties (the method used currently to calculate the nominal rent for social and community housing properties in NSW), or
- ▼ a rate of return on the property's asset value.

If market rent is charged, the focus is then on the subsidy for which social housing (or affordable housing) tenants would be eligible. The Henry review and the McClure review both recommended an explicit subsidy in the form of

CRA to meet the gap between market rent and the rent paid by tenants. They also recommended that all social housing tenants be eligible for CRA, and that the level of CRA be increased (but did not specify by how much).

#### Discounted market rent with a subsidy

Currently, many affordable housing managers use a discounted market rent model.<sup>105</sup> For example, for properties funded under the National Rental Affordability Scheme (NRAS)<sup>106</sup>, rents must be set at least 20% below the prevailing market rent. In most locations, the rent for affordable housing managed by CHPs is set at 74.9% of market rent or less, to maximise CRA (assuming the tenant is eligible for CRA) and achieve GST-free tax status.

Affordable housing schemes usually receive some form of supply subsidy that helps the provider to meet the gap between the discounted rent and market rent (eg NRAS providers get an annual ‘incentive’ payment of about \$10,000 per dwelling per year for 10 years (indexed annually)).

A similar discounted market rent model could potentially be used for social housing. It could improve the financial viability of social housing although not to the same degree as a full market rent model. Affordability will depend on the discount and subsidy levels, which would have to be determined for different household and property types.

#### Approximated market rent with a subsidy

Another variant of a market rent model is an approximated market rent model. Under this model, rent is calculated using a ranking or points-based system to value the dwelling’s relative amenity as a proxy for how the market would value the property. For example, amenity could include:

- ▼ size of the property
- ▼ location
- ▼ job accessibility
- ▼ proximity to schools, and
- ▼ neighbourhood characteristics.

This model would reduce the inequity between tenants, who currently may pay the same rent but receive different levels of amenity from the dwelling they occupy. The model would also introduce price signals broadly similar to the private rental market, and increase tenant choice of property type and location.

<sup>105</sup> Affordable housing managers may also use an income-based rent model with optimised CRA. The method they use depends on the program under which the property was funded.

<sup>106</sup> See Appendix C for more details on NRAS.

Subsidies would still be required in such a model to meet the difference between tenant rent and market rent. This may be in the form of an explicit subsidy (such as CRA) or an implicit subsidy from the housing provider.

### Cost rent

Under a cost rent model, the rent would be calculated to recover the operating and replacement costs of social or affordable housing dwellings over time. The housing cost structure (either historic or current cost) determines the amount of rent required to sustain the system.

Cost rent models are commonly used in some European countries. For example, Sweden uses a current cost rent model for all rent setting, including in the private sector. A number of NSW Local Aboriginal Land Councils also employ this model.

Cost rent was also the original basis for all social housing rents in Australia. Under the 1945 Commonwealth State Housing Agreement (CSHA),<sup>107</sup> rents were based on the cost of constructing the original dwellings. The cost formula included an allowance for the annual amortised repayment of principal and interest, maintenance, rates and taxes, insurance, vacancies and defaults and administration.<sup>108</sup>

Cost rents remained dominant until the 1980s, allowing State Governments to recoup all or most of their operating costs. As the focus of social housing shifted from housing working families to housing disadvantaged households on low incomes, the cost rent model was overlaid by a household rent that provided greater (implicit) subsidies for those who could not afford to pay a cost rent.<sup>109</sup> This suggests that were a cost rent approach to be reintroduced, income or supply subsidies would still be required.

In a cost rent model, tenants could be charged an annual rent based on the average cost to repair and replace a dwelling of the property type and size. In addition, as AHURI<sup>110</sup> suggested in its work on cost rent, the costs could be distributed among dwellings based on their relative size, quality and amenity.

A cost rent model focuses on ensuring that the social housing sector is financially sustainable.

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<sup>107</sup> The CSHA was superseded by the National Affordable Housing Agreement (NAHA) in 2008.

<sup>108</sup> AHURI, *Rental systems in Australia and overseas*, Positioning Paper No 74, 2004, p 5.

<sup>109</sup> AHURI, *The residual income method: a new lens on housing affordability and market behaviour*, October 2011, p 57.

<sup>110</sup> AHURI, *Rental systems in Australia and overseas*, Positioning Paper No 74, 2004, p 17.



### 6.3 Options to make rent collection more efficient

As part of our review we will consider measures that could be used to make the collection of rent more efficient, by, for example, reducing the cost of collecting rent or pursuing rental arrears. Two options which have been previously identified are:

- ▼ **Requiring automatic deduction of rent from welfare entitlements**, through Centrepay deductions, in order to reduce the likelihood for tenants to fall into rental arrears and reduce the costs for housing providers of pursuing rental arrears.<sup>111</sup>
- ▼ **Incremental bond collection.** Currently public housing and some community housing tenants do not pay a bond, while some community housing providers are limited to collecting a maximum of two weeks rent or a fixed capped amount.<sup>112</sup> The introduction of the requirement to pay a bond in small weekly increments is already under consideration. This bond would then operate in the same way as in the private rental market, covering the cost of some property damage and encouraging personal responsibility.<sup>113</sup> It could also be used by the tenant for other properties when transitioning from social housing.

IPART seeks comment on the following

- 25 What are your views on automatic deduction of rent? Are there other options to make rent collection more efficient?

<sup>111</sup> Evolve Housing, *Response to the NSW Social Housing Discussion Paper*, February 2015, p 25.

<sup>112</sup> FACS, *NSW Community Housing Rent Policy*, July 2014, p 5. *The Rental Tenancies Act 2010* permits landlords to charge tenants a bond at commencement of their tenancy, but FACS does not charge public housing tenants a bond. CHPs may charge a bond as long as it does not impose an 'unreasonable affordability burden' on the tenant.

<sup>113</sup> Evolve Housing, *Response to the NSW Social Housing Discussion Paper*, February 2015, p 26.





## **Appendices**



# A Terms of reference

Independent Review of NSW Social and Affordable Housing Rent Models

## Terms of Reference for a review by IPART on rent models for social and affordable housing services

I, Mike Baird, Premier of New South Wales, pursuant to Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, request that the Independent Pricing and Regulatory Tribunal (IPART) conduct an investigation in accordance with these 'terms of reference'.

### Purpose

IPART should recommend an appropriate rent setting framework for social and affordable housing that improves incentives for workforce participation; and consider the eligibility criteria, and wait list and prioritisation policies for social housing and other subsidised housing assistance.

The review should aim to ensure the housing assistance system is affordable and easy to understand for clients, and allocations of assistance are needs-based, efficient and equitable.

The review is to make recommendations that are consistent with achieving the goals of the NSW Government's Social Housing Strategy, namely:

- More social housing.
- Opportunities, support and incentives to leave social housing.
- A better customer experience of social housing.

### Considerations

IPART is to consider the following:

1. The costs and benefits of rent setting models applying in Australia and overseas jurisdictions. This includes models that allow variation to respond to the characteristics of different social housing tenant households, circumstances and locational factors. Factors could include:
  - Level of support needed by different cohorts.
  - Geographic differences in housing affordability.
  - Changing economic circumstances of clients.
  - Circumstances and needs of Aboriginal people living in social housing.
  - Potential impacts of any change to the National Affordable Housing Agreement and Commonwealth Rental Assistance.
2. Rent models that best balance the need for rents to be affordable to tenants, with the need to encourage people living in social housing to take up opportunities for education, employment and higher personal incomes. This includes consideration of:
  - The ability to transition to other housing tenures and products, including private market rental housing and targeted sub market rental housing (i.e. affordable housing).
  - Potential impacts of any broader welfare reform undertaken by the Commonwealth.

Independent Review of NSW Social and Affordable Housing Rent Models

- The costs and benefits of greater choice so tenants can decide what trade-offs between rent, location, and housing type, size and quality are best for them, and decide whether to opt-in to a different rent model.
3. The existing eligibility criteria, and wait list and prioritisation policies, for social housing and other subsidised housing assistance, estimating the potential impact of any recommended changes on the future demand for housing assistance.
  4. The rent models and eligibility criteria applied across the social and affordable housing sector.
  5. The total cost of running the social housing system, and the impact of rent models on the financial sustainability of the system, with reference to the rental income streams of Land and Housing Corporation (LAHC), community housing providers and Aboriginal community housing providers.

Public Consultation

IPART should consult the public as part of this review, including inviting submissions from stakeholders on an Issues Paper and a Draft Report, and holding public forums.

Procedure

IPART should publicly release a Draft Report for comment within nine months of receiving these Terms of Reference. A Final Report should be provided to the Minister for Social Housing three months after release of the Draft Report. The Minister for Social Housing will decide on the timing of release of the Final Report.

Governance

IPART should provide progress briefings at regular intervals or as requested by the Secretary of the Department of Family and Community Services.



**Mike Baird MP**  
Premier

## B Additional background on social housing

Social housing is rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market.<sup>114</sup>

### B.1 Social housing

Social housing in NSW comprises:

- ▼ **public housing** - dwellings owned or leased by NSW Land and Housing Corporation (LAHC) and tenancies managed by FACS
- ▼ **community housing** - dwellings owned or leased and tenancies managed by not-for-profit, non-government community housing providers (CHPs) and dwellings owned by LAHC and tenancies managed by CHPs.
- ▼ **Aboriginal housing** - dwellings owned by the Aboriginal Housing Office (AHO) with assets managed by LAHC and tenancies managed by FACS; and dwellings owned or leased and tenancies managed by Aboriginal community housing providers (ACHPs). The AHO also delivers other housing programs and services to assist Aboriginal people.

#### B.1.1 Ownership and asset management of social housing dwellings

NSW's social housing system consists of around 150,000 dwellings, which is around 5% of all housing stock in NSW. Of these 150,000 dwellings, 74% are owned and assets managed by the Land and Housing Corporation (LAHC)<sup>115</sup> and a further 11% are owned by LAHC and assets managed by Community Housing Providers (CHPs). Figure B.1 below illustrates these arrangements, and the ownership and asset management configurations of the remaining 15%.

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<sup>114</sup> *Future Directions for Social Housing in NSW*, p 7.

<sup>115</sup> LAHC is a Public Trading Enterprise operating under the portfolio and direction of the Minister for Family and Community Services and Minister for Social Housing.

**Figure B.1 Ownership and asset management of NSW social housing dwellings**

		Asset ownership							
		Government		Community		Private sector			
		LAHC	AHO	CHPs	ACHPs	Private sector			
Asset management	Government	LAHC	110,524 (74%)	4,685 (3%)	-	-	2,706 (2%)	117,915 (78%)	78%
		AHO	-	-	-	-	-	-	
	Community	CHPs	15,825 (11%)	-	5,820 (4%)	-	5,840 (4%)	27,485 (18%)	22%
		ACHPs	-	-	-	4,958 (3%)	-	4,958 (3%)	
			126,349 (84%)	4,685 (3%)	5,820 (4%)	4,958 (3%)	8,546 (6%)	150,358 (100%)	
			87%		7%		6%		

**Note:** Discrepancies between total and sum of components are due to rounding

**Data source:** FACS, *Social housing in NSW: A discussion paper for input and comment*, 2014, p 62.

Since 1996, the NSW Government has been transferring management of some publicly-owned property to CHPs. In May 2009, the States and the Commonwealth agreed to develop a large scale community housing sector in Australia to own and/or manage up to 35% of social housing by 2014.<sup>116</sup> As part of this agreement, 6,276 LAHC properties were vested to CHPs including:

- ▼ 5,820 properties with a value of \$1.4bn in 2013-14 and prior years
- ▼ 296 properties with a value of \$70.5m in 2014-15, and
- ▼ 160 properties with a value of \$45.7m in 2015-16.<sup>117</sup>

One objective of the agreement is that CHPs will leverage these assets to borrow funds from the private sector and invest in additional housing stock. As a condition of the vesting, CHPs were given a target of 20% additional stock. FACS advises that the CHPs are on track to deliver an additional 1,400 dwellings by 2021.<sup>118</sup>

### B.1.2 Tenancy management in social housing

Social housing tenancy managers undertake similar activities to private tenancy managers, ie, rent collection, management of rent arrears and coordinating repairs and maintenance. However, given the ‘complex-needs’ profile of many

<sup>116</sup> The reform agenda set out in the National Affordable Housing Agreement and the Nation Building and Jobs Social Housing Initiative places significant emphasis on the community housing sector as a provider of social and affordable housing.

<sup>117</sup> FACS, *Vested Assets Program*.

<sup>118</sup> Internal FACS data.



tenants, they generally undertake, or partner with other services to provide, a wider range of support activities:

- ▼ FACS provides tenancy management for public housing and some Aboriginal housing through a fee-for-service arrangement with LAHC, including assessing housing applications and administering the NSW Housing Register (the social housing waiting list) for access by all social housing providers. Rents collected by FACS are remitted to LAHC.
- ▼ CHPs (community housing) provide tenancy management with a ‘whole-of-tenant’ focus, eg connecting tenants to support services and opportunities for employment, education and training. In 2014-15, 18.7% of the social housing portfolio was managed by CHPs.<sup>119</sup> Where CHPs manage LAHC properties, they retain the rent collected.
- ▼ ACHPs must be registered with the AHO to receive funding support for carrying out operational and management services. Currently 12% of AHO properties are managed by ACHPs (81% are managed by FACS and 4% by CHPs).<sup>120</sup> ACHPs also manage tenancies in dwellings that they own. They may deliver additional support programs eg, workshops on budgeting, home maintenance, literacy and key messages about overcrowding, rents and tenancy changes.<sup>121</sup>

Both FACS and CHPs headlease properties for social housing. FACS generally sees this as a transitional measure for tenancies with complex needs or when suitable properties are unavailable in a particular location, while CHPs use it as part of their business model. They receive funding from FACS (around \$75 million annually) to subsidise the difference between market rent and income-based rent.<sup>122</sup>

### B.1.3 Eligibility criteria and income thresholds at entry and review

#### Eligibility criteria for entry to social housing

To be eligible for social housing (public, community or Aboriginal housing), applicants must:<sup>123</sup>

- ▼ establish their identity
- ▼ be resident in NSW
- ▼ be a citizen or have permanent residency in Australia

<sup>119</sup> FACS, *Statistical report 2014-15*, p 17.

<sup>120</sup> Internal AHO data.

<sup>121</sup> Legislative Assembly of NSW Public Accounts Committee, *Tenancy Management in Social Housing*, November 2014, p 52.

<sup>122</sup> NSW Government, *Budget Paper No.3 Budget Estimates 2016-17*, p 3.4.

<sup>123</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/eligibility-for-social-housing-policy>, accessed 30 September 2016.

- ▼ have a household income within the income eligibility limits
- ▼ not own any assets or property which could reasonably be expected to resolve their housing need<sup>124</sup>
- ▼ be able to sustain a successful tenancy without support or with appropriate support in place
- ▼ if applicable make repayment of any former debts to a social housing provider and
- ▼ in general be at least 18 years of age.

Additional eligibility criteria may apply for:

- ▼ AHO properties – eg confirmation of Aboriginality.
- ▼ CHPs that target specific clients eg, prioritising single women.

Once assessed as eligible for social housing, applicants are placed on the NSW Housing Register comprising a ‘priority’ and ‘general’ waiting list. Generally social housing providers will house clients in the following order:<sup>125</sup>

- ▼ clients approved for emergency temporary accommodation
- ▼ clients approved for urgent housing and clients approved for transfers or relocations on the grounds of under-occupancy
- ▼ elderly clients (clients who are aged 80 and over, or 55 and over if Aboriginal or Torres Strait Islander)
- ▼ clients approved for a transfer on a priority basis, or clients being relocated for management purposes
- ▼ clients approved for wait-turn housing and wait-turn transfer.

#### Income limits at entry and review

Income limits for entry into social housing are set at low levels to target people with low incomes who are not able to access housing in the private rental market. Before expiry of a fixed term lease for public housing, reviews are undertaken to assess a tenant’s ongoing eligibility. Although most eligibility criteria remain the same, income limits at review are around 60% higher than for entry into social housing as seen in Table B.1.

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<sup>124</sup> The property ownership rule may be waived under certain circumstances including if the client is in the process of negotiating a property settlement, needs to move for specialist medical treatment, is escaping domestic violence or the property is located overseas.

<http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#wtpor>, accessed 6 October 2016.

<sup>125</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/matching-and-offering-a-property-to-a-client-policy> accessed 12 July 2016.

**Table B.1 Income thresholds for social housing eligibility - at entry and review (July 2016)**

Household type	Gross weekly assessable household income	
	At entry	At review
Single adult	\$595	\$944
Each additional adult (18 years or over)	Add \$225	Add \$250
First child (under 18 years)	Add \$290	Add \$188
Each additional child (under 18 years)	Add \$95	Add \$131
<b>Disability allowance, if applicable</b>		
-Disability allowance (per person)	Add \$95	Add \$95
-Exceptional disability allowance (per person)	Add \$225	Add \$225

**Note:** Assessable gross income includes most pensions, benefits and allowances paid by Centrelink and the Department of Veterans' (statutory income).

**Source:** <http://www.housingpathways.nsw.gov.au/additional-information/policies/social-housing-eligibility-and-allocations-policy-supplement#iel> accessed 13 July 2016 and <http://www.housingpathways.nsw.gov.au/additional-information/policies/tenancy-policy-supplement#ilalr> accessed 12 July 2016.

#### B.1.4 Who lives in social housing?

The profile of tenants in social housing has changed substantially since the inception of the social housing system in the 1950s. Originally the system was targeted at supporting individuals re-establishing their lives after the Second World War. Over time policy changes focused on targeting 'those most in need' ie, people on low incomes with complex needs as well as those on low incomes unable to resolve their own housing need in the private rental market.<sup>126</sup>

##### Household composition

In the 1950s, social housing provided housing for low income working families, often as a pathway to home ownership with couples with children the dominant household type (73% of public housing tenants). By 2012-13, singles with no children living with them had become the dominant household type (60% of public housing tenants) and couples with children were less common (4% of public housing tenants).

##### Age

About 55% of social housing residents are of working age, that is, between 18 and 64 years. Approximately 20% are of retirement age (over 64 years), and a quarter are children. More than one in three individuals living in social housing is a child or young adult (aged 18-24). In 2013, around 4,000 of these young adults were the household head of a social housing tenancy.<sup>127</sup>

<sup>126</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 51.

<sup>127</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 59.

## Disability

The proportion of social housing tenants with a disability has been increasing in recent years, reaching 35% of all social housing tenants in 2012/13. FACS does not collect data on the prevalence of mental health issues in social housing, but their internal modelling estimates people living in social housing are 2.4 times more likely to have a severe mental illness than those not living in social housing.<sup>128</sup>

## Education

Approximately 85% of social housing tenants have completed junior secondary schooling, and one in three have completed Year 12 education or beyond.

## Main source of income

Tenants' main source of income has considerably shifted since the 1960s, where wages were the primary income source for 85% of public housing households. Today, only 5% rely on wages as their main source of income, with Centrelink benefits supporting the remaining 94% of subsidised public housing tenants.

Public housing tenants primarily supported by Centrelink payments receive a mean income of \$485 per week, whilst tenants relying on wages earn an average weekly income of \$750 (as at 2012-13).<sup>129</sup>

### B.1.5 Key differences between public and community housing

Generally, community housing differs from public housing in the following ways:

- ▼ Community housing rent policy requires optimisation of CRA subject to the subsidised rent, including CRA, not exceeding market rent. Public housing tenants are not eligible for CRA.<sup>130</sup>
- ▼ There are no ongoing eligibility criteria for community housing tenants so that even if their income increases above the income eligibility criteria, tenants are not required to leave their housing.
- ▼ Lease arrangements are different – community housing leases are all continuous, while fixed term leases have applied in public housing since 2006 (with the exception of tenants on continuous leases prior to 1 July 2005).<sup>131</sup>

<sup>128</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 59.

<sup>129</sup> FACS, *Social Housing in NSW: A discussion paper for input and comment*, November 2014, p 60.

<sup>130</sup> The AHO is deemed a social housing provider who outsources its property and tenancy management to FACS. The AHO also maximises CRA rents for all of its tenants in AHO social housing.

<sup>131</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/eligibility-for-social-housing-policy>, accessed 24 June 2016.

- ▼ Generally, all social housing providers allocate on a priority and wait-turn basis. However, individual community housing providers have some discretion about allocation.<sup>132</sup> For example, a community housing provider may provide housing only to single women.<sup>133</sup>
- ▼ Some entitlements may vary, eg bedroom entitlements may be different, particularly for Aboriginal clients.

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<sup>132</sup> Community Housing Federation of Australia (CHFA), *Allocation, eligibility, rent setting in the Australian community housing sector*, April 2014, p 41.

<sup>133</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/eligibility-for-social-housing-policy>, accessed 24 June 2016. ACHPs have a different allocation approach.

## C Additional background on affordable housing

Both Commonwealth and State Governments have introduced policies to increase the supply and diversity of affordable rental housing. Affordable housing in NSW has been developed in a range of ways and through a mix of sources including:<sup>134</sup>

- ▼ Government (local/state/Commonwealth) grant or land contributions
- ▼ planning incentives
- ▼ philanthropic sources
- ▼ community housing provider equity contributions and from finance secured against assets owned by community housing providers.

Affordable housing may be owned by private developers or investors, local governments, charitable organisations or CHPs. It is usually managed by CHPs, but sometimes by private organisations. In recent years CHPs have played an increasing role in the supply of affordable housing.

The sections below provide a brief overview of some past and current affordable housing schemes operating in NSW and do not necessarily cover all affordable housing schemes that may operate in NSW.

### C.1 Government grants or land contributions

The National Rental Affordability Scheme (NRAS) is an example of a Commonwealth Government grant to investors prepared to build affordable rental housing.

#### C.1.1 What is the NRAS

The NRAS was introduced in 2008 as a partnership between the Commonwealth Government and States and Territories to invest in affordable rental housing. It offers financial incentives to persons or entities such as the business sector and

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<sup>134</sup> <http://www.housing.nsw.gov.au/centre-for-affordable-housing/about-affordable-housing>, accessed 9 August 2016.

community organisations to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below market rent.<sup>135</sup>

Features of NRAS:

- ▼ aims to encourage new large-scale investment in affordable housing (usually 100 or more houses)
- ▼ dwellings must comply with state, territory and local government planning and building codes
- ▼ must be rented to eligible tenants at a rate at least 20 per cent below market value rent and comply with all conditions of allocation (contained in NRAS Act and NRAS Regulations)
- ▼ offers investors annual incentives for 10 years paid per dwelling and indexed each year in line with Rents component of CPI (may be tax offset or direct payment)
- ▼ state and territory governments may offer approved participants a contribution per dwelling per year in direct or in-kind financial support.

The NRAS was closed by the Commonwealth Government in 2014. However, developers that had already received NRAS approval continue to receive payments for up to 10 years so long as their eligibility requirements are met and their constructions proceed according to the pre-arranged timelines.

By June 2015, NRAS had delivered 27,603 dwellings in Australia (3,221 in NSW) with a further 9,980 (3,609 in NSW) to be delivered, 76 per cent of which were in major cities across Australia.<sup>136</sup>

The NRAS and its participants are monitored by the Commonwealth Department of Social Services.

### **C.1.2 State Government affordable housing grants**

State government grants or land contributions in NSW may include:<sup>137</sup>

- ▼ capital grants for social and affordable housing, eg, the Social Housing Growth Fund
- ▼ land and capital grants for affordable housing delivered through planning agreements, eg under the St Marys and Rouse Hill Affordable Housing projects

<sup>135</sup> <https://www.dss.gov.au/our-responsibilities/housing-support/programmes-services/national-rental-affordability-scheme> accessed 9 August 2016.

<sup>136</sup> AHURI, *Subsidised affordable rental housing: lessons from Australia and overseas*, August 2016, pp 1 and 29.

<sup>137</sup> FACS, *NSW Affordable Housing Ministerial Guidelines*, 2016-17, p 4 and correspondence with FACS 17 August 2016.

- ▼ affordable housing programs such as Debt Equity Rounds 1 and 2 and the Affordable Housing Innovations Fund
- ▼ NRAS A - where the NSW Government has provided an upfront grant or contribution in kind to not-for-profit registered CHPs.

### C.1.3 Local government grants or land contributions

Some local councils have adopted affordable rental housing strategies in collaboration with private and not-for-profit organisations.

For example the City of Sydney aims to develop an additional 8,000 affordable rental housing dwellings by 2030 in the LGA.<sup>138</sup> The council is developing social and affordable rental housing through:

- ▼ Housing levies/contributions eg in Green Square and Ultimo and Pyrmont (see SEPP 70 below)
- ▼ Planning agreements (also commonly known as voluntary planning agreements) which form part of its developer contribution system.<sup>139</sup> (A planning agreement can either be in lieu of, or in addition to a development contribution payment).
- ▼ Land contributions or planning control changes to enable affordable rental housing development eg, the Harold Park urban renewal scheme.
- ▼ Financial grants (eg, \$250,000 awarded to the Salvation Army to help build more than 160 new homes in central Sydney for low income workers and people needing crisis accommodation).

## C.2 Planning incentives

State Environmental Planning Policies (SEPPs) deal with matters of State or regional environmental planning significance. They are made by the Governor on the recommendation of the Minister for Planning and published as a legal document.

Two SEPPs that encourage the development of new affordable housing and the maintenance of existing affordable housing are the:<sup>140</sup>

- ▼ State Environmental Planning Policy (Affordable Rental Housing) 2009 (ARHSEPP), and

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<sup>138</sup> <http://www.cityofsydney.nsw.gov.au/vision/towards-2030/communities-and-culture/affordable-housing> accessed 1 November 2016.

<sup>139</sup> <http://www.cityofsydney.nsw.gov.au/development/planning-controls/planning-agreements>, accessed 12 September 2016.

<sup>140</sup> <http://www.planning.nsw.gov.au/affordablehousing>, accessed 7 September 2016.



- ▼ State Environmental Planning Policy No. 70 Affordable Housing (Revised Schemes) 2002 (SEPP No. 70).

The ARHSEPP has been the key lever for the NSW Government in recent years to address affordable housing supply. It aims to increase the supply and diversity of affordable rental and social housing in NSW. It establishes a consistent planning regime for the provision of affordable rental housing. It promotes:

- ▼ infill housing in existing residential areas that are accessible by public transport
- ▼ developments that are well-located and compatible with the character of the locality.

Housing types such as villas, townhouses and apartments that contain an affordable rental housing component, along with secondary dwellings (granny flats), new generation boarding houses, group homes, social housing and supportive accommodation are all covered in the ARHSEPP.

The local council's standard development application process applies for ARHSEPP development. That is, applications are lodged with the local council similar to other development proposals. However additional infill development planning controls apply, eg:

- ▼ specified accessibility to railway stations (800m walking distance)/Sydney Ferries wharf
- ▼ bonus floor space ratio (eg 0.5:1 or 20% whichever is greater)
- ▼ proportion of affordable housing – between 20% and 50% of gross floor area
- ▼ other requirements eg, minimum dwelling size, parking, solar access, controls (eg for seniors).

Affordable housing dwellings must be secured for a minimum of 10 years and managed by a registered CHP (it is recommended but not required that CHPs manage them in accordance with the *NSW Affordable Housing Ministerial Guidelines*).

### **New Generation boarding houses**

The ARHSEPP also makes boarding houses permissible in certain zones in an LGA. Similar assessment processes and controls apply as for other ARHSEPP dwellings with some differences appropriate for boarding houses (eg maximum room size).<sup>141</sup>

<sup>141</sup> [http://www.planning.nsw.gov.au/~/\\_/media/D7796C1818794D238F49F77F2D792365.ashx](http://www.planning.nsw.gov.au/~/_/media/D7796C1818794D238F49F77F2D792365.ashx), accessed 12 September 2016.

Four boarding house projects will receive \$8.9m in grants to deliver 100 new rooms. These projects are in the Hunter, Central Coast and Sydney and will be a mix of social and affordable housing dwellings:<sup>142</sup>

- ▼ 3 projects comprising 82 rooms to be delivered by Evolve Housing and Pacific Link Community Housing in Woy Woy, Lake Macquarie and Bankstown
- ▼ 1 project comprising 18 rooms (recently completed) – delivered by Compass in Newcastle.

The SEPP No. 70 extends the life of previous affordable housing provisions (Sydney Regional Environmental Plan No. 25-City West, Willoughby Local Environmental Plan 1995 and South Sydney Local Environmental Plan 1998).<sup>143</sup>

The policy offers a mechanism allowing specific councils to assign an affordable housing contribution to certain developments within its local government area. This scheme is currently operating in Ultimo-Pyrmont and Green Square. Other examples include Willoughby City Council and the City of Sydney.

An existing scheme is the Revised City West Affordable Housing Program 2010 which ensures that people on low to moderate incomes can continue to live and work in Ultimo-Pyrmont. The program, delivered in partnership between the community, development industry and government, provides housing which is affordable to a cross section of socio-economic groups.

The Green Square Affordable Housing Program aims to develop new affordable housing dwellings in Green Square. City West Housing is the community housing provider for the Green Square area (see also City of Sydney website).

### C.3 Philanthropic sources

Numerous charities have schemes that provide housing and services for their own clients, eg St Vincent De Paul Society, Uniting Church, Salvation Army (Salvos Housing) and Mission Australia Housing. For example, Salvos Housing provides a range of accommodation options encompassing crisis, transitional and long term accommodation for vulnerable people.

Some funding sources for charitable institutions include gifts, donations, bequests and other philanthropic contributions from individuals and organisations.

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<sup>142</sup> <http://www.housing.nsw.gov.au/centre-for-affordable-housing>, accessed 12 September 2016.

<sup>143</sup> [http://www.planning.nsw.gov.au/Policy-and-Legislation/Housing/Affordable-Rental-Housing?acc\\_section=fact\\_sheets](http://www.planning.nsw.gov.au/Policy-and-Legislation/Housing/Affordable-Rental-Housing?acc_section=fact_sheets), accessed 13 October 2016.

#### C.4 CHPs' equity contributions and finance secured against owned assets

CHPs are able to leverage affordable housing properties from their current stock of dwellings (whether vested properties from FACS or dwellings they own in their own right). Between 2008-09 and 2014-15, CHPs delivered 3,890 affordable housing properties.<sup>144</sup>

#### C.5 Affordable Housing Ministerial Guidelines

FACS has some regulatory control over affordable housing delivered by CHPs, via the NSW Affordable Housing Ministerial Guidelines ('the Guidelines'). The Guidelines include overarching principles for delivering affordable housing and policy requirements for income eligibility and rent setting.

The Guidelines apply to all designated affordable housing properties in a registered CHP's portfolio acquired from:<sup>145</sup>

- ▼ capital grants for social and affordable housing, eg, the Social Housing Growth Fund
- ▼ land and capital grants for affordable housing delivered through planning agreements, eg under the St Marys and Rouse Hill Affordable Housing projects
- ▼ affordable housing programs such as Debt Equity Rounds 1 and 2 and the Affordable Housing Innovations Fund
- ▼ NRAS A - where the NSW Government has provided an upfront grant or contribution in kind to not-for-profit registered CHPs.<sup>146</sup>

The Guidelines do not apply to assets owned or managed by CHPs without assistance or with minimal assistance from the NSW Government, such as:<sup>147</sup>

- ▼ Fee for service management arrangements
- ▼ Leveraged properties without NSW Government interest
- ▼ Partnerships with local councils
- ▼ Boarding House Financial Assistance Program Funding.

Neither do the Guidelines apply to ARHSEPP properties, but it is recommended that they are used as best practice for managing properties under SEPPs.

<sup>144</sup> Internal FACS data.

<sup>145</sup> FACS, *Managing affordable housing in NSW*, Fact sheet, 5 May 2014.

<sup>146</sup> Properties receiving NRAS funding must also comply with Commonwealth NRAS Policy Guidelines. FACS, *Affordable Housing Ministerial Guidelines*, p 4.

<sup>147</sup> [http://www.nrsch.gov.au/states\\_and\\_territories/NSW](http://www.nrsch.gov.au/states_and_territories/NSW), accessed 10 August 2016.

### C.5.1 Eligibility for affordable housing and tenancy review

The general eligibility criteria for affordable housing managed by CHPs, as set out in the Ministerial Guidelines, are similar to social housing. Applicants for Affordable Housing owned/managed by the private sector only have to meet income eligibility. However, to balance the needs of households in housing stress with the requirement for providers to generate sufficient income to meet finance and other operating costs, a broader range of income limits apply from 'very low' to 'moderate' (as defined by relationship to the NSW or Sydney median income) where:

- ▼ *very low income earners* are those earning <50% of the NSW or Sydney median income, (eg, workers in retail, manufacturing, on the minimum wage, aged or disability pension or other government benefit)
- ▼ *low income earners* are those earning >50% but <80% of the NSW or Sydney median income (eg, child care workers, secretaries or cleaners)
- ▼ *moderate income earners* are those earning 80% - 120% of the NSW or Sydney median income (eg, occupations such as teaching, policing or nursing, particularly in early stages of a career).

The median income and household income limits are shown in Table C.1 and Table C.2.

Households must continue to meet all criteria except income to remain eligible for affordable housing. Existing tenants are permitted to earn up to 25% above the maximum eligibility income for moderate income before they become ineligible (see Table C.3 and Table C.4).

**Table C.1 Median household income levels by income band 2016-17**

Income bands	% of median income	Annual income range (Sydney) (\$)	Annual income range (NSW) (\$)
Very low	50% median	42,300	36,100
Low	50% - 80% median	67,600	57,800
Moderate	80% - 120% median	101,400	86,700

**Note:** These income bands apply only to CHPs subject to the *NSW Affordable Housing Ministerial Guidelines* and not to dwellings delivered under NRAS or the ARHSEPP.

**Source:** FACS, NSW Affordable Housing Ministerial Guidelines, 2016-17, p14.

**Table C.2 Household income bands by household size**

Household members	Gross annual household income		
	Very low	Low	Moderate
<b>Sydney</b>			
Single adult	\$25,000	\$40,000	\$59,900
Each additional adult (over 18 years)	Add \$12,500	Add \$20,000	Add \$30,000
Each additional child (under 18 years)	Add \$7,500	Add \$12,000	Add \$18,000
<b>New South Wales</b>			
Single adult	\$22,000	\$35,200	\$52,900
Each additional adult (over 18 years)	Add \$11,000	Add \$17,600	Add \$26,500
Each additional child (under 18 years)	Add \$6,600	Add \$10,600	Add \$15,950

Source: FACS, NSW Affordable Housing Ministerial Guidelines, 2016-17, p14.

**Table C.3 Ongoing eligibility maximum income limits – Sydney affordable housing tenants**

Household type	Ongoing eligibility maximum income limit
Single	\$74,875
Single + 1 child	\$97,375
Single + 2 children	\$119,875
Single + 3 children	\$142,375
Single + 4 children	\$164,875
Couple	\$112,375
Couple + 1 children	\$134,875
Couple + 2 children	\$157,375
Couple + 3 children	\$179,875
Couple + 4 children	\$202,375

Source: FACS, NSW Affordable Housing Ministerial Guidelines, 2016-17, p 16.

**Table C.4 Ongoing eligibility maximum income limits –affordable housing tenants in the rest of NSW**

<b>Household type</b>	<b>Ongoing eligibility maximum income limit</b>
Single	\$66,125
Single + 1 child	\$86,000
Single + 2 children	\$105,875
Single + 3 children	\$125,750
Single + 4 children	\$145,625
Couple	\$99,250
Couple + 1 children	\$119,125
Couple + 2 children	\$139,000
Couple + 3 children	\$158,875
Couple + 4 children	\$178,750

**Source:** FACS, *NSW Affordable Housing Guidelines*, 2016-17, p 16.

D | Other subsidised housing assistance

Table D.1 Other subsidised housing assistance provided by FACS

Assistance type	Eligibility criteria/purpose of assistance	Form of assistance	Rent model (if applicable)
<b>Statement of Satisfactory Tenancy</b>	Current or former public housing tenant where tenancy is managed by FACS (including tenants of Aboriginal Housing Office).	Document to indicate tenant's satisfactory maintenance of tenancy relating to rent, other charges, care of property etc.	NA (non-financial administrative assistance generally in conjunction with other financial housing assistance – see below)
<b>Private rental brokerage</b>	Client: <ul style="list-style-type: none"> <li>• must be eligible for social housing</li> <li>• is homeless or at risk of homelessness with complex needs (eg physical, mental illness)</li> <li>• has a support service and case plan in place</li> <li>• has capacity to afford and sustain a private rental tenancy (ie in receipt of regular weekly income)</li> <li>• must enter repayment arrangement for former social housing tenancy debt if applicable.</li> </ul>	<ul style="list-style-type: none"> <li>• Tenancy facilitation, eg compiling documentation, submitting applications, coaching on interaction with real estate agents</li> <li>• Checks for eligibility for other private rental products eg Rentstart, Tenancy Guarantee</li> <li>• Initial fortnightly monitoring of tenancy</li> <li>• 3-12 months progress monitored</li> </ul> Note: FACS assistance for this service can be accessed by CHPs.	NA (non-financial administrative assistance generally in conjunction with other financial housing assistance – see below)
<b>Tenancy Guarantee</b>	Client: <ul style="list-style-type: none"> <li>• must be eligible for social housing</li> <li>• has limited or poor tenancy history.</li> </ul>	<ul style="list-style-type: none"> <li>• Up to \$1500 to assist establishing private rental tenancy</li> <li>• Valid for fixed term of tenancy agreement up to 12 months (ends if landlord terminates tenancy earlier)</li> <li>• In unusual circumstances, a 2nd tenancy guarantee may be given</li> <li>• Can supplement rental bond if tenant incurs rental arrears and/or damages the property over and above the value of the rental bond</li> <li>• Monthly monitoring in first 3 months, then bi-monthly to end of tenancy</li> <li>• Liaising between tenant and landlord to discuss/defuse problems</li> </ul>	Income related - Maximum rent guaranteed is 50% of household's gross weekly income plus 100% of CRA received.



Assistance type	Eligibility criteria/purpose of assistance	Form of assistance	Rent model (if applicable)
<p><b>Private rental subsidies</b> (From 12 June 2012 new policy rules affected recipients of Private Rental Subsidy assistance. Entitlements under the Private Rental Subsidy – Special and Private Rental Subsidy – Disability are protected as long as clients remain eligible for a Private Rental Subsidy).</p>	<p>Client:</p> <ul style="list-style-type: none"> <li>• must be eligible for social housing and waiting for suitable property to become available</li> <li>• must be approved for priority status</li> <li>• must have recognised disability or mental condition</li> <li>• must be able to demonstrate ‘at risk of harm’ in current housing while waiting for social housing.</li> </ul>	<ul style="list-style-type: none"> <li>• Checks if tenancy is continuing at end of tenancy agreement and expiry of Tenancy Guarantee.</li> <li>• <b>Medium term solution</b> – subsidy to make up difference between amount of rent paid by client and benchmark rent for property in approved area comparable to FACS property</li> <li>• Client must secure private tenancy within 3 months of approval and confirm when they are housed in social housing, arrangements can be made to transfer support services within allocation zone</li> </ul> <p>This service can be accessed by Community Housing tenants.</p>	<p>Income related - Client contributes 25% of income towards rent and 20% of CRA (if tenancy established before June 2006).</p> <p>If client is required to move due to a breach of the Tenancy Agreement, FACS will assess CRA at 100%.</p>
<p><b><u>Prior to 12 June 2012</u></b></p> <p><b>1. Private rental subsidy - Special</b></p> <p><b>2. Private rental subsidy – Disability</b></p>	<p>1. Private Rental Subsidy – Special, client:</p> <ul style="list-style-type: none"> <li>• must be eligible for social housing</li> <li>• must be diagnosed as HIV/AIDS positive</li> <li>• have evidence how HIV status impacts on housing/location needs, carer, support services and how private rental subsidy would help resolve that need.</li> </ul> <p>2. Private rental subsidy - Disability</p> <ul style="list-style-type: none"> <li>• Eligible for social housing</li> <li>• Have a disability</li> <li>• Approved for priority assistance</li> <li>• Have reached their turn on the public housing list.</li> </ul>	<p>1. As above, but <b>longer term solution</b> that does not require client to move into social housing:</p> <ul style="list-style-type: none"> <li>▼ Once receiving a Private Rental Subsidy – Special and if seeking allocation of social housing – may apply for priority assistance.</li> </ul> <p>2. As for Private rental subsidies but <b>short term solution</b> while waiting for social housing property.</p>	

Assistance type	Eligibility criteria/purpose of assistance	Form of assistance	Rent model (if applicable)
<b>Rentchoice - Start Safely Private Rental Subsidy</b>	<p>Client must:</p> <ul style="list-style-type: none"> <li>be eligible for social housing</li> <li>be escaping due to domestic or family violence and homeless at risk of homelessness</li> <li>express commitment to sustaining a tenancy while receiving the subsidy and to sustaining themselves independently after the subsidy ceases be committed to engaging with the review process and working toward meeting support plan goals</li> <li>be willing to receive support services where relevant</li> <li>find a property within their financial means start safely is also available to clients to stay in their current rental accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Time limited to a maximum of 3 years (<b>short to medium term financial assistance</b>)</li> <li>Subsidy is difference between amount of rent client pays and full property rent</li> <li>Subsidy paid directly to landlord/agent</li> <li>Can be used in conjunction with other private rental assistance products, eg Rentstart (eg rental bond, advance rent, rental arrears), Tenancy Guarantee.</li> </ul>	<ul style="list-style-type: none"> <li>Income related - at commencement of subsidy, contribute 25% of income – (client assumed to receive CRA and 100% CRA assessed as contributing to income)</li> <li>Affordable rent is determined by; <ul style="list-style-type: none"> <li>Eg, Single person on Newstart Allowance of \$263.80/week and CRA of \$65.20/week <ul style="list-style-type: none"> <li>– \$263.80 x 50% = \$131.90</li> <li>– \$65.20 x 100% = \$65.20</li> </ul> </li> <li>Total affordable rent = \$197.10</li> </ul> </li> </ul>
<b>Rentchoice – Youth Private Rental Subsidy</b>	<p>Client must:</p> <ul style="list-style-type: none"> <li>Be aged 16 – 24 years (i.e. not have reached their twenty-fifth birthday at the time they are approved for the subsidy and admitted into the program)<sup>148</sup>.</li> <li>Be assessed as eligible to be placed on the Social Housing Register.</li> <li>Be an Australian Citizen or hold permanent residency in Australia.</li> <li>Be capable of maintaining a tenancy (with the required support while on the subsidy).</li> <li>Not be an ineligible former tenant of FACS.</li> </ul>	<ul style="list-style-type: none"> <li>Time limited to a maximum of 3 years (<b>short to medium term financial assistance</b>)</li> <li>Subsidy is difference between amount of rent client pays and full property rent</li> <li>Subsidy paid directly to landlord/agent</li> <li>Can be used in conjunction with other private rental assistance products, eg Rentstart (eg rental bond, advance rent, rental arrears), Tenancy Guarantee</li> </ul> <p>Clients referred to the program must:</p> <ul style="list-style-type: none"> <li>Be considered by their support provider as <u>not</u> requiring priority</li> </ul>	<ul style="list-style-type: none"> <li>Income related - at commencement of subsidy, contribute 25% of income</li> <li>Affordable rent is determined by: <ul style="list-style-type: none"> <li>Single person on Newstart Allowance of \$263.80/week and CRA of \$65.20/week <ul style="list-style-type: none"> <li>– \$263.80 x 50% = \$131.90</li> <li>– \$65.20 x 100% = \$65.20</li> </ul> </li> <li>Total affordable rent = \$197.10</li> </ul> </li> </ul>

<sup>148</sup> Should clients turn 25 whilst receiving the subsidy, they still remain eligible for the maximum period of subsidy.

Assistance type	Eligibility criteria/purpose of assistance	Form of assistance	Rent model (if applicable)
	<ul style="list-style-type: none"> <li>• Be homeless or at risk of homelessness.</li> <li>• Be able to demonstrate that they are willing to engage with their support provider.</li> <li>• Be able to demonstrate that they have the capacity and are willing to engage in training / education or employment during the period of the subsidy.</li> </ul>	<ul style="list-style-type: none"> <li>• housing status on the Housing Register at the time of applying.</li> <li>• Be referred by a Youth Subsidy Program partner who will case manage the client for the duration of the subsidy or transition the young person to another appropriate Youth Subsidy Program partner for ongoing case management and support</li> </ul>	
<b>Rentstart</b> 1. Rentstart Bond Loan 2. Advance Rent 3. Rentstart Tenancy Assistance 4. Temporary Accommodation 5. Rentstart Move	<ul style="list-style-type: none"> <li>• Client must meet general eligibility criteria for social housing.</li> <li>• Cash assets limit applies.</li> <li>• Generally assistance not provided for housing that is clearly beyond the applicant's financial means.</li> </ul> <p>(Note: eligibility for specific Rentstart products vary).<sup>149</sup></p>	<ol style="list-style-type: none"> <li>1. Rentstart Bond Loan -Assistance to establish a tenancy in the private market which is repayable to FACS.</li> <li>2. Advance Rent –assistance for people experiencing severe financial barriers in accessing private rental accommodation.</li> <li>3. Rentstart Tenancy Assistance – assistance to maintain a private tenancy through help with payment of rental arrears.</li> <li>4. Temporary Accommodation – provides short term accommodation in low cost motels, caravan parks or similar for clients who are homeless.</li> <li>5. Rentstart Move – bond loan assistance for public housing tenants leaving public housing because they are ineligible for a further lease when their current fixed term lease ends.</li> </ol>	<ul style="list-style-type: none"> <li>• Income related - Rent for (private rental) property should not exceed 50% of the household's total gross weekly income (exceptions apply).                Eg, Single person on \$263.80/week and CRA of \$65.20/week                – \$263.80 x 50% = \$131.90                – \$65.20 x 100% = \$65.20                Total affordable rent = \$197.10</li> </ul>
<b>Emergency temporary accommodation</b>	<ul style="list-style-type: none"> <li>• Client not required to be eligible for social housing.</li> <li>• Extreme situation (eg floods, earthquakes, storm, domestic violence)//urgent need for</li> </ul>	<ul style="list-style-type: none"> <li>• Short term housing up to three months for people experiencing short-term housing crisis.</li> <li>• May be housed in low-cost hotels,</li> </ul>	Does not involve a tenancy agreement.

<sup>149</sup> <http://www.housingpathways.nsw.gov.au/additional-information/policies/rentstart-assistance-policy>

Assistance type	Eligibility criteria/purpose of assistance	Form of assistance	Rent model (if applicable)
<b>Short-term and crisis accommodation</b> (not provided by FACS directly but in partnership with specialist support agencies).	short-term emergency accommodation which cannot be accessed themselves.	motels, caravan parks and similar accommodation.	
	<ul style="list-style-type: none"> <li>• Cannot be accommodated by family or friends.</li> <li>• Not eligible for other assistance because of income.</li> </ul> Temporary housing assistance is provided while client arranges alternative medium to long term accommodation themselves.	Emergency Temporary accommodation is not provided by CHPs.	
<b>Transitional housing</b> (not provided by FACS directly, as from 1 Jan 2014 managed by specialist homelessness services (SHS)).	<ul style="list-style-type: none"> <li>• Client must be homeless or at risk of becoming homeless and in crisis.</li> <li>• Assistance to help people settle into stable accommodation.</li> </ul>	<ul style="list-style-type: none"> <li>• Very short to medium-term housing (eg a few nights up to three months).</li> </ul> Provided in partnership with specialist support agencies (eg Women's refuge).	Does not involve a tenancy agreement, may involve a crisis/service fee. <sup>a</sup>
	Client must: <ul style="list-style-type: none"> <li>• be homeless or at risk of homelessness</li> <li>• require immediate housing and support.</li> </ul> This service is generally for people exiting crisis accommodation.	<ul style="list-style-type: none"> <li>• Interim accommodation (generally from three to eighteen months).</li> </ul> Provided in partnership with SHS agencies, eg community housing, Mission Australia, St Vincent de Paul.	<ul style="list-style-type: none"> <li>• Income related – in line with Community Housing Rent Policy (if provided by CHP).<sup>b</sup></li> <li>• Rent generally 25% of income + 100% of CRA entitlement.</li> </ul>

<sup>a</sup> Short term and crisis accommodation is provided by community housing organisations in partnership with specialist support agencies that help people to settle into stable accommodation. Crisis accommodation is subject to a different form of fee and rent setting and does not involve a tenancy agreement. The NSW Community Housing Rent Policy states that 'where a provider charges an accommodation or service fee to a resident in crisis accommodation, there should be a fair and transparent policy for setting any fee', p 9.

[http://www.housing.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0005/333455/FactsheetTransitionalHousingReforms.pdf](http://www.housing.nsw.gov.au/__data/assets/pdf_file/0005/333455/FactsheetTransitionalHousingReforms.pdf)

**Source:** <http://www.housingpathways.nsw.gov.au/additional-information/policies/private-rental-assistance-policy#sost> and <http://www.housingpathways.nsw.gov.au/additional-information/policies/housing-assistance-options-policy> accessed 25 July 2016

