

# **The vital subsidy:**

The importance of Commonwealth Rent Assistance to community housing providers

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Prepared by the Community Housing Peaks Policy Network

## About the Community Housing Peaks Policy Network

The Community Housing Peaks Policy Network was formed in 2013 and is convened by the Community Housing Federation of Australia (CHFA). The network meets monthly and provides a vehicle for sharing information about the sector in each jurisdiction, the work of each member, and government policy. Additionally, the group collaborates on research or policy development where there is a common interest across organisations or that has a national significance. This research is the first project undertaken by the group.

The members of the Community Housing Peaks Policy Network are:

- Community Housing Coalition of Western Australia
- Community Housing Council of South Australia
- Community Housing Federation of Victoria
- Shelter Tasmania
- NSW Federation of Housing Associations
- Community Housing Federation of Australia



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## Table of Contents

About the Community Housing Peaks Policy Network .....	1
Table of Figures .....	3
Acronyms .....	4
Executive Summary .....	5
1 Introduction.....	6
1.1 Background and purpose.....	6
1.2 What is Community Housing? .....	6
1.3 Commonwealth Rent Assistance: a de facto sector subsidy .....	6
1.4 Research context .....	8
1.5 Report structure .....	9
2 Review of major reports on Commonwealth Rent Assistance and community housing.....	9
3 Methodology .....	13
4 Scope .....	14
5 Community housing tenants, rent setting practices and Commonwealth Rent Assistance .....	14
6 The importance of CRA to community housing providers .....	17
6.1 CRA as a proportion of rental income .....	17
6.2 Where is the income from CRA invested?.....	17
6.3 Growing social and affordable housing.....	19
6.3.1 The role of CRA in conducting financial modelling for new affordable housing developments....	19
6.3.2 Securing private sector finance for new developments.....	21
6.3.3 CRA and debt servicing.....	22
7 Potential impacts of the loss or quarantining of CRA.....	23
7.1 Potential impacts of the loss of CRA.....	23
7.2 Potential impacts of quarantining CRA to existing tenants.....	24
8 Conclusion and key findings .....	26
Appendices .....	29
Appendix 1: Payment rates for Rent Assistance as at 1 April 2014.....	29
Appendix 2: Survey template .....	30

## Table of Figures

Figure 1: Community housing leveraging model (source: KPMG) .....	8
Figure 2: Participant CHPs by jurisdiction and size classification .....	14
Figure 3: Tenant profile of participating CHPs by income source and organisational size .....	15
Figure 4: Percentage of households charged income based rents compared to market based rents .....	16
Figure 5: Where is revenue from CRA directed by your organisation? .....	18
Figure 6: Is CRA factored into financial modelling for new social and affordable housing developments? ...	19
Figure 7: Does access to CRA influence your organisation's ability to secure private sector finance? .....	21
Figure 8: Is income from CRA used to service debt? .....	22

## Acronyms

ACT	Australian Capital Territory
AHURI	Australian Housing and Urban Research Institute
AIHW	Australian Institute of Health and Welfare
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHP	Community Housing Provider
CRA	Commonwealth Rent Assistance
CSHA	Commonwealth State Housing Agreement
NAHA	National Affordable Housing Agreement
NBESP	Nation Building Economic Stimulus Plan
NRAS	National Rental Affordability Scheme
NRSCH	National Regulatory System for Community Housing
NSW	New South Wales
PBI	Public Benevolent Institution
QLD	Queensland
SA	South Australia
SHA	State Housing Authority
TAS	Tasmania
VIC	Victoria
WA	Western Australia

## Executive Summary

Commonwealth Rent Assistance (CRA) is widely considered to be vital to the viability and growth of the community housing sector. There is, however, a lack of research about the impact that CRA has on rental incomes received by community housing providers (CHPs). The impetus for this study was to begin filling this research gap and providing evidence of the importance of CRA to CHPs.

The research project was undertaken by community housing peak bodies from across Australia and included CHPs from all jurisdictions except the Northern Territory. Representatives from 24 CHPs were either interviewed or surveyed for the research project. In order to assess whether the budgetary importance of CRA varied according to the size of organisations, up to five CHPs of different sizes were selected to participate in the research project from each jurisdiction. They ranged in size from small providers with less than 100 properties to large CHPs with over 1,000 properties in their housing portfolios.

Research participants were asked about:

- the proportion of community housing tenants that receive CRA;
- the proportion of rental revenue that CRA comprises;
- how the additional revenue from CRA is directed within organisations;
- the role of CRA in servicing debt and securing private sector finance for new social and affordable housing developments; and
- the possible impacts of policy changes that would mean CHPs were either unable to access CRA or if CRA was quarantined to current tenants.

Key research findings include:

- There is a lack of publically available data and information on the financial impact of CRA on the community housing sector despite it being widely accepted as vital to the viability and growth of the sector.
- Most CHPs indicated that a high proportion of their tenants received CRA. Twenty respondents (83%) said 70 per cent or more of households received CRA.
- CRA provides an important income stream for many of the organisations that participated in this project. Most respondents indicated that CRA comprised between 30 and 39 per cent of their organisation's rental income.
- The income from CRA is used for a range of purposes, with most organisations using the additional income across their organisations' operations: 83 per cent of respondents said it was allocated to providing better repairs and maintenance; 75 per cent said it was directed to providing 'additional or improved services for tenants'; 67 per cent said it was directed to growing the organisation's housing portfolio; and 46 per cent said it was directed to 'other' organisational functions, such as regulatory compliance and general running costs.
- Larger organisations with more than 500 properties were more likely to direct revenue from CRA to organisational growth compared to smaller organisations. Larger CHPs were more likely to factor CRA into modelling for new developments, and to use revenue from CRA to secure private finance and service organisational debt.
- If community housing tenants were no longer able to access CRA (or if CRA was quarantined to existing tenants) without this revenue being replaced by an alternative source, the viability of many CHPs would be threatened. Any such move would also stymie growth in the sector. Further, this would have broader implications for the entire social and affordable housing system.

# 1 Introduction

## 1.1 Background and purpose

Commonwealth Rent Assistance (CRA) is widely viewed as fundamental to the viability and growth of the community housing sector. There is, however, little publically available research that illustrates the importance CRA to community housing providers (CHPs)<sup>1</sup>. This report examines the importance of CRA to CHPs. Based on data from 24 CHPs, this report considers the proportion of tenants who receive CRA, the proportion of rental revenue that CRA comprises, how the additional revenue from CRA is directed within organisations and the role of CRA in servicing debt and securing private sector finance for new social and affordable housing developments. It also considers the possible impact on CHPs if their tenants were no longer able to access CRA or if CRA was quarantined to current tenants.

The research was undertaken by the Community Housing Peaks Policy Network which is made up of community housing peak bodies from around Australia.

Members of the network comprise:

- Community Housing Federation of Australia (CHFA);
- Community Housing Coalition of Western Australia (CHCWA);
- Community Housing Council of South Australia (CHCSA);
- Community Housing Federation of Victoria (CHFV);
- Shelter Tasmania; and
- NSW Federation of Housing Associations (NSWFHA).

This project is the first collaborative research conducted by the group.

## 1.2 What is Community Housing?

Community housing is secure rental accommodation that is affordable to people on low to moderate incomes. Community housing providers largely offer long-term housing, but many provide short to medium-term crisis and transitional accommodation to people who are homeless or at risk of homelessness. Other CHPs cater exclusively to particular client groups, such as people with disability, older people or Indigenous people.

Community housing is part of the broader social housing system which includes public housing. A key difference between community housing and public housing is that community housing is owned and / or managed by not-for-profit organisations, whereas public housing is owned and managed by State Housing Authorities (SHAs). Many local governments also provide housing to low income people and this is also included under the heading of community housing.

## 1.3 Commonwealth Rent Assistance: a de facto sector subsidy

A further important difference between community housing and public housing is that community housing tenants are eligible for CRA. The *Social Security Act 1991* states that a person is eligible for rent assistance if, 'the person is not an ineligible homeowner, is not an aged care resident, and is liable to pay rent other than to a state or territory housing authority.'<sup>2</sup>

CRA is a non-taxable amount paid to eligible recipients of a government pension, allowance or benefit to help cover the cost of renting. In order to receive CRA, a benefit recipient must first qualify for a social security

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<sup>1</sup> A note on terminology: this research paper uses the term Community Housing Provider or CHP as a generic label for all not-for-profit organisations that provide housing. The term Community Housing Provider is used in a number of jurisdictions around Australia and is consistent with the terminology used in the National Regulatory System from Community Housing (NRSCH). It should not be confused with the category of 'Housing Provider' under the Victorian community housing registration system.

<sup>2</sup> Social Security Act 1991, Module D, Section 1068AD1. Section 13, 13, (1) (f).

income support payment, more than the base rate of Family Tax Benefit Part A or a service pension.<sup>3</sup> CRA is paid at 75 cents for every dollar above a minimum rental threshold until a maximum rate is reached. The minimum threshold and maximum rates vary according to a person's family situation and number of children.<sup>4</sup> CRA is indexed twice yearly in line with changes in the consumer price index (CPI). It is not indexed against the rental component of CPI.<sup>5</sup> (Appendix 1 contains the current CRA rates as at 1 April 2014).

Community housing rent setting policies are determined wholly or in large part by the policies of SHAs. In most jurisdictions these policies stipulate that CHPs are to factor in 100 per cent of the CRA that tenants are entitled to when calculating the tenant's/household's rent.<sup>6</sup> The ability of CHPs to include 100 per cent of CRA in tenants' rent calculations increases rental revenue and makes CRA a de facto subsidy to the sector. CRA, along with other benefits, is an important factor that enables many CHPs to run surpluses whereas State Housing Authorities (SHA), which do not have access to the same benefits, run at a loss.<sup>7</sup> Other factors that contribute to CHPs being able to run surpluses include access to tax exemptions and benefits (such as PBI status), greater operational efficiencies, and their ability to house mixed tenant populations. CRA can boost the rental income per tenant by as much as 66 per cent where the tenant is eligible to receive the maximum amount of CRA.<sup>8</sup> Modelling shows that a portfolio of 500 dwellings run by an SHA will return a \$780,000 deficit per annum whereas a CHP with access to full CRA will return a \$438,000 surplus.<sup>9</sup>

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<sup>3</sup> Department of Social Services. *Rent assistance* <http://www.dss.gov.au/our-responsibilities/housing-support/benefits-payments/rent-assistance>.

<sup>4</sup> Steering Committee for the Review of Government Service Provision. Report on Government Services 2014. Volume G: Housing and homelessness. [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0019/132373/rogs-2014-volume-g-housing-and-homelessness.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0019/132373/rogs-2014-volume-g-housing-and-homelessness.pdf), p.G.7.

<sup>5</sup> AIHW, *Housing Assistance in Australia 2013*, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129545051>, p.76.

<sup>6</sup> NSW Government Family and Community Services Housing NSW, *Community Housing Rent Setting Policy*, p.5; (Queensland) Department of Housing and Public Works. Housing Services. *Community Housing Rent Policy* September 2013, p.7; State Government of Victoria Housing Register. *Performance Standards for Registered Housing Agencies*, n.d., p.11; Government of Western Australia Department of Housing. *Community Housing Rent Setting Policy*, December 2009 (Under Review), p.4.

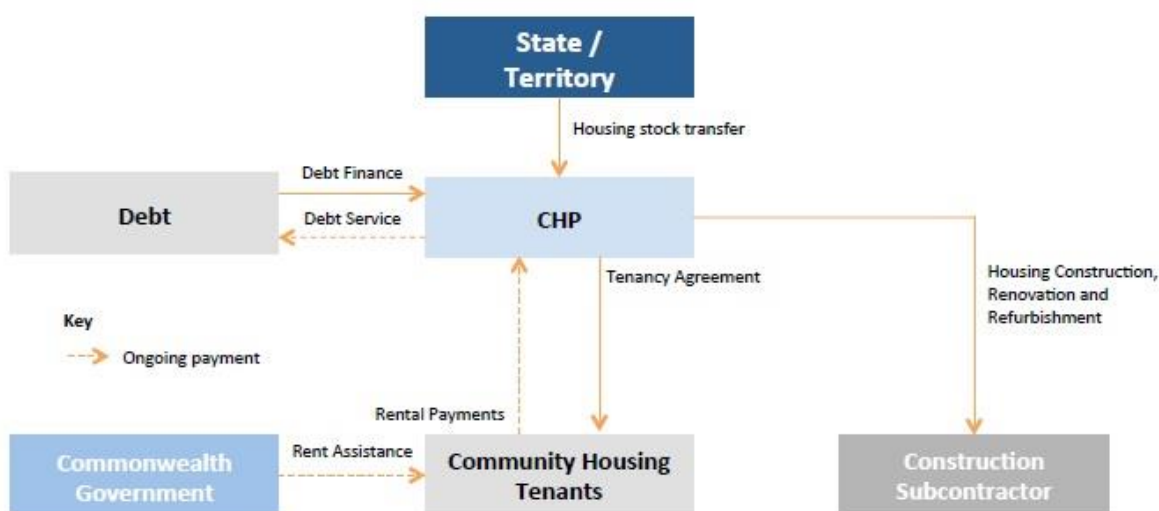
<sup>7</sup> Steering Committee for the Review of Government Service Provision. *Report on Government Services. Volume G: Housing and Homelessness. Chapter 17 Attachment tables. Table 17A.19 Nominal government expenditure on public housing, 2003-04 to 2012-13 (\$ per dwelling)*; Victorian Auditor General, *Access to public housing (Melbourne: Victorian Government Printer, 2012)*, p.ix; Audit Office of New South Wales, *Making the best of public housing* (Sydney: Audit Officer of NSW), pp.18-9.

<sup>8</sup> For example, a single aged pensioner receiving the maximum base pension (\$766.00 per fortnight) paying 25 per cent of income (\$191.50) in rent plus the maximum rate of CRA (\$126.40 per fortnight as at 1 April 2014) would pay an estimated \$8,265.40 in rent per year. Without CRA, the same tenant would pay \$4979.00 per year.

<sup>9</sup> Sphere Company, *Maximising growth potential of housing providers through title transfer*. Prepared for the CHCSA November 2013.



Figure 1: Community housing leveraging model (source: KPMG)<sup>10</sup>



Income from CRA plays a key role in the ability of CHPs to grow their property portfolios using debt financing.<sup>11</sup> CRA plays a critical role in boosting CHPs' incomes which in turn facilitates access to private finance for the development of further social and affordable housing (see Figure 1 above). The ability of larger providers to leverage their housing stock is one of the reasons behind the push for SHAs to transfer management and title of public housing to CHPs.<sup>12</sup> The community housing sector has the ability to play a significant role in increasing the stock of social and affordable housing and alleviate housing need which is set to increase as Australia's population ages.

#### 1.4 Research context

The research was undertaken in the context of the change of Commonwealth Government in September 2013. The elected Liberal National Coalition Government announced a wide ranging National Commission of Audit on 22 October 2013. The Commission was established to investigate Commonwealth expenditure to address increasing debt. The Federal Treasurer indicated that 'every area of government would be examined',<sup>13</sup> including expenditure on affordable housing programs, such as the National Affordable Housing Agreement (NAHA), National Rental Affordability Scheme (NRAS) and CRA. The Commission's Phase One Report, released in May 2014, recommended major changes to Commonwealth Government engagement with housing policy and funding programs. It recommended that the Commonwealth:

- a. limit its involvement in housing to providing Rent Assistance payments;
- b. extend Rent Assistance to public housing tenants, provided State governments commence charging market rates of rent; and
- c. fund the increase in aggregate Rent Assistance payments by re-directing Commonwealth funding from existing agreements with the States for Affordable Housing and Homelessness and the National Rental Affordability Scheme<sup>14</sup>

<sup>10</sup> KPMG, *Social Housing Initiative Review*,

[http://www.fahcsia.gov.au/sites/default/files/documents/01\\_2013/social\\_housing\\_initiative\\_review.pdf](http://www.fahcsia.gov.au/sites/default/files/documents/01_2013/social_housing_initiative_review.pdf), (KPMG,2012), p.33.

<sup>11</sup> E. Bourke, The future of community housing, in Parity Vol 26 Issue 6 / HousingWorks Vol 10 Number 6, *Public and community housing: survival and sustainability* (Melbourne and Mawson, 2013), pp.29-30.

<sup>12</sup> H. Pawson, V. Milligan, I Wiesel, & K. Hulse *Public housing transfers: past, present and prospective.*(Melbourne: Australian Housing and Urban Research Institute, 2013), p.31,53.

<sup>13</sup> The Hon. Joe Hockey MP. *Joint Media Conference – Commission of Audit and Debt*, <http://www.joehockey.com/media/transcripts/details.aspx?s=515>, Accessed 1 April 2014.

<sup>14</sup> *The Report of the National Commission of Audit, Phase One*, p.182, [http://www.ncoa.gov.au/report/docs/phase\\_one\\_report.pdf](http://www.ncoa.gov.au/report/docs/phase_one_report.pdf) Accessed 4 May 2014 (Canberra: Commonwealth of Australia, 2014)

If implemented, these recommendations would have wide-ranging implications for the operation of Australia's social and affordable housing systems. This report focuses on the current policy regime.

This research also comes at an important juncture in the development of the community housing sector in Australia. In May 2009 Australian Housing Ministers agreed that the States and Territories and the Commonwealth facilitate the development and growth of the not-for-profit housing sector, with a commitment to grow the sector to up to 35 per cent of social housing by 2014. Subsequently, a number of jurisdictions have announced large scale public housing management transfers to CHPs. The Tasmanian Government's 'Better Housing Futures' program will see the transfer of around 4,000 properties, equating to approximately one third Housing Tasmania's portfolio, to CHPs by June 2014.<sup>15</sup> The South Australian Government signalled it will transfer 5,000 public housing dwellings to CHPs under its 'Better Places, Stronger Communities' program. Most significantly, the Queensland Government's *Housing 2020* outlines an ambitious plan to transfer the management of 90 per cent of social housing stock to the community housing sector over the next 10 years.<sup>16</sup>

Based on the present rent setting models used by CHPs, these transfers will lead to an increased cost to the Federal Government as more tenants become eligible and begin receiving CRA. It has been estimated that the transfer of 20,000 households to the sector could cost the Commonwealth \$50.3million per annum in additional CRA payments, depending on the composition of households transferred.<sup>17</sup> The 35 per cent target has been interpreted by some industry stakeholders as the limit of the Commonwealth's willingness to take on a higher CRA bill due to transfers while leaving the NAHA funding unaffected.<sup>18</sup>

## 1.5 Report structure

Section 2 of this report provides a high level desk top review of literature that reports on CRA and the intersection of CRA with community housing. It shows there is little publically available research that demonstrates the importance of CRA to the sector. Sections 3 and 4 outline the methodology and scope of the research project while Section 5 provides the tenant profile of participating CHPs and the percentage of tenants that are eligible for CRA. Section 6 looks in detail at the importance of CRA to CHPs. It looks at the proportion of rental income that CRA comprises, what organisational areas and activities income from CRA is directed to, and the role of CRA in growing social and affordable housing through attracting private investment and servicing debt. Section 7 considers the views of research participant on the potential impact on their organisations in the event that their tenants were no longer able to access CRA or if CRA was quarantined to existing tenants. Finally, Section 8 highlights the key findings of the research, considers the value of CRA as a de facto subsidy to CHPs, and the possible implications on the broader social and affordable housing system were this revenue stream no longer available.

## 2 Review of major reports on Commonwealth Rent Assistance and community housing

There is a paucity of information available on the financial impact of CRA on CHPs. The authors of this report are not aware of any specific research that has been undertaken on CRA and its financial impact on CHPs. This literature review surveys many of the major reports that have been written about CRA and shows there is a significant gap with regard to its impact on CHPs.

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<sup>15</sup> Government of Tasmania. Department of Health and Human Services. *Better Housing Futures* [http://www.dhhs.tas.gov.au/housing/tenants/better\\_housing\\_futures](http://www.dhhs.tas.gov.au/housing/tenants/better_housing_futures).

<sup>16</sup> Department of Housing and Works, *Housing 2020: Delivering a flexible, efficient and responsive housing assistance system for Queensland's future*, (Brisbane: Queensland Government).

<http://www.hpw.qld.gov.au/SiteCollectionDocuments/Housing2020Strategy.pdf>, 2013, p 8.

<sup>17</sup> Pawson et al. *Public housing transfers*, p.53.

<sup>18</sup> *Ibid*, p.25.

The Productivity Commission Report on Government Services provides the greatest level of detail on CRA. The *Report on Government Services 2014 Volume G: Housing and homelessness* indicates that Commonwealth Government expenditure on CRA was \$3.6 billion in 2012–13, increasing from \$2.9 billion in real terms in 2008–09.

Nationally, at June 2013:

- 1,267,979 individuals, couples or families were receiving CRA;
- the median CRA payment was \$118 per fortnight; and
- 76.1 per cent of all CRA recipients were paying enough rent to be eligible to receive the maximum rate of CRA.<sup>19</sup>

The report provides an extensive set of tables that breaks down recipients of CRA by age,<sup>20</sup> payment type<sup>21</sup>, geographical location,<sup>22</sup> and the contribution that CRA makes to alleviating rental stress.<sup>23</sup> However, it does not provide statistical data on the number of community housing tenants that receive CRA, the median or average amount of CRA they receive, the number that receive the maximum amount of CRA or the total dollar amount of CRA that goes to community housing tenants each year.

The Australian Institute of Health and Welfare (AIHW) publishes a number of reports on social and affordable housing. *Housing assistance in Australia* is published annually and provides information on trends in housing and housing assistance provided by Australian governments. As CRA is the major housing-related expenditure by the Australian Government, the CRA program features prominently in the report, which provides statistics on recipients of CRA and the impact of CRA on elevating rental stress.<sup>24</sup> The report also provides information on the percentage of community housing tenants experiencing 'rental stress'.<sup>25</sup> As with the Report on Government Services, the housing assistance report provides a range of statistics on CRA but does not include data specific to the provision of CRA to community housing tenants.<sup>26</sup>

As part of this research project the Peaks Policy Network requested data from the AIHW on community housing tenants and their access to CRA. Specifically, the Network sought data on the number of community housing tenants who received CRA, the average amount of CRA received, and the number and proportion of tenants who received the maximum amount of CRA. The AIHW was able to extract this data from the Australian Government Housing Data Set. This was due to the voluntary nature of reporting of this information by tenants, meaning the AIHW was unable to provide it for use in this report due to its unreliability.

CRA has not escaped the consideration of various parliamentary inquiries into social and affordable housing in Australia. The Senate Select Committee on Housing Affordability in its final report, *A good house is hard to find*, published in June 2008, made three recommendations regarding CRA. Recommendation 10.6, the most relevant to this study, concerned 'a review of social housing rent setting practices with regard to enhancing sustainability of social housing while maintaining affordability for tenants'. As part of the recommendation the Committee noted that the 'review should include the interaction between social housing and Commonwealth Rent Assistance payments and how the two programmes could maximise socially and

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<sup>19</sup> Steering Committee for the Review of government Service Provision. Report on Government Services 2014. Volume G: Housing and homelessness (Canberra: Productivity Commission) p.G.7.

<sup>20</sup> Ibid. Table GA.16.

<sup>21</sup> Ibid. Table GA.19.

<sup>22</sup> Ibid. Table GA.20.

<sup>23</sup> Ibid. Table GA.27 to GA.34.

<sup>24</sup> AIHW, *Housing Assistance Australia 2013*, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129545051>, pp.76-8.

<sup>25</sup> AIHW, *Housing Assistance Australia 2013*, , p.74. The report warns that figures on community housing tenants experiencing rental stress should be treated with caution as they are likely due to inaccurate reporting.

<sup>26</sup> Data on CRA are based on 'income units' i.e. singles, couple or families who are eligible for CRA rather than households (AIHW, 2013, p.76).

economically sustainable affordable housing outcomes.<sup>27</sup> The Commonwealth Government's response to the report<sup>28</sup> and the 'scorecard'<sup>29</sup> on the Government's actions with regard to the recommendations noted that rent setting policy was the responsibility of state and territory governments. The Government response also noted that research had examined social housing rental policy in Australia and overseas and identified reform options for Australian social housing.<sup>30</sup>

The two other recommendations concerned evaluating the 'effectiveness and cost effectiveness of CRA for improving rental affordability for low to medium income households' (Recommendation 10.1) and increasing the level of CRA available to older Australians renting from private landlords (Recommendation 10.2).<sup>31</sup>

The Victorian Parliament's Family and Community Development Committee's *Inquiry into the adequacy and future directions of public housing in Victoria* and the Western Australian Community Development and Justice Standing Committee's final report on the future of social housing in WA, *A fading dream*, have also considered CRA. The latter report contends that the Australian Government shifted its budgetary focus from the Commonwealth State Housing Agreement (CSHA) to prioritising CRA in 1994-95.<sup>32</sup> Both reports note that the policy focus has shifted from emphasising security of tenure for low income households through supporting the public housing system to reducing public housing waitlists and addressing housing need through funding CRA.<sup>33</sup> The reports also focus on the growing gap between the level of assistance and private rents as the maximum CRA payment has remained relatively static and thus led to an increasing number of private renters who are in receipt of CRA but still experiencing housing stress (i.e. households in the bottom 40 per cent of the income distribution paying more than 30 per cent of income on housing).

Both reports touch on the importance of CRA to the viability and growth of community housing providers. The WA report notes that CRA plays an important role in the viability of CHPs<sup>34</sup> while the Victorian report notes that CRA can help finance the growth of housing associations that have reached a critical size.<sup>35</sup>

Most of the reports viewed as part of this literature review focus on the inadequate level of financial assistance provided to low income private renters. Many of these reports have been published or commissioned by not-for-profit organisations, such as the National Welfare Rights Network. The Network's latest report on rent assistance shows CRA does much to improve housing affordability for low income renters but it does not prevent everyone from experiencing housing stress.<sup>36</sup> While CRA is indexed twice yearly in line with CPI, rental costs in the private market have increased at a much faster rate. This has resulted in an increasing number of households experiencing housing stress. This issue is touched on in a

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<sup>27</sup> The Senate Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing affordability in Australia* (Canberra: Parliament House, 2008) p. 9, 167.

<sup>28</sup> Australian Government. *Government response to 'A good house is hard to find: housing affordability in Australia. Report by the Senate Select Committee on Housing Affordability in Australia* (Canberra: Australian Government, 2008) p.21.

<sup>29</sup> Senate Community Affairs Committee. *Answers to estimates questions on notice Families, housing community services and indigenous affairs portfolio. 2011-12 Supplementary Estimates Hearings. Question No. 86 Topic 2008 Senate inquiry into housing affordability. Hansard 20/10/2011 CA49.*

<sup>30</sup> Australian Government, *Government response to A good house is hard to find*, p.21.

<sup>31</sup> Senate Select Committee on Housing Affordability, *A good house is hard to find*. p.157.

<sup>32</sup> Community Development and Justice Standing Committee, *A fading dream*, p.xiii.

<sup>33</sup> Parliament of Victoria. Family and Community Development Committee. *Inquiry into the adequacy and future directions of public housing in Victoria*. September 2010, p.45-6; Parliament of Western Australia. Community Development and Justice Standing Committee, *A fading dream – affordable housing in Western Australia* (Perth: Legislative Assembly, Parliament of Western Australia, 2011), p.2.

<sup>34</sup> Parliament of Western Australia. Community Development and Justice Standing Committee, *A fading dream*, p.51.

<sup>35</sup> Parliament of Victoria. Family and Community Development Committee. *Inquiry into the adequacy and future directions of public housing*, p.358.

<sup>36</sup> National Welfare Rights Network, *The impact of Rent Assistance on housing affordability for low-income renters: Australia*, March 2014, p.13.

range of other more general reports dealing with housing affordability.<sup>37</sup> Consequently, a number of community organisations have called for an increase in the rate of CRA.<sup>38</sup>

The Australian Government's Review of Taxes and Transfers (The Henry Tax Review) published in 2010 made recommendations with regard to reforming CRA which, if implemented, would have implications for the community housing sector. The review favoured the replacement of income-based rents with a system where the gap between market-based rent and affordable housing charges were bridged through the social security system rather than from the resources of social housing landlords. According to Pawson et al. 'positioning the necessary subsidisation of social housing as a national social policy responsibility would help to create a sound financial basis for all providers whether they are a SHA or a CHP.'<sup>39</sup> The review also recommended linking CRA to fluctuations in the private rental market.<sup>40</sup>

Incorporating CRA into the National Affordable Housing Agreement (NAHA) has also been discussed in a number of publications. The Report on Government Services notes that while CRA is not formally a part of the NAHA it contributes to NAHA outcomes relating to rental affordability.<sup>41</sup> CRA is not a capped line item in the Commonwealth budget and, as noted above, has increased over time and is now the Commonwealth's largest housing payment. As well as boosting the income of tenants in private rental housing, CRA operates as a de facto subsidy for CHPs: by factoring in a tenant's eligibility for CRA into their rent calculation, CRA becomes an indirect income stream that supports the financial viability of CHPs.<sup>42</sup>

Some research reports on community housing touch on the importance of CRA to the community housing model. The AHURI research paper, *Public Housing transfers: past, present and prospective*, published in October 2013 raises a number of issues relating to CRA and stock transfers to the community housing sector. Access to CRA has been one of the drivers for of asset transfers from public to community housing providers. This is because rental revenue is increased, and this makes social housing more financially viable.<sup>43</sup> The report also discusses the risks to CHPs of the cancellation of CRA eligibility to community housing tenants or if public housing tenants were also made eligible for CRA, which would reduce the incentive of SHAs to transfer properties to the sector.<sup>44</sup>

This theme is also discussed in other reports, such as the Housing Ministers' Advisory Committee, *Social Housing Initiative Review*, completed by KPMG in September 2012. Besides providing a model for how CRA may be leveraged by CHPs to develop more social and affordable housing (see Figure 1 above), CRA is scarcely mentioned in the report. A case study on Access Housing Australia<sup>45</sup> which is referred to under the leveraging model deals more with not-for-profit and private sector partnerships in delivering affordable housing, instead of emphasising the role of CRA in facilitating the project discussed in the case study.

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<sup>37</sup> See for example Shelter Tasmania, State of Affordable Housing in Tasmania 2013,

[http://www.shelbertas.org.au/newsissues/PDF\\_2013/State%20of%20Affordable%20Housing%202013.pdf](http://www.shelbertas.org.au/newsissues/PDF_2013/State%20of%20Affordable%20Housing%202013.pdf), p.23.

<sup>38</sup> See for example National Welfare Rights Network, *The impact of Rent Assistance on housing affordability for low-income renters: Australia* (National Welfare Rights Network, 2014); Welfare rights Centre (NSW) and Shelter NSW, *The impact of rent Assistance on housing affordability for low-income renters: New South Wales* (Sydney, 2014); National Welfare Rights Network, *A home on the range or a home out of range? How Commonwealth Rent Assistance fails low income Australians* (National Welfare Rights Network, 2013).

<sup>39</sup> Pawson et al. *Public housing transfers*, p.72.

<sup>40</sup> Community Housing Federation of Victoria, Victorian Council of Social Services, Council to Homeless Persons, Victorian Public Tenants Association, Tenants Union of Victoria, Justice Connect Homeless Law, *Making social housing work. Better homes for low-income Victorians* (Melbourne: 2014), p.34.

<sup>41</sup> Steering Committee for the Review of Government Service Provision. *Report on Government Services 2014. Volume G: Housing and homelessness*. [http://www.pc.gov.au/data/assets/pdf\\_file/0019/132373/rogs-2014-volume-g-housing-and-homelessness.pdf](http://www.pc.gov.au/data/assets/pdf_file/0019/132373/rogs-2014-volume-g-housing-and-homelessness.pdf), p.G.7.

<sup>42</sup> E. Bourke, *The future of community housing in Parity* Vol 26 Issue 6 / *HousingWorks* Vol 10 Number 6 (Melbourne & Mawson, July 2013) , p30.

<sup>43</sup> Pawson et al. *Public housing transfers*, p.31.

<sup>44</sup> *Ibid*, p.25.

<sup>45</sup> KPMG, *Social Housing Initiative*, pp.40-2.

Most reports on CRA concern the effectiveness of CRA in addressing rental affordability for low to moderate income households in the private rental market. While the importance of CRA to CHPs is touched on in a number of reports, these do not go into detail about the role that CRA can play in increasing the rental income of individual CHPs, how the additional revenue is directed by organisations, and the role of CRA in securing private finance for new social and affordable housing developments.

### 3 Methodology

Members of the Community Housing Peaks Policy Network interviewed or surveyed the Chief Executive Officers or Chief Financial Officers of 24 community housing providers in all Australian jurisdictions except the Northern Territory. A structured interview/survey method was used to collect a range of quantitative and qualitative information from participants on the impact of CRA on their organisations. Key questions that participants were asked included:

- the size of the provider;
- details of the provider's tenant profile;
- the rent setting method/s used;
- the number of households that received CRA;
- the proportion of rental income that CRA comprised;
- how the revenue from CRA was allocated by the organisation; and
- the role of CRA in servicing debt.

The interview/survey questions are contained in Appendix 2.

Community housing peak bodies in each jurisdiction selected up to five community housing providers of different sizes to participate in the research project. This was in order to assess whether the budgetary importance of CRA varied according to the size of the organisation and whether the additional income from CRA was used differently by different sized providers. Providers that participated in the research project were classified based on the following size categories:

- Small – less than 100 properties;
- Medium – between 100 and 499 properties;
- Moderately large – between 500 and 999 properties; and
- Large – 1,000 or more properties.

Each peak body endeavoured to select a diverse range of organisations to participate in the project. As a result, a mix of metropolitan and regional and generalist and specialist CHPs were selected. Most organisations that participated in the research project were registered under the various state-based regulatory systems. Two inter-jurisdictional providers also participated in the research project. One provided information and data specific to its activities in one specific jurisdiction that it operates in. The other provided information about its entire organisation across more than one jurisdiction. Two participant organisations are more appropriately classified as affordable housing companies as they have a high proportion of affordable rental dwellings through NRAS and a relatively small percentage of social housing.

The largest organisation that participated in the project owned/managed more than 2000 properties while the smallest had just 16 properties, which included a number of rooming houses. Organisations with NRAS properties also counted them in their housing stock. Taken together, the 24 organisations that participated in the research owned and/or managed almost 16,700 properties and a similar number of tenancies (excluding boarding and lodging arrangements).

A breakdown of participant organisations from each jurisdiction based on organisational size is provided in Figure 2 below. Between five and seven providers were represented in each size category.



**Figure 2: Participant CHPs by jurisdiction and size classification**

Jurisdiction	Organisation size				Total
	Large (1000 or more)	Moderately Large (500-999)	Medium (100-499)	Small (less than 100 properties)	
ACT	-	-	1	1	2
NSW	1	2	-	1	4
QLD	2	2	-	-	4
SA	-	-	2	-	2
TAS	1	-	1	-	2
VIC	2	-	1	2	5
WA	1	1	1	2	5
<b>Total</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>24</b>

Organisations were selected based on their willingness and capacity to participate in the research project. The selection of CHPs does not constitute a representative sample of the community housing sector in Australia or in any specific jurisdiction. While the sample size restricts the ability to generalise about the financial impact of CRA on the community housing sector as a whole, the findings provide a strong indicator of the impact of CRA on individual organisations.

#### 4 Scope

This research project focuses specifically on the impact of CRA on not-for-profit community housing providers. Organisations operating in the ACT, New South Wales, Queensland, South Australia, Victoria, Tasmania and Western Australia were involved in the project. No CHPs from the Northern Territory were involved in the project.

The research project is specifically concerned with the impact of CRA on CHPs. Income that CHPs may receive from tenants through the Private Rent Assistance Program, which assists households to meet rent payments, relocation costs and the costs of bonds<sup>46</sup>, falls outside the scope of this project. The views of tenants with regard to community housing rent setting practices which ‘capture’ 100 per cent CRA are also outside the scope of this project. Finally, the impact of the loss or reduction of CRA for private renters is outside the scope of this project.

#### 5 Community housing tenants, rent setting practices and Commonwealth Rent Assistance

Most community housing tenants receive some type of government benefit. This makes them eligible for Commonwealth Rent Assistance (CRA). The table below provides the tenant profile for the organisations that participated in this project by the households’ main income source and the CHP’s size. The Disability Support Pension was the most common income source for tenants while Youth Allowance was the least common.

<sup>46</sup> AIHW, *Housing assistance Australia 2013*, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129545051>, p.13.

**Figure 3: Tenant profile of participating CHPs by income source and organisational size**

Tenant income sources	Average percentage of tenants (%) <sup>47</sup>				
	Large (1000 or more)	Moderately large (500-999)	Medium (100-499)	Small (less than 100 properties)	All providers
<b>Aged Pension</b>	20	13	29	12	<b>18</b>
<b>Disability Support Pension</b>	34	44	47	50	<b>42</b>
<b>Newstart</b>	13	13	8	14	<b>13</b>
<b>Youth Allowance</b>	1	2	3	2	<b>2</b>
<b>Wages or salaries</b>	19	4	7	9	<b>11</b>
<b>Combination of sources</b>	17	20	2	14	<b>15</b>
<b>Other</b>	27	3	13	9	<b>14</b>

Most of the households in the sample were charged an income-based rent rather than a market-based rent. Income-based rents are usually set as a percentage of household income, and rent is capped at 74.9 per cent of the market rent for the dwelling, with the exception of SA, where rent is capped at full market value.<sup>48</sup> For social housing tenants income-based rents are usually 25 per cent of a household's 'assessable income'. Market-based rents are set differently around the country and may be set as a proportion of income or as a proportion of market rent.<sup>49</sup> Households may also be considered to be paying a market-based rent if the amount of income-based rent a household is paying exceeds 74.9 per cent of the market rate. In such cases, such as some regional areas where rents are comparatively low, rent may be capped at 74.9 per cent of the market rent.

Out of the 24 providers in the sample, the average percentage of households charged an income-based rent was 83.4 per cent, while 15.8 per cent were charged a market-based rent.<sup>50</sup> Figure 4 below shows the average percentage of households that were charged income and market based rents, based on the size of CHPs. The largest providers had the highest percentage of households paying market based rents. To a large extent this reflects the greater engagement in NRAS by these providers.

<sup>47</sup> Averages provided are based on the percentage of tenants housed by income source and not the number of tenants housing across all CHPs. Percentages may not add up to 100 per cent as respondents may have selected more than one income source or as a result of rounding.

<sup>48</sup> Taxation rules mean CHPs do not have to pay GST on their supply of housing if they charge less than 75 per cent of the market rent.

<sup>49</sup> For a detailed account of rent setting practices around Australia see Community Housing Federation of Australia, Allocation, eligibility, and rent setting in the Australian community housing sector (Canberra: CHFA) <http://chfa.com.au/news/allocation-eligibility-and-rent-setting-australian-community-housing-sector>

<sup>50</sup> The difference is based on one CHP having a proportion of tenants that were charged neither an income nor a market based rent.



**Figure 4: Percentage of households charged income based rents compared to market based rents**

Provider size	Income-based rent (%)	Market-based rent (%)	Range of households charged income-based rent (%)	Range of households charged a market-based rent (%)
Large (1000 or more)	76.2	26.0	36.2 – 96.0	4.0 – 63.8
Moderately Large (500 - 999)	84.4	8.9	55.6 – 99.4	0 – 30.9
Medium (100 to 499)	75.2	24.8	28.5 – 100	0 – 71.5
Small (less than 100 properties)	95.8	4.2	80.3 – 100	0 – 19.7
All	83.4	15.8	28.5 – 100	0 – 71.5

Most organisations had a high proportion of tenancies/households that received CRA. Twenty (83%) said 70 per cent or more of households received CRA. Not all respondents were able to provide a specific percentage of households that received CRA, but provided the following estimates:

- 1 (4%) indicated 100 per cent of tenancies received CRA
- 9 (38%) said between 90 and 99 per cent received CRA;
- 7 (29%) said between 80 and 89 per cent received CRA;
- 3 (13%) said between 70 and 79 per cent received CRA;
- 2 (8%) said between 50 and 59 per cent received CRA;
- 1 (4%) indicated that between 40 and 49 per cent received CRA; and
- 1 (4%) estimated that between 20 and 29 per cent of households received CRA.

Of the two organisations that said between 50 and 59 per cent of their tenants received CRA, one indicated that it provides housing to remote Aboriginal households for whom a different rent setting policy applied. Instead of these households paying 25 per cent of income, as is the case for social housing tenants, they pay a 'low fixed level of rent'. The amount of rent paid by this cohort was insufficient to meet the minimum rent level for these households to be eligible for CRA. The second organisation that fell into this category was a large provider with over 1000 properties. It had a comparatively large number of household whose incomes came from wages and salaries; 39 per cent compared to an average 19 per cent for all large providers and 11 per cent for all providers.

One organisation estimated that between 40 and 49 per cent of tenants received CRA. This organisation was a specialist Indigenous community housing provider and for most of its tenancies Newstart was the main income source. It remains unclear why less than half of these households received CRA.

The organisation with the lowest percentage indicated that between 20 and 29 per cent of its households received CRA; specifically, 28.5 per cent. However, this organisation was only able to provide information on tenants it charged an income based rent which made up only 29 per cent of its tenancies. The respondent assumed some proportion of its 'affordable housing' tenancies (those charged a market based rent) also received CRA but was unable to provide an estimate because they did not collect this data.

## 6 The importance of CRA to community housing providers

CRA makes up a significant proportion of the rental income for most of the CHPs that participated in this study. CRA made up between 30 and 39 per cent of most organisation's rental income. The income from CRA is used by providers for a range of organisational activities although most said it was directed towards better repairs and maintenance. Larger providers were more likely to direct income from CRA to growing their organisations' housing portfolios.

### 6.1 CRA as a proportion of rental income

CRA makes up a significant proportion of rental income for many of the providers that participated in the research project. Twelve respondents (52 per cent) estimated that income from CRA comprised more than 30 per cent of the organisation's rental income. This was spread evenly between small to large providers.

Thirteen respondents provided a specific percentage in answering this question. Of these, on average, CRA comprised an estimated 32.9 per cent of rental income. The highest percentage was 41 per cent while the lowest was 18.2 per cent. This is not surprising as this organisation had a large proportion of households on salaries and wages (39 per cent) meaning a smaller proportion tenants were eligible to receive CRA.

The highest percentage of income indicated was 41 per cent. This CHP owned/managed more than 1000 properties and indicated that the organisation's rental income amounted to \$6.83million per year. CRA provided \$2.8 million to this organisation.

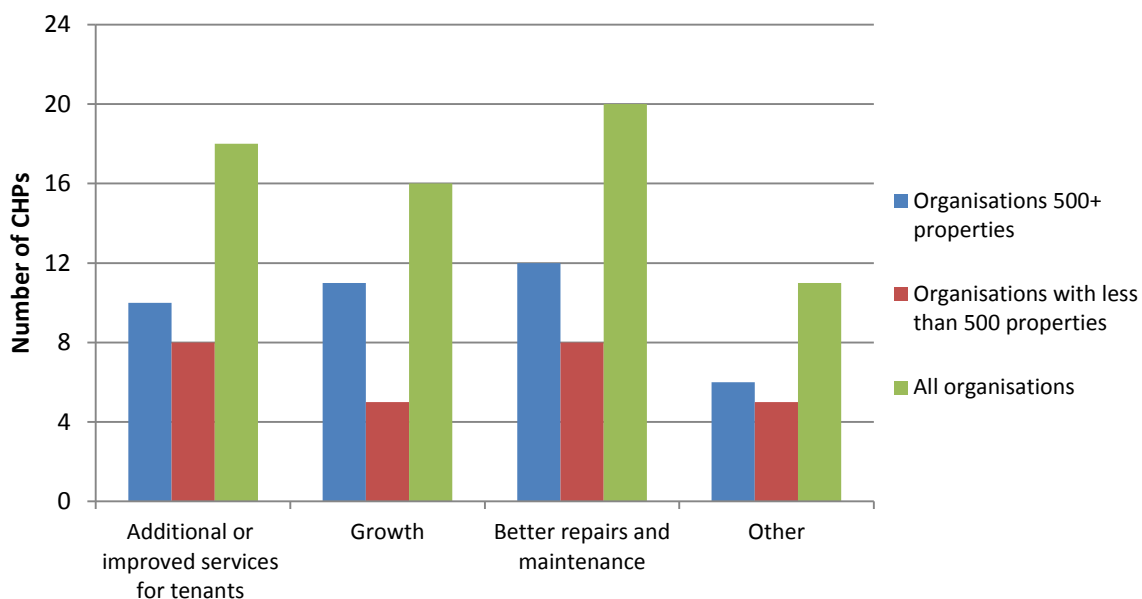
### 6.2 Where is the income from CRA invested?

Organisations that participated in the research project indicated that income from CRA is directed toward a number of areas. Some respondents indicated that income from CRA is goes into consolidated rental revenue which the organisation then allocates. Most organisations, whether large or small, indicated that income from CRA was directed toward better repairs and maintenance.

Participants said CRA was distributed in the following ways:

- 20 (83%) said it was allocated to providing better repairs and maintenance;
- 18 (75%) of respondents said it was directed to providing 'additional or improved services for tenants';
- 16 (67%) said it was directed to growing the organisation's housing portfolio; and
- 11 (46%) said it was directed to 'other' organisational functions (these are discussed more fully below).

**Figure 5: Where is revenue from CRA directed by your organisation?**



Larger CHPs were more likely to direct the income from CRA across a number of areas compared to smaller ones. This suggests that an organisation’s scale adds value in terms of the outcomes these providers are able to deliver. A larger revenue base allows investment in multiple areas.

Seventy five per cent of respondents said the additional income they received from CRA was used to provide additional or improved tenant services. A large provider with more than 1000 properties under management indicated that it received approximately \$2.8million from CRA and that it used this to provide more complex case management services for tenants which facilitated social inclusion by helping tenants move through the social housing system:

*We target very low income households and those with complex needs. The revenue from CRA allows for a smaller staff to tenant ratio for more intensive tenancy management. We also undertake stakeholder engagement to integrate our tenants into the wider community. Community development is another key feature of what we do to support tenants to exit from social housing.*

Larger organisations with more than 500 properties were more likely to direct revenue from CRA to organisational growth compared to smaller organisations. Eleven out of 12 (92%) larger organisations with more than 500 properties under management said they used CRA to grow their housing portfolio compared to 5 out of 12 (42%) smaller organisations. CRA allowed large providers to grow the amount of social and affordable housing to address the increasing need for affordable housing in the community. The income from CRA also contributed to CHPs being able to asset manage older properties in their portfolios, particularly old public housing properties that had been transferred with maintenance liabilities.

A number of respondents said income from CRA was directed toward ‘other’ organisational activities or areas. These included debt servicing, regulatory compliance through maintaining the organisation’s registration status or preparing for the implementation of the National Regulatory System of Community Housing (NRSCH). One moderately large provider from Western Australia said they were preparing for the implementation of the NRSCH in WA even though at the time of the interview the WA Government had not provided a clear indication of whether it would sign up to the NRSCH or specify a timeframe for its implementation. As WA currently has an administrative or policy based regulatory framework, the state, if it

signs on to the NRSCH, will transition to national regulation from lower base compared to other jurisdictions, such as NSW, Victoria and the ACT.<sup>51</sup>

A medium sized specialist disability housing provider said the income it received from CRA was ‘negligible’ and used for general operating costs:

*At present the amount of CRA maintained by the organisation is negligible and therefore part of everyday income to cover all running expenses of the organisation: emergency maintenance, planned short and long term maintenance such as annual asbestos inspections [and] termite treatments, administration costs and salaries, annual accreditation audits, staff and Board training, Board expenses, etc.*

### 6.3 Growing social and affordable housing

Part of the survey focused on establishing the role CRA plays in helping the CHPs to grow the number social and affordable homes in their portfolios. Survey participants were asked if they factored CRA into undertaking financial modelling for new developments, the role of CRA in securing private sector finance and the role of CRA in servicing debt.

#### 6.3.1 The role of CRA in conducting financial modelling for new affordable housing developments

The survey results suggest the larger the CHP the more likely it is to factor CRA into financial modelling for new affordable housing developments. All the large CHPs with more than 1,000 social and affordable homes factored the income from CRA into financial modelling for new developments. Four out of five moderately large organisations and three out of six medium sized organisations factored CRA into their financial modelling. Comparatively, just one small provider undertook financial modelling that included CRA (Figure 6).

**Figure 6: Is CRA factored into financial modelling for new social and affordable housing developments?**

Provider size	Yes	No	Maybe	Not applicable
Large (1000 or more)	7	-	-	-
Moderately Large (500 - 999)	4	1	-	-
Medium (100 to 499)	3	2	-	1
Small (less than 100 properties)	1	4	-	1

One large provider that focused on housing tenants with particularly high needs said that CRA was important for the organisation and that the level of rent would need to be increased and the treatment of assessable household income expanded in order for the organisation to be less dependent on CRA:

*Our income to debt ratio is lower when CRA is factored in. CRA becomes an important element in the absence of an amenity based rent policy or a policy that targets a range of income groups. CRA would not be such a critical component if the scope of rent policies and applicants housed were more flexible. 25% of income is not sufficient to support the transition to the private sector for social housing tenants. Certain income from tenants is not taken into consideration and therefore the 25% is 22% in reality therefore providing a further subsidy. 30% of all income should be the norm going forward with a range of income streams and household types. Only then will CRA be less important.*

<sup>51</sup> T. Gilmore, *Growing the Community Housing Sector in Western Australia* (Darlington: Housing Action Network), p.45.

The WA State Housing Authority recently released a draft revised community housing rent setting policy for consultation. While the policy is only a draft, it makes changes to what is treated as assessable income with all Commonwealth supplements treated as assessable. It also changes the calculation of rent from net income to gross income for Band B 'affordable housing' tenants. While this will have little impact on social housing tenants who mostly have incomes below the tax free threshold it will mean particularly higher income Band B tenants will be charged significantly higher rents. The policy maintains an income-based rent level of 25 per cent of income for social housing tenants.<sup>52</sup>

Four out of the five (80%) moderately large organisations interviewed indicated that they factored CRA into their financial modelling for new developments, although there was some variance in their views of the importance of CRA. One provider said CRA was critical to the viability of new projects. Another indicated that CRA and other income allowed the organisation to direct funds into growth and business development areas. Yet another indicated that if CRA was taken out of modelling it would halve the organisation's surplus which would impact on what could be planned and delivered. A further provider said it was looking at modelling based on 'property floor prices' in the different jurisdictions that it operated. The property floor price takes in to consideration the cost of running a property based on the size of the dwelling and the expected rental return based on household income as part of any feasibility study.

Two out of five medium-sized organisations said they factored CRA into planning the financing of new developments. Making the same point as a number of larger providers, one organisation said it took all income into consideration when undertaking modelling but emphasised that sustainability was the key issue for an organisation of its size. The other organisation said CRA was a core and necessary income source for its projects to be financially viable. Without CRA it would not be able to maintain existing stock or consider new development opportunities.

Two of the five medium-sized organisations said they did not undertake financial modelling or factor CRA into their modelling. An organisation from South Australia indicated that it may be able to factor CRA into modelling if the organisation had the opportunity to retain a greater share of CRA. In SA CHPs return 100 per cent of CRA collected through rents for debentured properties to the SHA and a portion is then returned to the CHP in the form of allowances. The remainder is used for the State contribution to NRAS. One of the two CHPs that participated in this research project said that these arrangements limit the ability of SA organisations to develop and grow. Another organisation, perhaps best categorised as an affordable housing company rather than a traditional community housing provider, suggested it undertook financial modelling but CRA was not a factor because they charged market-based rents and do not take into consideration CRA. The respondent said, "[We] are an affordable housing company, so new developments do not have an income-based rent component, and are modelled on a proportion of market rent, not income."

Only one small provider factored CRA into modelling for new housing developments. Four said they did not factor it in and two said the question was not applicable to their organisations. The organisation that did financial modelling specialised in housing disadvantaged women. CRA played a role in the organisation's modelling of new developments but needed to be combined with other income sources in order for developments to be financially sustainable:

*Throughout the Nation Building process and in projects developed in conjunction with the State Government and others, we model expected incomes, including CRA, to enable us to house more disadvantaged tenants. Even with the contribution of CRA, with the relatively high cost of housing we still struggle to make projects stack up financially for very low income tenants, especially single women on Newstart or Austudy allowances.*

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<sup>52</sup> See Community Housing Coalition of WA, *Proposed changes to the Community Housing Rent Setting Policy*, July 2013 and *Comment on the revised Community Housing Rent Setting Policy* December 2013 <http://www.communityhousing.com.au/resources/submissions/>.

### 6.3.2 Securing private sector finance for new developments

Representatives from larger CHPs were more likely to indicate that the additional income from CRA influenced their organisation’s ability to access private sector finance. One of the key arguments for transferring public housing assets to CHPs is their ability to access private sector finance and invest in developing social and affordable housing and asset renewal.

Representatives from all large CHPs said CRA influenced their organisation’s ability to secure private sector finance. In comparison, representatives of just one medium-sized and two small CHPs said access to CRA influenced their organisations’ ability to access private sector finance (Figure 7).

**Figure 7: Does access to CRA influence your organisation's ability to secure private sector finance?**

Provider size	Yes	No	Maybe	Not applicable
Large (1000 or more)	7	-	-	-
Moderately Large (500 - 999)	4	1	-	-
Medium (100 to 499)	1	3	1	1
Small (less than 100 properties)	2	2	-	2

In relation to securing private finance for new developments, a representative from a moderately large CHP said:

*Without CRA the organisation would not be viable and therefore not able to obtain finance for new developments. Finance for new developments is mainly based on cash flow, which would be completely inadequate if CRA were to be removed.*

A representative from a similarly sized organisation said:

*If CRA is not included in the funding mix it means less income, which means less ability to take on debt, which means the organisation has less ability to develop and grow. CRA increases the ability to leverage – every bit of income helps. A reduction of CRA along with other more stringent regulatory requirements, e.g. proposed financial requirements under [an agreement we and other providers have the State Housing Authority], would significantly constrain our operations.*

### 6.3.3 CRA and debt servicing

Following the question about whether the increased income from CRA allowed CHPs to access private sources of finance, participants were asked if income from CRA was used to service debt. Similar to previous questions, larger CHPs indicated that they were more likely to use CRA to service debt. However, as with some previous questions some providers indicated that they were unsure of the proportion of their surpluses that CRA made up and therefore the extent to which it was used to service debt.

**Figure 8: Is income from CRA used to service debt?**

Provider size	Yes	No	Maybe/Don't Know	Not applicable
Large (1000 or more)	4	2	1	-
Moderately Large (500 - 999)	3	1	-	1
Medium (100 to 499)	-	5	-	1
Small (less than 100 properties)	2	2	-	2

Four Large organisations indicated that the income from CRA was used to service debt. One organisation with a high proportion of tenants on salaries and wages said income from CRA contributed to servicing the organisation's debt which was currently 'geared at 30 per cent'.

Interestingly, a large organisation that had innovative financing and private sector partnership arrangements for undertaking new developments said that while access to CRA was incorporated in its financial modelling for new developments and securing private finance, CRA played no role in servicing organisational debt:

*[We] do not hold a significant debt on the balance sheet compared to its profit before tax, therefore it does not rely on CRA revenue to service its debt.*

Another large organisation said there was no way to answer the question on the amount of CRA used to service debt as 'as CRA is not collected separately from other rental income.'

Three out of the five moderately large providers that participated in the project said that income from CRA was used to service their organisation's debt. One said that about 10 per cent of its surplus was devoted to debt servicing and that without CRA it would not be able to service its debts. This provider said 92 per cent of its tenants received CRA and 30 per cent of its rental income was derived from CRA. Another provider indicated that while it currently had no debt it had a number of development proposals underway and access to CRA would be important to funding future debt.

Only two small providers said income from CRA contributed to debt servicing. One said CRA contributed to a 'healthy revenue stream' that increased the organisation's ability to pay off its debt. The other provider said:

*After payment of our property and tenancy managers, rates, Owners Corporation charges and maintenance, 100% of our surplus is directed to servicing debt on our properties. The CRA contribution is not separately accounted for. It goes into our consolidated rent revenue from which debt is serviced.*



## 7 Potential impacts of the loss or quarantining of CRA

Changes to CRA that meant community housing tenants were no longer able to access CRA (and therefore CHPs, via rent structures that take into account tenants' ability to access CRA), or if CRA was 'grandfathered' to existing community housing tenants, this would have a major impact on many CHPs. The loss of CRA, were it not replaced by another equivalent revenue source, would make the community housing model as it currently structured unsustainable. Similarly, the quarantining of CRA to existing tenants would lead to the erosion of the viability of many CHPs over time as tenancies turnover.

### 7.1 Potential impacts of the loss of CRA

As follows from the responses in the previous section, most respondents indicated that the loss or reduction of CRA would have a severe impact on the viability and/or growth of their organisations. Twenty one out of 24 respondents indicated that the loss of CRA would have a negative impact, while just three indicated that it would have minimal or no effect.

All the large providers said the loss of CRA would have a negative impact on the growth and viability of their organisations. A selection of typical responses is provided below:

*We believe that the effect on the organisation would be significantly adverse, and the entire business model for the community housing sector would need to be re-worked.*

*If our organisation was unable to access CRA, the impact would be:*

- *Reduce the number of pension/benefit recipients able to be housed*
- *Reduce the financial viability of the organisation*
- *Increase dependence on key workers as tenants*
- *Increase turnover within properties (workers are persons with options) and thereby increase staff workload*

*Without CRA we would see a reduction in rental income to the organisation of almost 20%. This would impact a number of areas of the business including:*

- *Ratio of staff to properties – staff would be required to take on larger portfolios*
- *Money spent on tenant and community engagement*
- *Reduction in additional and non-essential services... provided*
- *Reduction in leveraging, building, developing and purchasing new properties*
- *Impact to asset management plan and maintenance of properties*
- *Some asset and management transfers from State Governments would no longer be viable.*

Increasing the property to staff ratio and reducing the organisation's focus on tenant and community engagement activities could have implications in terms of the organisation compliance with the standards of registration expected under the National Regulatory System for Community Housing if it was registered under this system. Reducing leveraging or growth targets could have implications for agreements individual CHPs have with State Housing Authorities and jeopardise future asset transfers to those CHPs.

A representative of moderately large organisation indicated that it would have a detrimental impact on the ability of his organisation to grow. To remain viable the organisation would have to change the focus of who it housed, which would have serious implications for its mission:



*[We] would not be able to house as many people on low incomes [and] would need to change the housing mix toward households with higher incomes to remain viable. It would mean the organisation would have to move away from its mission.*

A medium sized provider said their organisation would no longer be viable:

*Put simply, our organisation would NOT be financially viable if we lost CRA income and it was not replaced with another form of income. Our organisational focus is the provision of housing and support to elderly homeless and 100% of our housing units are utilised for this purpose. All of our clients are single and on government statutory incomes (i.e. aged / disability pension). Our clients have no other income sources and hence, we have no capacity to increase rent charged from client incomes if CRA were to be reduced or eliminated. If we lost 39% of our income we could no longer provide housing to the elderly homeless resulting in this isolated and very vulnerable client group being further marginalised.*

Smaller providers similarly indicated that the loss of CRA would have a 'catastrophic' impact on their ability to provide affordable housing to people on low incomes:

*There would be a need to look at various options i.e. housing people on higher incomes, larger family group. The most needy are single people, mental health, youth and aged however these groups are normally on very low pensions and benefits. To go down this path may result in the service breaching its registration which may in turn result in a service being defunded.*

*The organisation would not survive loss of access to CRA. At best, loss of this income would result in staff cuts and impact on service delivery.*

*Catastrophic. Difference between having adequate funds for maintenance and replacement plan and not having one. If it wasn't there, the organisation would be much more conservative and probably have to cut staff.*

Three respondents indicated that the loss of revenue from CRA would have no or only a minimal impact on their organisations. All three of these organisations were either medium or small organisations. Two had around 200 properties and one had less than 100 properties. Two out of the three said CRA comprised between 10 and 19 per cent of the organisation's rental revenue while the third said it made up between 30 and 39 per cent.

## **7.2 Potential impacts of quarantining CRA to existing tenants**

Participants expressed a variety of views on the impact of a potential change of government policy 'grandfathering' CRA to existing community housing tenants. Large and moderately large providers emphasised the implications such a policy would have on the ability of their organisations to grow. Other issues concerned their ability to continue to house the same number or proportion of tenants on low incomes and that they would need to rely on government grant funding for new properties.

A large CHP believed the impact of quarantining CRA would ultimately have the same impact as the loss of CRA and responded to the question in the same way as the previous question:

*We believe that the effect on the organisation would be significantly adverse, and the entire business model for the community housing sector would need to be re-worked.*

Other larger CHPs emphasised the impact such a policy would have on their organisations' growth strategies and the future of public housing stock transfers:

*It would impact on our growth strategy and may require a different target group to be considered outside of the very low income households that we target just now. It would also impact on our ability to service debt and to provide a sinking fund for future planned maintenance and upgrades.*

*This would significantly affect the ability for the organisation to grow. There have been some discussions in the sector in Queensland about whether the Commonwealth would be able to pay an increased CRA bill in the event of widespread property transfer. If the Commonwealth was not to pay the CRA it would affect the viability of stock transfer to the community sector and the ability of the sector to manage the properties.*

*It would reduce the viability of future social housing property developments and therefore result in a reduction of social housing projects. It would reduce the potential to become involved in new models of housing provisions, if those models had reduced or no financial viability. It would result in lower standards of property maintenance across [our] entire portfolio... [We] would need to consider all its activities that are not directly and strictly related to tenancy and property management. For example, social inclusion projects and tenant participation activities.*

A representative from a small provider with just under 100 properties indicated that it would restrict organisational growth and impact on the ability of the organisation to effectively maintain its housing stock:

*Our growth would be severely restricted and if we took on further houses our capacity for maintenance would be hampered.*

If CRA were 'grandfathered' to existing CH tenants this would limit any immediate and catastrophic impact on CHPs and tenants alike. Nonetheless, without the introduction of another equivalent operating subsidy or a growth fund the result would ultimately be the same as removing access to CRA.

## 8 Conclusion and key findings

This report has examined the importance of CRA to CHPs with regard to the proportion of tenants who receive CRA, the proportion of rental revenue that CRA comprises, how the additional revenue from CRA is directed within organisations and the role of CRA in servicing debt and securing private sector finance for new social and affordable housing developments. It also considered the possible impacts of policy changes that would mean CHPs of varying sizes if they were either unable to access CRA or if CRA was quarantined to current community housing tenants.

Key findings include:

- There is a lack of publically available data and information on the financial impact of CRA on the community housing sector despite it being widely accepted as vital to the viability and growth of the sector.
- Most CHPs indicated that a high proportion of their tenants received CRA. Twenty respondents (83%) said 70 per cent or more of households received CRA. One (4%) indicated 100 per cent of tenancies received CRA; nine (38%) said between 90 and 99 per cent received CRA; and seven (29%) said between 80 and 89 per cent received CRA.
- Most organisations (38%) said CRA comprised between 30 and 39 per cent of their rental revenue. The highest percentage indicated was between 40 and 49 per cent while the lowest answer was less than ten per cent. Of those organisations that provided a specific answer to this question, the average proportion of rental income that CRA comprised was 33 per cent.
- CHPs directed revenue from CRA in a variety of ways. Large organisations were more likely to direct the revenue across a range of organisational areas. Overall, 20 (83%) said it was allocated to providing better repairs and maintenance; 18 (75%) respondents said it was directed to providing 'additional or improved services for tenants'; 16 (67%) said it was directed to growing the organisation's housing portfolio; and 11 (46%) said it was directed to 'other' organisational functions such as day-to-day operating expenses or regulatory compliance.
- Larger organisations with more than 500 properties were more likely to direct revenue from CRA to organisational growth compared to smaller organisations. 11 out of 12 (92%) larger organisations with more than 500 properties under management said they used CRA to grow their housing portfolio compared to 5 out of 12 (42%) smaller organisations.
- Larger CHPs were more likely to factor CRA into modelling for new developments, use revenue from CRA to secure private finance and service organisational debt. All large CHPs indicated that CRA was factored into modelling for new social and affordable housing developments and securing private finance for new developments. Comparatively, just one small provider said it factored CRA into modelling for new developments and two said CRA contributed to their organisation being able secure private finance for new housing. Seven out of 12 (58%) of CHPs with 500 or more properties said CRA was used to service debt while just two out of 12 (17%) of CHPs with fewer than 500 properties indicated the same.
- Changes to policy settings that would mean CHPs were unable to access CRA without revenue being replaced by an alternative source would have a negative impact most CHPs. It would adversely impact the viability of many CHPs and the ability of particularly larger organisations to grow their stock of social and affordable housing. The possible impact of losing revenue from CRA included cost cutting measures such as staff layoffs, cuts to maintenance and the reduction of non-essential services such as some community and tenant engagement activities. Possible revenue raising measures included changing the housing mix in favour of households with higher incomes over those in most need of housing and housing larger households.

- The quarantining of CRA to existing community housing tenants would have a significant impact on many CHPs over time as tenancies turn over. Respondents indicated that it would impact on their organisations in a range of possible ways, such the ability to have an appropriate asset maintenance and replacement plan as well as restricting the development of new social and affordable housing.

A further issue identified by the research is that a small number of CHPs were unable to account for the proportion of rental income that CRA comprised. Some were also unable to indicate the proportion of their surpluses that revenue from CRA made up. This was because it went into a general operating pot and was not considered separate from other rental income. This has implications for organisations to effectively scenario plan and responsively manage the risk of losing a revenue stream of such vital as importance. It is perhaps a weakness of the current research that it did not delve more deeply into what contingencies CHPs had for dealing with such circumstances.

Clearly, the cancellation of CRA to community housing tenants or the quarantining of it to existing tenants, without it being replaced by another revenue source, would have broader implications for the social and affordable housing system. Potentially, it could lead to CHPs being unable to taking on further transfers as it would be unviable without adjustments to other policy levers. It could possibly lead to CHPs divesting stock under management back to SHAs. This would lead to higher public housing bill for State Governments and potentially take money away from the development of new social housing to address growing social housing waitlists as well as the capacity of SHAs to replace ageing public housing stock which is already an issue a number of jurisdictions. Longer public housing waitlists are likely to lead to longer waiting times which are likely to exacerbate housing need and put greater pressure on homelessness accommodation providers.

Critical to the ability of the sector to adjust to the impact of the loss of CRA is the flexibility and responsiveness of SHAs to adjust policy settings that allow CHPs to make up for the loss of revenue. Primarily, this would mean adjusting rent setting policies so that households would be required to pay a much higher proportion of their incomes on rent and changes to allocations policies that would allow a higher proportion households on moderate to medium incomes in the tenant mix to viably cross subsidise CHPs' social housing provision. Both changes would take time to implement as CHPs would be required to abide by residential tenancies laws in each jurisdiction with regard to increasing rents and changes to tenant mix would, to a large extent, be contingent on the turnover of tenancies. This of course assumes that SHAs would be willing to go down this path. Such changes are unlikely to occur without significant resistance from tenants and tenant advocates as well as many CHPs who would be forced to move away from their mission and core purpose.

Alternatively, in the event that the sector was not able to access CRA, State and Territory Governments and SHAs could fund a state-based rent assistance scheme or preferably provide a direct subsidy to CHPs based on tenant or household need. Ultimately, such a scheme, while adding a significant cost to SHAs, would be more cost effective than if stock under management of CHPs was returned to the public housing system. In this regard, transferring further public housing stock to CHPs could be a financially astute policy response by State Governments as a proportion of the cost savings from running the public housing system could be redirected into a state-based rent assistance scheme. This could also apply to the apparent cap on transfers to the sector of 35 per cent of social housing. A proportion of the cost savings delivered to State and Territory governments from asset transfers could go into a pooled fund to support the Commonwealth's provision of CRA.

Finally, this report demonstrates the many social and economic benefits that accrue from CHPs accessing CRA; from better tenant outcomes to the growth and development of the social and affordable housing system. In contrast, most CRA payments are used in the private rental market. This helps to offset the cost of renting but does not provide a broader or longer-term social benefit and does little, if anything, to boost housing supply for low and moderate income households. Community housing organisations, on the other hand, are using this same income stream to build additional dwellings and provide more and better services

to their tenants, many of whom are on very low incomes or experience disadvantage. CRA underpins the viability of many providers, and enables particularly larger CHPs to regenerate ageing social housing stock and increase the supply of social housing in a way that SHAs are failing to do. This secure and stable accommodation represents a strong social return on government expenditure, and is fundamental to enabling positive outcomes for community housing tenants.

## Appendices

### Appendix 1: Payment rates for Rent Assistance as at 1 April 2014

#### Commonwealth Rent Assistance rates for people who do not have dependent children<sup>53</sup>

Family situation	Maximum payment per fortnight	No payment if your fortnightly rent is less than	Maximum payment if your fortnightly rent is more than
Single, with no children	\$126.40	\$112.00	\$280.53
Single, with no children, sharer	\$84.27	\$112.00	\$224.36
Couple, with no children	\$118.80	\$182.40	\$340.80
One of a couple who are separated due to illness, with no children	\$126.40	\$112.00	\$280.53
One of a couple who are temporarily separated, with no children	\$118.80	\$112.00	\$270.40

#### Commonwealth Rent Assistance rates for people who have dependent children

Family situation	Maximum payment per fortnight	No payment if your fortnightly rent is less than	Maximum payment if your fortnightly rent is more than
Single, one or two children	\$147.98	\$147.56	\$344.87
Single, three or more children	\$167.30	\$147.56	\$370.63
Couple, one or two children	\$147.98	\$218.40	\$415.71
Couple, three or more children	\$167.30	\$218.40	\$441.47

<sup>53</sup> Australian Government. Department of Human Services. *Payment rates for Rent Assistance (As at 1 April 2014.)* Available <http://www.humanservices.gov.au/customer/enablers/centrelink/rent-assistance/payment-rates>.

## Appendix 2: Survey template

<p><b>1. What is the name of your organisation?</b></p>
<p><b>2. How many properties does your organisation manages under all arrangements (either in ownership, leasehold from private sector/government, fee for service, affordable housing properties, supported accommodation properties) ?</b></p>
<p><b>3a. How many tenancies do you manage?</b> [Please include only tenancies managed under tenancy legislation. Please exclude occupation arrangements such as boarding and lodging accommodation.]</p>
<p><b>3b. Of these, how many tenancies are charged rent based on an income-based rent setting formula?</b></p>
<p><b>3c. And how many on a market-based rent setting formula?</b></p>
<p><b>4a. What proportion of the households you accommodate receive CRA as part of household income?</b></p> <ul style="list-style-type: none"><li><input type="checkbox"/> Less than 10%</li><li><input type="checkbox"/> 10 – 19%</li><li><input type="checkbox"/> 20 – 29%</li><li><input type="checkbox"/> 30 – 39%</li><li><input type="checkbox"/> 40 – 49%</li><li><input type="checkbox"/> 50 – 59%</li><li><input type="checkbox"/> 60 – 69%</li><li><input type="checkbox"/> 70 – 79%</li><li><input type="checkbox"/> 80 – 89%</li><li><input type="checkbox"/> 90 – 99%</li><li><input type="checkbox"/> 100%</li></ul> <p><b>If possible please provide specific number/percentage:</b></p>

**4b. What is the profile of households you accommodate based on the main source of household income e.g. what proportion receives the Aged Pension, DSP, youth allowance, wages etc.? (Please note that the percentage breakdown of different household types can add to more than 100%)**

Percentage of households on the Aged Pension \_\_\_\_\_%

Percentage of households on Disability Support Pension \_\_\_\_\_%

Percentage of households on Newstart Allowance \_\_\_\_\_%

Percentage of households on Youth Allowance \_\_\_\_\_%

Percentage of households with wages or salaries \_\_\_\_\_%

Percentage of households that have a combined income from a number of sources listed above \_\_\_\_\_%

Other, not listed \_\_\_\_\_%

**5. Does a tenant's access to CRA have any bearing on who your organisation houses?**

- Yes
- No
- Maybe
- Don't know

If Yes, please elaborate:

**6. Does a tenant's access to CRA influence in any way the type of housing your organisation develops or procures?**

- Yes
- No
- Maybe
- Don't know

If Yes, please elaborate:



**7. What proportion of your organisation's rental income does CRA comprise?**

- Less than 10%
- 10 – 19%
- 20 – 29%
- 30 – 39%
- 40 – 49%
- 50 – 59%
- Greater than 60%

**If possible please provide specific number/percentage:**

**8a. in your opinion, what would the effect be on your organisation if it was unable to access CRA?**

**8b. In your opinion, what would be the effect on your organisation if CRA was quarantined to existing tenants or properties?**

**9a. How is the increased revenue received from CRA directed by your organisation? Please tick all that apply:**

- Providing additional or improved services for tenants
- It is directed towards growing the organisation in terms of growing property portfolio
- Better repairs and maintenance
- Other, please specify

**Can you also please elaborate further on your answer above and give examples if possible?**

**9b. Does the increased revenue your organisation receives from CRA play a role in conducting financial modelling for new developments?**

- If yes - Can you elaborate or provide any examples?

**9c. Does the additional revenue your organisation receives from CRA influence in any way in securing private sector finance for new developments?**

- If yes - Can you elaborate or provide any examples?

**9d. Does having access to CRA play a role in servicing debt?**

- **What proportion of your surplus is devoted to debt servicing and how much of this comes from CRA?**

**10. Is there anything else about CRA that you consider important that we've missed?**