



Tuesday 25 March 2014

Chair
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Via online submission

Dear Sir –

Re: Inquiry into affordable housing

The NSW Federation of Housing Associations (the Federation) is the industry peak body for community housing providers in NSW. Since 1993 the organisation has provided leadership to the community housing industry, to provide support and resources for their further development, and has represented the aspirations and interests of the industry to all other stakeholders – government, partners, business and the wider community.

The Federation's purpose is to support the development of a not for profit rental housing sector which compares to any around the world, and which makes a difference to the lives of lower income and disadvantaged households across the state. The Federation seeks to ensure that community housing providers are active in all housing markets, providing a full range of housing products.

The Federation welcomes the opportunity to present this submission to the Committee, to assist its inquiry into affordable housing. The Federation is also pleased to endorse the submission presented to the Committee by the Community Housing Federation of Australia, which represents community housing peak bodies at a national level.

Community housing in NSW

Community housing providers have been part of the NSW housing system for over 30 years. From small-scale, local beginnings a national industry has emerged, which is a significant component of the social and affordable housing system. Today, community housing providers are professionally managed and governed social enterprises, with a diverse range of services. Areas of activity include:

- Delivering high quality housing management services
- Building and procuring new dwellings to increase the supply of affordable housing
- Managing property portfolios for long term outcomes
- Partnering with commercial businesses, government agencies and other not for profit organisations to expand housing outcomes and improve services to tenants and communities.

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Community housing providers are not for profit, charitable organisations whose principal business is the management and development of long term rental housing for low and moderate income households. The industry is focused on accountability and assurance to stakeholders, and has been independently regulated in NSW since 2011.

In order to offer subsidised rents to low and moderate income households, community housing receives funding and other support from all three levels of government. This may include grant funding, transfer of public housing property management and/or ownership, concessions on taxes and levies, eligibility of tenants for rent assistance, and other forms of subsidy.

The community housing industry is growing and diversifying. Between 2006 and 2013 the number of properties under community housing management in NSW more than doubled. The industry currently manages 34,000 tenancies in NSW across very low, low and moderate income households, representing just over 20 percent of all social housing. As a result of properties transferred from public housing, community housing providers have built and bought almost 2,000 additional properties – this makes community housing the only part of the social housing system which is growing to meet rising demand. Providers are also diversifying their businesses by moving into new property types and serving new target groups, including disability housing. Across its 30 year history, the community housing industry has demonstrated its capacity to grow to meet new challenges.

Community housing providers are sustainable businesses, with income sources including rent, subsidies and fees for service. The industry's competitive advantage over other housing providers is based on its:

- Capacity to leverage its asset base to attract private finance
- Ability to access to the National Rental Affordability Scheme (NRAS) to deliver new dwellings for moderate income earners
- Ability to access Commonwealth Rent Assistance (CRA) 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.

The industry currently owns \$1.6 billion worth of community housing properties in NSW alone, part of an asset base of over \$5 billion in NSW. Its rental income in NSW is now approaching \$300 million per year. As social enterprises with significant amounts of property under management, community housing providers make a long term investment in their communities. It is from this position of strength and stability that community housing providers collaborate and innovate with other organisations, including:

- Government – delivering social housing to people in high need
- Property investors and developers – building communities and increasing housing supply
- Local councils – tackling housing affordability issues and supporting local employment
- Social service providers – supporting tenants and communities.

Commonwealth Government support for community housing

Australia is experiencing a housing affordability crisis. Around 1 million households across the country are in "housing stress", that is, low to moderate income households paying more than 30 percent of

their income on housing. Community housing is well placed to play a more active role in the supply of affordable housing to very low, low and middle income earners. While the public housing response is shrinking and targeting, the community housing response to the housing crisis is to seek to expand by housing a wider range of tenants and optimising the use of available government subsidies by leveraging private finance. The community housing industry is a significant resource to government and the community, however, there is great potential for the industry to do more. For this to happen, governments at all levels need to make explicit their support for the continued expansion and diversification of community housing. Policy certainty will assist community housing providers to build their businesses, and will facilitate stronger partnerships with the private sector and other agencies. In particular, the investment and development industries require a higher degree of policy certainty in order to increase their engagement with community housing.

The Commonwealth Government plays a significant, but somewhat hidden, role in relation to the delivery of social and affordable housing. State housing authorities are the face of public housing, and for the most part commonwealth funding for community housing is directed through the states. Other than the large, one-off investment in social housing via Nation Building, the Commonwealth Government's role is less obvious. Nevertheless, many Commonwealth Government funding decisions, policy settings and taxation rules have a major influence on the delivery of social and affordable housing, and on the community housing industry in particular.

Essential to the sustainability of social and affordable housing is a commitment by the Commonwealth and State/Territory Governments to a formal housing funding partnership. This funding partnership does not need to take the same form as the current National Affordable Housing Agreement, provided that it is a strong, long-term funding agreement. Commitment to this type of long-term funding agreement will deliver a degree of stability and certainty about housing funding, which will in itself assist with engaging the private sector. The funding partnership needs to encompass all housing policy settings and funding programs, to ensure that effective links can be made between them. For example, it is important that NRAS is incorporated into the funding partnership, rather than having this key method for addressing housing affordability sitting outside the agreement. Equally, it is important for policy decisions regarding CRA to be effectively included in the funding partnership. While CRA is not part of the funding paid to state governments, and public housing tenants are ineligible, it represents a very significant level of funding for housing affordability, and is available in the community housing industry.

In addition, the funding partnership needs to have clear links to commonwealth funding and policy areas which are not solely about housing but which are influential in the delivery of social and affordable housing, such as tax policy. For example, the situation regarding the charitable status of community housing providers remains relatively unclear as the future of the recent legislation defining "charitable" is not certain. This needs to be resolved as a matter of urgency, as it has implications for the type of growth and business structures community housing providers can pursue and the capacity to hold back the expansion of the industry. There is also the potential for negative gearing to be used more effectively to support affordable housing outcomes, which needs to be taken into account in housing funding. In addition, the housing funding partnership needs to acknowledge the impact of Commonwealth Government decisions regarding income support payments: as social housing tenants pay income-based rents, any change in their income results in a change in the rental income for public and community housing providers.

As the key source of funding for housing programs, the support of the Commonwealth Government is essential in delivering any growth in social or affordable housing. Crucially, a formal housing funding partnership therefore needs to include a growth fund, which may be tied to specific outcomes by negotiation between the parties. Given the relative advantages of the community housing industry identified in this submission, the growth fund needs to be targeted to the delivery of additional affordable housing by community housing providers.

Alongside growth funding and industry development funding, the community housing industry seeks continued policy support from all levels of government to operate as independent organisations. In some jurisdictions, community housing providers are required to operate, in effect, as miniature state housing authorities, matching policies and procedures to their public housing counterparts. This stifles innovation and removes the capacity for community housing providers to be flexible to meet the needs of tenants and communities. It also reproduces in large part the public housing business model which has been shown to be unviable.

In addition, the Federation seeks collaboration between the Commonwealth and State/Territory Governments to explore ways to deploy a range of market mechanisms and incentives to provide more social and affordable housing in Australia. It is widely accepted that public subsidy is more productive and can be stretched further in mixed funding models, where it can be leveraged with private finance. Using these principles the community housing industry is the key to the provision of more social and affordable housing: as well respected, not for profit organisations, which link community trust with tenancy and asset management expertise, community housing is an efficient pathway for maximising public subsidy and achieving social and financial outcomes.

Transfer of properties from public to community housing

A key element in the growth of social and affordable housing is the transfer of properties from public to community housing. Far from simply moving properties from one part of the system to another, this transfer helps to grow the system by creating opportunities for leveraging private finance, and assisting community housing providers to achieve further economies of scale. In order to facilitate the establishment of a large scale tenanted property transfer program, the Federation has conducted industry-based research to identify the key elements for effective implementation of transfers. Amongst these elements were:

- The need for government and industry to work together to achieve an effective transfer program
- The need for engagement with tenants, including identifying opportunities for tenants to influence the transfer program and effective communication with tenants.

While it is not necessary to transfer title in order to achieve some of the outcomes sought in transfer programs, the Federation's research identifies that the ability of community housing providers to exercise control over the asset is one of the key elements in successful programs. For example, where a transfer program is intended to deliver significant community renewal outcomes, the provider will require sufficient control of the asset to make long term decisions about the portfolio including redevelopment, sales and procurement, in order to ensure that the asset meets the needs of the community.

Transferring properties with title significantly enhances the leverage capacity of community housing providers by providing additional capital against which private finance can be borrowed. Recent reports indicate varying levels of leverage capacity, and assume varying degrees of reliance on title. While leverage capacity will always be driven by the specific terms of the deal, the absence of title diminishes the provider's borrowing power: industry experience is that lenders focus on both income stream (rent plus CRA) and security (property title) when assessing proposals. In fact, many lenders seek security by way of charges over the organisation's assets beyond those involved in a transfer project. This highlights the importance of title in maximising access to private finance.

Commitment to making NRAS permanent

NRAS has been one of the most significant vehicles of community housing growth. Established in 2008, the scheme enabled much needed additional investment in supply of affordable housing, in general targeting households in housing need that would not qualify for social housing due to their higher income streams but who struggled to afford to find rental housing with acceptable access to

transport and employment. NRAS is a Commonwealth Government program, delivered in partnership with State and Territory Governments, that provides monetary incentives paid annually for ten years on newly-built housing that is let to eligible households for a discounted market rent.

Community housing providers have been significant players in the scheme. As at June 2013, over 38,000 incentives had been awarded, resulting in more than 14,500 tenanted properties. Within NSW, 61 percent of allocations have been to endorsed charities, with many being community housing providers. The fifth and final round closed in August 2013, and the announcement as to successful bidders is yet to come. Most importantly, there have been no further commitments from any level of government about the future of this important scheme.

Community housing providers make the best use of NRAS. Community housing providers are well established in their local communities, and will continue to serve their communities beyond the 10 year term of the NRAS incentive. They are not motivated only by time-limited financial incentives but are committed to delivering long term social benefits to tenants and their communities. In NSW, many community housing providers blended NRAS incentives with private finance, other government funding and their own funds to ensure that a high proportion of the dwellings developed under NRAS will remain part of the affordable housing system in perpetuity.

With the active involvement of the community housing industry, NRAS has triggered many benefits beyond support for the construction industry at a time of economic uncertainty. These include:

- A range of positive outcomes for tenants including improved security of tenure leading to the capacity to save for home ownership or private rental and the ability to become involved in the local community
- An additional exit point from social housing, to encourage community housing tenants to take advantage of opportunities for employment while still supporting them via a rental subsidy
- Facilitating significant growth amongst providers, including expanding their business to manage larger portfolios, and enhancing internal capacity by providing housing to a wider range of tenants
- Fostering innovation in the type of dwellings constructed – for example, the rise in dual key dwellings which optimise affordability for tenants and income and flexibility for providers, “Fonzie flats” and other secondary dwellings, and custom built share accommodation for example
- Facilitating new partnerships across the not-for-profit, for-profit, development, and financial sectors.

Not only do community housing providers use NRAS incentives directly to enhance the supply of affordable housing, they are also housing managers of choice for private investors who prefer to outsource the management of their NRAS dwelling to a community housing provider. The availability of NRAS incentives has also enabled innovation and diversification in the industry. With several years of NRAS experience, banks and institutional investors now have a much better understanding of the product which has led to increased private investment in the scheme. In this context, it is critical to commit to ongoing funding for NRAS.

Continued support for national regulation

One of the foundation stones of public confidence in the community housing industry in NSW is the robust, independent regulatory system which has been in place since 2011. Providers strongly support independent regulation as part of establishing a professional industry capable of demonstrating accountability to all stakeholders: tenants, government funders, private finance partners, support agencies and the community generally. The new National Regulatory System draws heavily on the success of the NSW approach over the past few years. Across the seven performance outcomes in the new Code, community housing providers are required to demonstrate, for example, that they:

- Engage tenants in the planning and delivery of housing services

- Maintain an overall tenant satisfaction level of at least 75 percent
- Manage properties to optimise financial outcomes, service delivery outcomes and to meet housing needs
- Undertake comprehensive property inspections on all properties every three years
- Develop comprehensive long-term strategic asset management plans, including rolling 10 year costed plans, mapped against current and projected housing needs analyses
- Are well governed by a board which sets and implements its strategic directions and scrutinises performance via business plans, financial plans, risk management plans and business continuity plans, operating in line with the Corporate Governance Principles set out by the Australian Stock Exchange
- Are financially viable at all times.

Conclusion

The community housing industry is already a valuable resource in addressing the housing affordability crisis, and stands ready to do more. The industry has a demonstrated capacity to grow to meet new challenges. The scale of the housing affordability crisis means that all levels of government need to take action. The Commonwealth Government can demonstrate leadership by supporting the continued growth and development of the community housing industry in order to play an even greater role in the supply of affordable housing to very low, low and moderate income earners.

Yours sincerely –

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NSW Federation of Housing Associations