CHFA
Community Housing Federation of Australia

Senate Inquiry into Affordable Housing

Submission prepared by the Community Housing Federation of Australia

Endorsed by:
NSW Federation of Housing Associations
Churches Community Housing (NSW)
Community Housing Federation of Victoria
Community Housing Council of South Australia
Community Housing Coalition of WA
Shelter Tasmania
Shelter NT

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About the Community Housing Federation of Australia

The Community Housing Federation of Australia (CHFA) is the national industry body representing the views of community housing providers in Australia.

Founded in 1996, CHFA is a not-for-profit organisation which works to ensure members have the representation, expertise and resources needed for effective development of the sector in a changing economic and political environment, allowing community housing to develop as a viable housing option providing quality housing services to tenants.

We do this through research, public policy development, and advocacy of housing issues to governments and other key stakeholders. Most importantly, CHFA maintains links with and between housing providers across Australia, providing a voice for their interests at the national level.

CHFA provides sound leadership in the representation of community and affordable housing issues at the national level through strong partnerships with Government, research bodies, and key state, territory, and national organisation, peak bodies and industry groups engaged in the community and affordable housing sector.

CHFA has also played an ongoing role as a member of the National Affordable Housing Summit Group, on the Australian Housing and Urban Research (AHURI) Research Panel, and has been involved in a number of collaborative campaigns around community and affordable housing issues as they arise.

CHFA
PO Box 302
WODEN ACT 2606
02-6232-5043
www.chfa.com.au

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1. Australia's housing problem

Our housing market is failing us. The Australian dream of home ownership, for many, is slipping from view. Australian house prices grew rapidly over the decade to 2012.[1] First home buyers are disproportionately represented among higher income households.[2] Meanwhile, the average size of deposit required by a first time buyer to purchase a home at the median price point has doubled since the 1990s to four times the annual income.[3]

Across Australia, median rents have risen at a rate far greater than incomes, and this particularly impacts people on low and moderate incomes, who are heavily reliant on the private rental market. Between the 2006 and 2011 census, Australia's median rent increased by 47 per cent. In WA alone, it increased by 76 per cent.[4] Average incomes increased to a far lesser degree during the same period. In 2012 the National Housing Supply Council estimated that there is a shortage of over half a million rental dwellings that are both affordable and available to people in the bottom 40% of income distribution. Further, the council found that 60% of people in this income band were in housing stress.[5]

In 2013 Australians for Affordable Housing conducted research that identified occupations that jobseekers are most likely to move into when moving from welfare into employment, and the 40 locations in Australia that have the highest density of these jobs. The research then examined whether median rents in those areas would be affordable to people on the usual weekly incomes for those occupations. This allowed an assessment of whether a lack of affordable housing in areas with greater employment opportunities may be a negative factor for jobseekers considering moving to areas with greater employment opportunities. The report found that in all of the 40 locations examined the incomes that potential employees would earn would mean they would either be in housing stress or severe housing stress.[6]

There are many factors exerting pressure on the private rental market. People that would have once entered home ownership are now renting for longer or indefinitely. People that would have once been eligible for public housing no longer are, or face extraordinary waiting times if they do meet eligibility criteria. Indeed, there are 217,000 people on social housing waiting lists in Australia. Over a third of these people are in the 'greatest need' category, which means they are either homeless or otherwise in dire need of housing.[7] Australia's public housing systems are not coping with the demand for housing, nor are they growing to meet this demand.

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[1] During this period annual house price growth was 6.7% for established houses and 3.9% for newly constructed houses. See Australian Institute of Health and Welfare (2013:92) "Australia's Welfare 2013", Commonwealth of Australia, Canberra

[2] Almost two-thirds (61%) had an equalized disposable household income in the top 40% of the income distribution of the population in 2009–10. The proportion of first home buyers who were in the bottom three equalized disposable income quintiles in 2009–10 has returned to 1995–96 levels at 39%. See AIHW, Australia's Welfare 2013 for more information.

[3] Yates, Judith (2011) *Housing in Australia in the 2000s: On the Agenda Too Late?*

[4] Australian Bureau of Statistics, 2011

[5] National Housing Supply Council, 'Housing supply and affordability — key indicators, 2012', 2012, pp 46-48.

[6] Australians for Affordable Housing (2013) "Opening Doors to Employment: Is housing affordability hindering jobseekers?" http://housingstressed.org.au/wp-content/uploads/2011/09/Opening-doors-to-employment-2013.pdf

[7] Report on Government Services (ROGS) 2014, Tables 17A.5, 17A.6, 17A7.

Many people that currently rent will no longer be able to afford private rentals once they retire, which will further increase demand for affordable housing. Put simply, there is a chronic undersupply of affordable housing in Australia.

The development and growth of the social and affordable housing system is an absolute necessity for all levels of government. Indeed, between 1947-1991 the Commonwealth Government actively pursued policies that promoted home ownership, improved housing affordability, and increased housing supply across Australia. During this period Australia's housing stock increased at a much faster rate than its population. Over the past decade, however, housing stock has grown more slowly than population. Despite trends such as an increasing rate of family breakdowns, population growth and declining family size, the average number of people per dwelling has actually increased between the 2006-2011 censuses.[8] In his Submission to the 2013 Senate Inquiry into Affordable Housing, Saul Eslake notes that the direct contribution of housing stock funded by the public sector has fallen dramatically, and that this has contributed to Australia's housing shortage.[9]

2. Background on community housing

Community housing is rental housing that is provided by not-for-profit, non-government organisations. It is intended to be affordable and appropriate for low to moderate income earners, and / or for groups whose housing needs are not adequately met in other forms of housing. Community housing is delivered through a range of models that vary in scale, organisational structure and funding/financing arrangements. The degree to which community housing organisations undertake management responsibility and have ownership of their dwellings also varies across models and jurisdictions. These models include:

- Neighbourhood housing providers that may manage small numbers of properties which they own or lease from government;
- Growth providers that manage large portfolios of housing and with the capacity to undertake housing development activities;
- Organisations that specialise in the provision of housing to particular tenant groups (e.g. people with disabilities, older people);
- Rental housing co-operatives; and
- Organisations that specialise in providing and managing housing and others that provide housing as part of a broader range of services.[10]

The community housing sector in Australia has undergone significant changes over the last decade. Community housing providers (CHPs) have increased their involvement in partnerships with the private sector, taken on debt in order to grow supply, become developers and mangers of National Rental Affordability Scheme (NRAS) properties, have

[8] Submission to Senate Inquiry on Affordable Housing by Saul Eslake (No.2), pp2-4
[9] Ibid, p6.
[10] Community Housing Federation of Australia (2011) *Community futures, new opportunities for neighbourhood housing providers,* Canberra.

had management and / or ownership of public housing assets transferred from state housing authorities (SHAs), and received capital funding for expansion from SHAs.

The community housing sector has long been recognised as a key provider of affordable housing throughout Australia, characterised by strong community engagement, secure tenure for tenants and a high level of tenant satisfaction. The fundamental principles of community housing include flexibility and responsiveness in housing management; promotion of fairness, access and social equity; respect for the dignity of individuals and the diversity of communities; and meeting the needs of individuals and the promotion of self determination.

One of the key strengths of community housing is the diversity of models that reflect both local needs and the specific needs of tenants. A community housing provider may specialise in housing tenants who have particular cultural needs or respond to other needs such as disability, mental or physical health issues or cater to certain age groups, such as youth or the aged. By linking with appropriate services in the community that can address these identified needs, community housing organisations provide a specialised service that compliments a quality housing outcome.

Case study

Common Equity Housing Ltd (CEHL) completed an innovative mixed social and private housing development in the inner city Melbourne suburb of Abbotsford. Constructed on the site of an existing boot factory, the development retains the heritage facade of the factory building, while providing a modern residential format beyond this building element.

Funding was provided from both the state government and the National Rental Affordability Scheme to construct the 25 social housing units in the complex. A further 34 apartments were sold into the private market, providing a cross-subsidy that underpinned the delivery of the entire project.

CEHL's strength in developing strong partnerships is highlighted by the fact that six of the units are being operated by disability housing providers including the Transport Accident Commission and the Summer Foundation. The units now provide an appropriate, high quality housing option for people with disabilities while at the same time integrating seamlessly into an otherwise conventional apartment complex. The 6 disability units amongst 59 in total eliminates any sense of an institutional model yet offers effective economies of scale for a worker located on-site 24/7 providing support.

Community housing providers manage both social and affordable housing properties. Social housing is usually targeted at people on very low and low incomes, and rent is set as a proportion of tenant or household income, commonly 25% of income. Affordable housing is targeted to people on low-moderate incomes. Affordable housing rents are set as a proportion of market rent. Some community housing also offer shared equity and/or rent to own products but this exists on a limited basis.

Community housing organisations provide a quality housing option for low income families, evidenced by the high level of satisfaction among the tenants: 74% of community housing tenants are satisfied with their housing, nearly 39% of which are highly satisfied.[11]

There are more than 65,800 community housing dwellings across Australia[12], which is a conservative figure based on units that receive some amount of funding from the National Affordable Housing Agreement (NAHA). That figure does not include National Rental Affordability Scheme (NRAS) properties or other properties owned by community housing providers; the number of dwelling for this broader sector was estimated in 2008 to be closer to 77,000[13] which is just under 1% of Australia's total housing stock. This figure would likely now be significantly higher.

2.1. Demonstrated ability and capacity to deliver social and affordable housing

In the last decade the community housing sector has grown substantially both in size and capacity. In 2003, community housing organisations managed or owned 7% of the social housing stock; by the end of 2014, housing in the community housing sector will comprise nearly 18% of all social housing stock in Australia.[14] This growth was in part the result of grants and subsidies from the Federal government in the form of NRAS, direct funding under the Social Housing Initiative (in QLD, WA and VIC) and from some state initiatives such as the Victorian Housing Association Strategy and the NSW Planning for the Future.[15] Growth has also been achieved through the transfer of public housing units into the community housing sector, accounting for more than 20,000 dwellings between 2003 and 2011. [16]

As providers' portfolios have grown so has their capacity to not only manage an increased amount of housing stock but to enter into sophisticated joint venture projects and partnerships with investors, developers and financial institutions to increase the supply of affordable housing. While not all community-housing providers are intent on increasing the scale of their business, those organisations that are engaged in growth strategies have demonstrated the necessary internal governance, financial and business management skills to succeed.

These growth providers have greatly expanded their skill base and expertise in financial management and governance, bringing in staff with the requisite skills and knowledge for this expanded role. They have skill based boards that provide a high level of professional oversight and due diligence befitting the sophisticated business structures that have evolved in the sector. Regulatory frameworks including the National Regulatory System

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[11] Report on Government Services report 2014, Table 17A.56
[12] Report on Government Services report 2014;Housing Chapter. figure as of June 2013.
[13] Gilmour, Tony and Bourke, Eddy, *The Role of Organisation Structure, Relationships and Networks Building Australia's Community Housing Sector*, Australasian Housing Researchers Conference, June 2008
[14] Presentation by Hal Pawson on his research report *Public housing transfers: past, present and prospective*, H. Pawson, V. Milligan, I. Wiesel and K. Hulse, AHURI, October 2013
[15] *Public housing transfers*, p. 51
[16] ibid, p. 51

(NRS) provide public accountability and essential ongoing quality assurance to funders and investors.

The providers of community housing are viable, robust businesses with stable income streams derived from rents, subsidies and fees for service. In a recent submission to the NSW Legislative Council inquiry into Social, Public and Affordable Housing, the NSW Federation of Housing Associations articulated the competitive edge that community housing providers have over other housing providers:

- Capacity to leverage its asset base to attract private finance
- Ability to access to the National Rental Affordability Scheme to deliver new dwellings for moderate income earners
- Ability to access Commonwealth Rent Assistance which averages $3,000 per tenant per year
- Capacity to develop flexible policies to meet local needs and tenants' individual, changing circumstances
- Tax status, which includes exemptions on GST, land tax and stamp duty
- Capacity to work with developers and local government to deliver affordable housing through the planning system.[17]

Case study

Compass Housing Services successfully bid for 334 NRAS incentives for self -owned properties. The financing for these properties has been blended from Compass providing debt and equity, capital funding under the NSW Debt Equity Program, the NSW Social Housing Growth Funds Rounds 1 & 2, Newcastle City Council's Building Better Cities Funding to assist in providing affordable housing in the inner city area, and land donated from Cessnock City Council to assist in providing affordable housing in their area.

2.1. Social outcomes of community housing

Foremost among the benefits of community housing is the provision of safe, secure housing at an affordable price for low and moderate income households. That in and of itself provides a strong foundation for households to better participate in employment and education opportunities, engage within the broader community and improves a family's overall well-being.

Community housing is further catagorised by its ability to be responsive to localised needs due to its knowledge of the local environment, which is reflected in the breadth and diversity of services accessed by community housing tenants. A Productivity Commission report on social housing noted research that found these service opportunities "contribute to a sense of security, lead to development of self-reliance, and lead to the acquisition of

[17] NSW Federation of Housing Associations (NSWFHA), submission 131, NSW Legislative Council inquiry into social, public and affordable housing, February 2014

social and work-related skills. In the long term, those assisted may enjoy better life prospects and require less assistance than otherwise". [18]

Case study

Port Phillip Housing Association (PPHA) in Victoria teamed up with a local school to develop a social enterprise that provides both tenants and local students with employment opportunities, support, training and mentoring. PPHA created a space in one of their new housing developments to accommodate Berengarra School, a non-profit co-educational secondary school that caters to students experiencing learning disabilities. At this new campus, the school's Pathways Program provides vocational training and certificate courses as well as operates a fully operational café. Berengaria provides PPHA residents and the local community with cooking classes and employment and training opportunities. While providing a place for the neighborhood to socialise, the school's students also gain a Cert III in Retail qualification and become work ready. [19]

Often community housing providers have dedicated staff within their organisations to broker, coordinate and oversee an extensive range of support services for their tenants. In NSW, St George Community Housing has a dedicated team focused on sustaining tenancies and has operating agreements with 45 community agencies supporting 558 tenants. Link Housing, also in NSW, manages 178 agreements with supported tenancies.[20] This concerted effort to maintain and support tenancies helps to break the cycle of disadvantage and prevent households from cycling in and out of homelessness.

Research into the Social Return on Investment (SROI) of community housing found that the benefits to community housing tenants went well beyond providing a roof over their heads. Community housing provided 'the enabling environment where tenants are able to build up confidence and motivation, regain control of their financial position and aspire for and achieve more than just subsistence goals."[21]

The SROI research found that the provision of community housing benefited both community housing tenants and the broader community in four key areas, with flow on effects into the broader economy, indicating that the provision of community housing was as much a productivity measure as it was of social benefit. These areas are:

1. Economic benefit to community households through affordable rent;
2. Educational benefits by way of enhanced educational performance for children living in community housing, due to a stable housing situation rather than moving frequently in the unstable private rental market;
3. Health benefits in the short term, i.e. fewer visits to hospital emergency centres and long term; and
4. Community inclusion and engagement.[22]

[18] Productivity Commission, *Case Study on Social Housing (*2010), p. H.21
[19] Port Phillip Housing Association Annual Report 2013
[20] Annual reports from St George Community Housing Ltd and Link as noted in the NSWFHA submission to NSW Inquiry
[21] Net Balance*, Social Value of Community Housing in Australia* (August 2011) p. 67
[22] ibid p. 1-2

Case study

Mission Australia undertook a cost benefit analysis of their RESOLVE project, a one-off, time-limited response to assist people with mental illness who are at risk of losing social housing tenancy due to diminished wellbeing or relapse of mental illness. The analysis found that for every $1 invested by the Government, the Government saves $13.50 and the total benefit to society as a whole is $19.50. These savings came from reduced health, judicial and homeless services costs. Using social return on investment analysis (SROI) an independent report calculated the total annual benefit that community housing contributes. The total was $664,828,780 made up from savings in health, social inclusion, education and the wider economy.

2.2. Economic benefits of community housing

Community housing clearly provides value for money with the delivery of positive social outcomes in the form of affordable housing for low income household with access to a broad range of support services were needed. There are also economic benefits that flow from the community housing business model that make it an efficient model for the delivery of affordable housing.

It has been widely acknowledged that the public housing model is not sustainable and alternative models are required to meet the demand for affordable housing. The community housing model has a number of strengths that make it possible for providers to operate efficient, sustainable and dynamic businesses. In addition to the aforementioned strong linkages to support services and high tenant satisfaction, community housing providers have access to private finance, access to Commonwealth Rent Assistance, enjoy not-for-profit tax exemptions, and for larger providers, have achieved operational efficiencies through economies of scale .

Over the last decade, community housing providers have been able to combine the cash flow from their rental income and the value of their asset portfolio to leverage external private finance. This has allowed community housing providers to enter into joint venture arrangements with private developers to build social and affordable housing. The transfer of public housing properties to community housing organisations, especially with title, has increased the leveraging capacity of community housing providers, giving them greater access to capital that can be borrowed against to obtain private finance. Commercial banks have indicated that as the scale of community housing grows, higher rates of leveraging may be possible, resulting in more advantageous commercial lending terms for providers and more efficient leveraging of assets and income.[23]

Access to Commonwealth Rent Assistance (CRA) is an important source of income providing financial viability for many community housing organisations. Unlike public housing tenants, community housing tenants are eligible to apply for Commonwealth Rent Assistance (CRA). Since the mid-2000s there has been a widespread shift by CHPs towards setting rents that are 'optimised' for a tenant's eligibility for CRA. Rents are optimised for

[23] NSWFHA submission to NSW Inquiry, page 51

tenants' eligibility for CRA by increasing rents to the point where the maximum amount of Rent Assistance can be claimed without leaving a tenant worse off than they would be if they were simply charged 25% of their income.[24] Indeed, adopting this rent structure is a condition of funding contracts with SHAs in the four largest jurisdictions (New South Wales, Victoria, Queensland, and Western Australia)[25] Community housing organisations report that 'optimising' rents for tenants' eligibility for CRA increases rental revenue by around 50%.[26]

Recent research indicates that CRA comprises over a third of most providers' rental income. This additional income is used for repairs and maintenance (83%), additional and improved services to tenants (75%), growing organisastions' portfolios (67%) and other operational activities such as regulatory compliance and general running costs (46%).[27] For larger providers in particular, CRA plays a key role in growing their housing portfolios as it increases their income stream and enhances their ability to leverage further private financing and expand their housing stock.

Community housing organisations are by definition not-for-profit entities and the vast majority of providers are charitable organisations with Public Benevolent Institution (PBI) status. As such, they can access a range of tax concessions including GST exemption, income tax exemption, access to fringe benefit tax, and often local tax concessions such as exemption from or discounted land tax, stamp duty exemption and planning concessions during construction. These tax benefits lower operational costs for providers as well as lower the costs for building and development on new construction.

As for efficiencies derived from economies of scale, there are several benefits to community housing providers becoming larger:

- Scale economies: increased efficiencies allowing better use of IT systems, financial control, administration support infrastructure
- Specialisation: the ability to employ higher calibre and experienced staff. The Chief Executive can spend more time on strategic issues
- Future growth: larger, higher capacity organisations have increased access to bid for stock transfers and other funding options
- ·Protection: larger community housing providers are less vulnerable to take-overs or able to negotiate better terms [28]

[24] In other words, by charging a higher rent the CHP can capture the CRA payment the tenant receives while leaving the tenant in the same after-rent financial position as a public housing tenant on the same income.[24] To assist providers to calculate optimised rent, most governments offer 'CRA rent calculators' for CHPs to use. In Western Australia the Coalition of Community Housing organisations of WA maintains its own rent calculator (from unpublished CHFA research on rent setting)

[25] Community Housing Federation of Australia, *Allocation, eligibility and rent setting in the Australian community housing sector (to be published: 2014)*

[26] ibid

[27] Unpublished research by CHFA and state community housing peak bodies on CRA in the community housing sector, 2014

[28] T. Gilmour, *Growing the Community Housing Sector in Western Australia (2013:18)*, Housing Action Netowrk, Sydney

Finally, unlike the public housing system or other parts of the private rental market, the community housing sector is underpinned by a rigorous national regulatory framework that provides external assurances of a provider's capabilities and financial viability. The recently introduced National Regulatory System (NRS) assesses providers' compliance in all aspects of their business: tenant and housing services; housing assets; community engagement; governance; probity; management; and financial viability. These nationally consistent regulations are proportionate to the risk born by providers and reflect the scale and scope of providers' activities[29]. Regulation of the sector provides the necessary assurance to government funders and private investors that registered community housing providers are well governed, viable organisations, further paving the way for ongoing growth and development of the sector.

3. Need for a growth strategy

There are high expectations from all governments and local communities for the community housing sector to continue to grow and help alleviate the pressing demand for low cost affordable housing. As noted earlier, community housing has experienced real growth in recent years. In the last year alone (2012-13) community housing providers reported 11,172 new tenancies, nearly 63% of which were allocated to households with special needs.[30] This is a conservative figure and does not include the significant number of NRAS properties built and/or managed by community housing providers nor new dwellings resulting from providers leveraging their existing portfolios.

The sector has seen the emergence of providers at greater scale, operating across jurisdictions and expanding to become national providers. Community housing providers have entered into urban renewal and large scale regeneration projects, such as Bonnyrigg in NSW and the Kensington project in Victoria. New products are emerging such as rent to buy, community land trusts, and 'housing plus' models such as Common Ground.

These actions and activities are evidence of the many community housing providers who are already on a growth trajectory in response to demand. However, it is proving difficult to maintain that growth in an environment of limited capital funding from governments and the 'stop and go' nature of government programs and policies.

The state government initiatives noted earlier in this submission that resulted in real growth in the community housing sector no longer exist. NRAS has been a significant contributor to the growth of affordable housing but its future is now in doubt. The Social Housing Initiative, part of the Commonwealth Government's Nation Building and Economic Stimulus plan, added over 19,000 new dwelling to the social and affordable housing arena. Community housing providers have been able to further leverage off this housing stock, however further growth as a result of leveraging these properties will be limited.

In 2009 the Housing Ministers issued a communique setting a target of up to 35% of all social housing stock to be transferred to the community housing sector by 2014. However,

[29] National Regulatory System for Community Housing Evidence Guidelines
[30] ROGS 2014, Table 17a.7 and page 17.18

until recently proposed stock transfer had come to a standstill and much of what is being mooted for future transfer will have limited impact on increasing the amount of affordable stock as title is unlikely to be part of the transfer limiting its use for leveraging. It will, however, enable significant renewal and replacement of existing stock and provide community development opportunities for the sector.

The existing framework to facilitate growth is inadequate. In order to achieve large scale public housing transfer that will satisfy the objectives of both governments and community housing providers, we need to look beyond current policies and look at reforms to the architecture of the social housing system. A policy framework that promotes growth will need to:

- Clarify the social policy objectives as this will underpin the social and financial sustainability of community housing providers as well as SHAs'
- Assess rent setting policies to find a balance between tenant affordability and financial certainty for providers;
- Undertake modeling to determine future resourcing requirements to maintain housing condition at a designated standard; and
- Facilitate a level of private financing of new housing supply for a sustainable and efficient community housing sector alongside a public co-payment mechanism or subsidy to support community housing investment in social housing stock and asset renewal

In order for the community housing sector to continue its critical role as a key deliverer of social and affordable housing, there is an urgent need for a comprehensive long term community housing growth strategy. Such a strategy would provide a degree of policy certainty for the sector and address the need for clear and consistent funding commitments, provisions for investment assurances and security, and new growth funding mechanisms. The essential components of such a strategy are discussed below.

3.1. Certainty and consistency in government programs and policies

3.1.1 Commonwealth Rent Assistance (CRA)

Commonwealth Rent Assistance (CRA) forms a critical funding stream for community housing. As noted above, recent research undertaken by CHFA indicates that CRA can comprise a significant portion of a provider's rental income and is vital to their ongoing viability. The removal or reduction of CRA would result in a reduction of services at the very least and would significantly diminish providers' access to private finance and the development of further social and affordable housing.[31] Unlike other OECD countries, Australia does not have an identified housing subsidy for low income households. CRA, which is an income support supplement available to people on pensions and income support payments, acts as an indirect housing subsidy. Access to CRA by community housing tenants has been raised at times in conjunction with discussions on the growing CRA budget and where efficiencies might be realised. A growth strategy would articulate the ability of community housing providers, unlike private landlords, to optimise CRA for

[31] CHFA and state peaks research on CRA 2014

their own viability and to increase new housing supply and make a commitment to the continuation of this essential income stream.

As well, any increase in the amount of CRA received by eligible tenants is in order. Housing costs, especially rents have risen at twice the rate of inflation while CRA has been indexed only in line with inflation. CHFA supports an increase in CRA of between $22 and $27 per week which will provide relief to the tens of thousands of people in the private rental market where CRA covers a decreasing portion of their often excessive rents. For community housing providers, the additional revenue would prove an increased amount of revenue that could be applied towards tenant services and/or additional housing stock.[32]

3.1.2. National Renal Affordability Scheme (NRAS)

The National Rental Affordability Scheme (NRAS) has been a significant contributor to the growth of the community housing sector with over 50% of successful NRAS participants not for profit organisations, primarily community housing providers, who have emerged both as developers and tenancy managers of NRAS properties.[33] The Scheme directly benefits low and moderate income households who are not eligible for any other form of assistance but are struggling in the private rental market paying high rents. To date, NRAS has delivered over 14,500 affordable housing dwellings to the market place with another 23,000 in the pipeline.

NRAS has been a significant driver in increasing the supply of affordable housing across the country. It has provided affordable housing in areas of need, close to jobs and services where there is a strong demand for rental stock and has resulted in NRAS tenants enjoying reduced rents and stable tenancies. To provide a snapshot of what types of tenants benefit from NRAS housing, an ACT community housing provider and NRAS participant collects information on the prior circumstances of their NRAS tenants. They found:

- 7.4% were previously homeless;
- 3.2% lived in supported accommodation or refuges
- 23.2% were living with family or friends;
- 51% came from private rental; and
- 3% had previously been public housing tenants.[34]

This provider routinely surveys its NRAS tenants in order to assess whether the organisation is successfully targeting the Scheme to achieve appropriate outcomes based on need.

Builders and developers involved in NRAS contend that it can cooperate as a counter cyclical stimulus to the construction industry when there are construction downturns. Recent research found that nationally 7 jobs are created in the construction and other industries for every NRAS incentive.[35] Consequently, NRAS enjoys broad support from the housing industry, private investors and developers and has brought private investment into the affordable housing market attracting not only mum-and-dad investors but large developers such as Lend Lease, AV Jennings and Stockland.

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[32] CHFA 2013 federal election platform, AAH 4 point plan
[33] National Rental Affordability Scheme Monthly Performance Report, June 2013
[34] Survey data from CHC Affordable Housing, Canberra, ACT 2013
[35] Bond University, *National Rental Affordability Scheme: Economic and Taxation Impact Study (December 2013)*

For community housing providers, a significant flow on effect of the success of NRAS has been the engagement of financial institutions. There are currently two debt finance products available to the not for profit and institutional investors through Westpac and Macquarie Bank which has helped to stimulate the affordable housing market[36]. It is precisely this type of access to private finance that is essential to the growth of the sector and a necessary component in any housing growth strategy.

Continuity and commitment to NRAS is critical to attracting the much sought after institutional investor. A recent AHURI report that looked at institutional investment in affordable housing said this about NRAS:

> "Continuity of, and a longer term commitment to, the National Rental Affordability Scheme (NRAS) will be required to : stimulate increased supply, give certainty to financial markets, build confidence in a new residential asset class for large scale institutional investors and achieve affordability goals. Any changes to this incentive should be fully negotiated with the investment sector to prevent loss of market confidence and to offset volatility of private investment"[37]

Recent negative media has heightened the uncertainty around the continuing roll out of the current round of NRAS allocations and has cast doubt on the Scheme's future. Without a long term commitment to NRAS, the confidence of the financial sector, as well as that of private investors, will disappear and is unlikely to return to the affordable housing market. Further, NRAS represents the only private investment instrument into the affordable housing market. Its elimination or dramatic reduction will substantially curtail growth in the community housing sector and the affordable housing market generally.

CHFA continues to advocate for a Government commitment to a permanent NRAS with an additional 50,000 incentives to maintain the current supply pipeline and bolster existing confidence among all stakeholders, especially investors. [38]

[36] Information from NRAS Providers Ltd

[37] *Financing and institutional arrangements for the provision of affordable housing in Australia (Investigative Panel: 2010), V.* Milligen, J. Yates,I. Wiesel and H. Pawson with C. Hamilton, AHURI

[38] CHFA 2013 federal election platform

Case study

For CHC Affordable Housing, a community housing provider in the ACT, NRAS has been a key driver in delivering affordable rental outcomes to the Canberra community. Over half of its rental portfolio has NRAS incentives attached, which allows CHC to continue with its significant capital works program deliver a variety of housing choices for low and moderate income households.

An example where NRAS has been successfully applied is CHC's flagship development, Eclipse. The Eclipse project is a $58 million development located in Bruce, close to Canberra's Civic centre. NRAS allocations were used to establish a Non-Equity Joint Venture model designed to attract private investment. The project consists of 223 dwellings, including studio, 1,2 and 3 bedroom apartments and 2 bedroom townhouses. NRAS assisted the project both in terms of affordable sales and rentals, with a high number of investors purchasing properties with NRAS incentives attached. In turn, these properties were rented out at 80% of market rent. In addition, NRAS allowed CHC to retain 14 dwellings which they rent at 74.9% of market rent, in line with their charitable tax status. All up, approximately 70% of units in Eclipse achieved an affordable outcome for both rental and homeownership.

3.1.3. Stock transfer

As noted earlier, there have been over 21,000 transfers of public housing dwellings into the community housing sector in the last decade. There are several drivers behind these transfers:

- *Maximising CRA* –supplementing tenant's rents with this income support subsidy (detailed discussion above)
- *Leveraging for growth*—the expectation that transferring public housing stock will increase the supply of social and/or affordable housing;
- *Service improvement*—the objective to improve services for tenants and achieve enhanced operational efficiencies through a larger community housing provider model;
- *Tenant/community empowerment* – desire for tenants to have an increased involvement in the management and governance of the provider (though this has been a weak driver);
- *Place management/community renewal*—while this hasn't been a driver in transfers to date, it is likely to become a driver as QLD, TAS, and SA look at community building and estate redevelopment as an outcome for their transfer programs.[39]

Initially, community housing providers were lead to believe that public housing transfers would come with title, allowing them to maximise the benefits of leveraging the dwellings for private finance. Accordingly, many providers geared up their organisations to take on additional stock and position themselves to take advantage of new private financing opportunities. While the sector supports the other objectives driving State Housing Authorities (SHA) to enter into transfer programs, stock transfers are viewed by the sector as a primary vehicle for growth. However, of the public housing transfers to date (including

[39] Pawson et al, *Public housing transfers*

the Social Housing Initiative dwellings build by SHAs and transferred to the sector) 72% have been for management only; 28% have been transferred with title. [40] While management only transfers will achieve SHA's objectives to maximise CRA, improve services to tenants and realise community renewal goals, any growth will be minimal or non-existent.

If growth is to be achieved, government policy must allow for title transfer, at the very least for a portion of any large scale transfer program. Recently economic modeling was undertaken on the South Australia proposal to transfer 500 properties into the community housing sector. The modeling came to the following conclusions:

- If the housing stayed within the SHA portfolio, there would be no growth, an annual deficit and a decline in the condition of the stock
- If the housing was transferred without title, any growth would be negligible, amounting to about 2 dwellings per year. This was due to the provider only being able to raise debt through accumulated cash reserves used as equity.
- If the SHA transferred between 10-20 % (50-100 dwellings) with title, this would result in growth of about 5-10% or 75 new dwellings.

The modeling also revealed that at this point in time, any transfers above 25% would not result in any further growth beyond the 75 dwellings as providers would be limited by their ability to service debt out of cash reserves. [41]

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3.1.4. Charitable tax status and tax concessions

Community housing providers' charitable tax status is an essential component of the community housing model. As noted above such tax status gives providers access to a range of tax concessions including exemption from income tax and GST, access to the Fringe Benefits Tax and often local government concessions on rates and utility bills. These concessions lower operating costs and lower construction and development costs for providers. However, access to these concessions is contingent on a community housing provider satisfying the Australian Charities and Not-for-Profit Commission (ACNC) and ultimately the ATO that their organisation's purpose (as stated in their constitution) meets the criteria for charitable status.

Over the last several years the sector has operated under the threat and uncertainty that many of its activities, especially in the delivery of affordable housing, would not be considered to have met the criteria of the relief of poverty and could jeopardise the charitable status of community housing providers. The legislation that was purported to constrain housing activities through a narrow interpretation of permissible activities was withdrawn earlier this year. However, other legislation passed in June 2013 contained some tax conditions that may have a similar impact on providers' charitable status, resulting in limiting their participation in the affordable housing market for fear of putting their charitable tax status at risk.[42]

[40] ibid, p. 3

[41] Maximising growth potential of housing providers through title transfer, Sphere Company, prepared for the Community Housing Council of SA, November 2013

[42] These 'special conditions' re-introduce discretion in the ATO to refuse tax exemption to a registered charity if the ATO considered it is not meeting a governing rule OR it is not applying its assets 'solely' to its charitable purpose. The second

Other legislation, such as the new definition of charity that went into effect 1 January 2014 provided some clarity on the situation, identifying some examples of appropriate housing activities that would satisfy the ACNC. However, that legislation has be mooted for repeal leaving the sector back in the position it was before with ambiguous interpretations of housing activities allowable as a charitable organisation.

The dismantling of the ACNC may also impact negatively on the community housing sector if a determination of tax status reverts back to the ATO. Under the ACNC arrangement, the charities regulator assessed and awarded charitable status and the ATO assessed for eligibility for tax concessions. Under the proposed new arrangement, the ATO would take on that responsibility but with increased powers given to them with the new conditions contained in the June legislation. Further, there is a conflict of interest having the ATO, whose purpose is to maximise government revenue through taxation deciding on who should be exempt from paying taxes.

Once again the unsettling environment in the charities and tax arena will cause continuing uncertainty for the sector for forward planning in the affordable housing market. As has been the case, providers are at risk of incurring a significant tax liability if the ATO judges their activities to be ineligible for concessions and at worst, they could lose their charitable status if the ATO deems their activities do not meet their charitable purpose. Policy consistency and eligibility certainty is essential to allow community housing providers to make decisions about how they structure their business to comply with tax and charity law. If government's expectations for growth of the sector and an increasing role for community housing providers in the delivery of social and affordable housing are to be achieved, appropriate tax policies must allow for a comprehensive definition of housing provision that encompasses a broad range of housing activities

4. Reforming the NAHA

The community housing sector is concerned about how the new COAG structure will effectively review outcomes of Commonwealth housing programs and agreements and/or progress recommendations for reforms. In the past the Select Council on Housing and Homelessness (and its predecessor) provided a mechanism for Housing Ministers to debate issues and arrive at formal agreements on housing policies. The target of up to 35% of social housing in the community housing sector was arrived at through this process and was a consensus position among Housing Ministers. This forum enabled Housing Ministers to work across all jurisdictions on significant housing policy issues that had national benefit. In the absence of this Council there does not appear to be a specific mechanism for such collaboration especially around the reform of the National Affordable Housing Agreement (NAHA).

There is general consensus that the NAHA has not performed as anticipated. The Commonwealth currently provides $1.2 billion per year in funding to the states and

condition is of particular concern. It revisits the issue around what is meant by 'solely' and what activities are deemed acceptable as demonstrating that income and assets have been applied to an organisation's charitable purpose.

territories for housing and homelessness activities. It must be noted, however, that core funding to support social housing through Commonwealth-Sate housing agreements has been in decline for the last 15 years. Existing housing stock has aged and deteriorated as rental revenue also declined due to extensive targeting of services to households on the lowest incomes and with the highest levels of disadvantage.

However, CHFA believes that the current agreements do not require the states and territories to provide the Commonwealth with enough detail about how these funds are spent nor an assessment of their performance against agreed outcomes. CHFA is keen to see a renegotiation of an agreement between the Commonwealth, States and Territories that will provide better accountability and measurable outcomes.

A renegotiated NAHA would greatly benefit from the inclusion of specific growth targets. The outcomes in the current Agreement are quite broad and unmeasurable. CHFA has recommended that yearly targets be established and matched to need as identified by data from reliable sources.[43] We have proposed information be drawn from the National Housing Supply Council data but in its absence, it should be based on whatever information resource the Government will now use to inform itself on housing supply matters.

There are several mechanisms that CHFA proposes can be implemented to achieve growth either within a NAHA or alongside a Commonwealth-State housing agreement and these are outlined below.

4.1. Affordable Housing Growth Fund

The National Affordable Housing Summit Group (of which CHFA is a founding member) proposed a 'banded' model which provides funding to states and territories on a per capita basis to build a targeted number of dwellings in each of three bands:

- Band A: a deep subsidy for households on the lowest incomes where rents are set at or below 25% of income, similar to the current public housing system;

- Band B: a mid level subsidy for dwellings rented at least 20% below market rent. These could include further investment in NRAS properties or could be extended to people in the private rental market ensuring long term leases and stable housing.

- Band C: provide some funding to enable low cost home purchase for low and moderate income households, e.g. shared equity scheme or community land trusts.

An indicative split of the funding among the bands would be at least 30% for Band A, 50% for Band B dwellings and 20% for Band C dwellings, with this last Band allocated on a competitive basis to providers who can maximise the funding to the greatest number of dwellings. Funding for such a growth fund model could come from 'top slicing' the available funding for the NAHA and have the Commonwealth create a contestable model, perhaps

[43] CHFA federal election platform

with indicative allocations by jurisdiction or simply on a competitive basis at the national level.[44]

Another option is to establish a housing supply bond (see details below) to finance the growth fund, and unlock private investment into the affordable housing market. Research into such an instrument has estimated that a $90 million per year government could leverage $7 billion of private investment in housing. To issue bonds over five years would cost $1.4 billion and would leverage $35 billion worth of investment in affordable housing.[45] However, in order for the housing supply bond to remain viable, continued funding for NRAS, CRA and a NAHA would have to be assured.[46]

Last, a revolving finance facility at the Commonwealth level could provide the needed resources for an Affordable Growth Fund. Such a fund would provide financing to community housing organisations at below market interest rates on the proviso that the funds would be used to generate new affordable rental housing.[47] The ACT Government established a similar facility with CHC Affordable Housing, providing a revolving loan facility that gives CHC access to additional capital for numerous affordable housing development projects. In return for ready access to capital and below market interest rates, CHC delivers an agreed amount of affordable housing for rent as well as housing for sale at an affordable price set by the ACT Chief Minister's Office. This vehicle at a national level could provide community housing providers with access to needed capital to deliver affordable housing outcomes and increase the quantum of affordable housing options across the country.

4.2. Private investment vehicles

Along the same lines as a housing supply bond, recent research has explored the creation of an independent non-profit specialist financial intermediary. Overseas countries with sizable affordable housing markets have established special purpose financial intermediaries to support this housing market. These financial intermediaries pool housing investment opportunities which in turn attract large scale investors as they see the intermediaries as an efficient mechanism to fund these opportunities. Instead of providers sourcing separate financing for their individual projects, they can access pooled financing through the financial intermediary. The key advantages to such an intermediary is that it provides a mechanism to leverage institutional investment in affordable housing, it delivers scale and a level of liquidity required by institutional investors, it shares the risk across a range of players, and maximises the value of the government's contributions to government housing programs. These issues are covered in great detail in a submission to this Inquiry by Julie Lawson and Mike Berry (Submission No. 24).

5. Key points and recommendations

[44] Australians for Affordable Housing (AAH),*Addressing Housing Affordability in Australia: a 4 Point Plan for the Next 5 Years* (2013),
[45] L Lawson et al (2012) *Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?* AHURI Final Report No. 188
[46] AAH 4 point plan
[47] CHFA federal election platform 2013

Key points

1. Australia's housing market is failing, and there is a chronic shortage of affordable housing that is available to those in need.

2. Community housing is affordable rental housing that is managed by not-for-profit, non-government organisations.

3. The community housing sector has grown rapidly in the last decade, as has the scale and sophistication of many providers' operations. The sector has a demonstrated ability and capacity to deliver social and affordable housing. Community housing providers have a competitive edge over both traditional public housing models as well as the private market, and are well placed to continue growing and meeting the needs of an ever greater number of people in housing need.

4. The community housing model confers a range of economic benefits. For organisations themselves, these include the tax and other advantages of organisations' not-for-profit status, the ability to raise debt finance, the efficient and dynamic business models employed by the sector. For tenants affordable rents mean more money to spend on other essentials. More broadly stable housing has a range of other benefits, including reduced health costs and improved educational opportunities for children who live in stable households.

5. The ability of community housing tenants to access to Commonwealth Rent Assistance (CRA) forms an important source of income for community housing providers (p8).

6. Community housing organisations are covered by strong regulatory regimes that provide assurances of providers' capabilities and financial viability.

7. Many of the state and territory based initiatives responsible for much of the growth in the sector to date is now largely complete. There is an urgent need to develop a comprehensive long-term community housing growth strategy to continue the momentum.

Recommendations

1. That the Australian Government lead the process to develop a comprehensive long-term community housing growth strategy. A policy framework that promotes growth will need to:
    - Clarify the social policy objectives as this will underpin the social and financial sustainability of community housing providers as well as SHAs'

- Assess rent setting policies to find a balance between tenant affordability and financial certainty for providers;
- Undertake modeling to determine future resourcing requirements to maintain housing condition at a designated standard; and
- Facilitate a level of private financing of new housing supply for a sustainable and efficient community housing sector alongside a public co-payment mechanism or subsidy to support community housing investment in social housing stock and asset renewal

2. That the Australian Government provide clarity and assurance to community housing providers about the ability of housing tenants to access CRA into the future. Further, the maximum rate of CRA should be increased by between $22-27 per week, and a review into the adequacy of CRA arrangements and future options be conducted.

3. That the Australian Government commit to another 50,000 NRAS incentives to maintain the current supply pipeline and foster confidence amongst stakeholders.

4. That the Australian Government provide leadership to the states and territories regarding asset transfer from the public housing to the community housing sector.

5. That the Australian Government provide clarity and assurance to the community housing sector about providers' ability to continue accessing existing tax concessions.

6. That the existing National Affordable Housing Agreement be substantially modified or replaced in order to:
    - Refocus the Agreement on growing the supply of affordable housing and establishing yearly targets for new housing stock. An affordable housing growth fund could combine a range of funding sources such as housing supply bonds, NRAS, and direct capital funding.
    - Provide increased transparency in reporting.