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Dear Secretary

Thank you for the opportunity to respond to this inquiry into the National Rental Affordability Scheme. Below is our submission to the Inquiry which we trust will assist you in your considerations  
Sincerely

A handwritten signature in black ink that reads "Adrian Pisarski". The signature is written in a cursive style and is positioned above the printed name.

Adrian Pisarski  
Chairperson

October 2008

## **Submission to the Senate Community Affairs Committee inquiry into the National Rental Affordability Scheme Bill 2008 and the National Rental Affordability Scheme (Consequential Amendments) Bill 2008**

### **Introduction**

The National Rental Affordability Scheme Bill 2008 and the National Rental Affordability Scheme (Consequential Amendments) Bill 2008 ('the NRAS Bills') have been referred to the Senate Community Affairs Committee for inquiry and report. The principal issues for consideration are:

- Whether the Bills are targeted to deliver affordable housing to those in greatest need;
- Whether the Bills are an efficient and effective way to deliver increased affordable housing; and
- Whether the Bills facilitate investment in social housing by not for profit community housing organisations, as well as private investors.

The NRAS Bills support the implementation of the National Rental Affordability Scheme ('the Scheme') which offers incentives to encourage institutional investment in affordable rental housing. Under the Scheme, an annual incentive will be provided to providers of new dwellings on the condition that they are rented to low and moderate income households at 20% below market-rates. The Scheme is to provide 50,000 additional affordable rental dwellings in the first five years, and a further 50,000 dwellings available from 2012 onwards. The incentive is comprised of a Commonwealth Government contribution in the form of a tax offset or grant and a State and Territory Government contribution in the form of financial and/or other support.

National Shelter is the national peak body representing the interests of low income households in accessing appropriate, safe secure and affordable housing.

### **Background**

The NRAS as a proposal emerged as a consequence of work done by the National Affordable Housing Summit Group (of which National Shelter is a member). The Summit group proposed a National Rental Affordability Incentive in its *Call to Action* (2004) and subsequently advised the previous government and the then opposition. This advice was acted on as an election commitment of the ALP and subsequently has been introduced as a program and legislation by the Rudd Govt.

The proposal sits as a one response in a continuum of responses to affordable housing and homelessness that National Shelter would like to see within a comprehensive approach to affordable housing in Australia.

In National Shelter's view support for this program should not be seen as an alternative to significant increases in government funding for social housing. However, the housing crisis for low and moderate income households is so extensive that a one size fits all approach is not feasible. It is also unrealistic to expect that governments will be willing or able to reverse the funding trends of the last decade and provide the social housing system with sufficient funds to meet the pent up need.

### **Are the NRAS Bills targeted to deliver affordable housing to those in greatest need?**

As a housing program NRAS needs to be seen within a continuum of need and responses framework. NRAS was developed as a discounted market rental product targeting low and moderate income

households in the bottom 40% of income distribution. This group is already targeted by existing government programs including community and public housing, but due to decreased funding and increased targeting (rationing) over the past decade public and community housing are only able to house people on low incomes who also have other needs which highlight their case, often referred to as having high or complex needs as well as low income. This means that many households living on low and moderate incomes who a decade or so ago would have been assisted with public housing must now find their housing in the private market. Many of these households are 'doing it tough' and are experiencing poverty directly related to their housing costs.

Within our current housing system two broad types of housing responses are used:

1. Public and community housing supplied by State Governments through the CSHA charging a percentage of income as rent, typically 25-30%
2. Discounted market rents charging up to 74.9% of market rents

NRAS is a complimentary program to these and when operational will distribute some potential tenants away from these programs especially public housing.

The term "those in greatest need" is variable depending on outlook. Over the last decade it has been defined and redefined by governments of all persuasion to justify the increased rationing of social housing allocations. The NRAS scheme is designed to assist households who are housed unaffordably in the private rental market and are no longer eligible for a deep subsidy product like public housing.

When considering issues related to 'greatest need' the question should be: will this new program meet the needs of some of the many households doing it tough? In our view NRAS is worthy because it will provide a discounted rent for households who need help because they are not likely to be allocated social housing and cannot afford to house themselves in the private markets without inducing poverty.

We note that the research into housing stress and housing related poverty repeatedly indicates that of all housing consumers low and moderate income households in the private rental market are most likely to be experiencing severe problems related to housing unaffordability. According to NATSEM, 685,000 private renting families with low incomes are spending more than 30 % of Income or 22.8 per cent of all private renting families. Arguably those in greatest need or stress are private renting households.

Given we already have a deep subsidy program for people on low incomes with other complex needs and there is large pent up demand for assistance from low and moderate income households effectively excluded from the social housing system. National Shelter argues that there is a place for programs such as NRAS which will address a slightly higher income bracket with a lower subsidy product.

National Shelter supports NRAS as one essential response along a continuum.

### **Is the NRAS an efficient and effective way to delivery affordable housing?**

NRAS may be an efficient and effective way to deliver a housing subsidy. It works by combining a low govt subsidy to leverage a much larger investment from private sources.

It will create new partnerships between business, community organisations, financiers and government and brings new investment into the provision of affordable rental housing.

It is also a program targeted at the high proportion of households in stress in the private rental market.

If NRAS is successful in attracting institutional investors this will create a new class of investors interested in long term investment in the private rental market. This is likely to benefit tenants because it will increase their levels of security. At the moment our private rental market is

dominated by small investors who, in order to maximise capital gain, tend to buy and sell over relatively short time periods. Each time property is bought and sold two things happen that impact on low and moderate income tenant households; firstly tenants are evicted because the property is generally targeted to be sold to the homeownership market and vacant possession is an important consideration for potential buyers; secondly it is refinanced this puts and upward pressure on rents.

In our view a scheme such as NRAS that facilitates long term investment in the private rental market may be a benefit to tenants in terms of both security and affordability.

By addressing the private rental market stress NRAS may also reduce pressure on the social housing system by providing choices for housing consumers.

## **Do the Bills facilitate investment in social housing by not for profit community housing organisations, as well as private investors?**

Yes they do. Over the past 4 years National Shelter has been part of the Affordable Housing Summit Group and as such has accessed advice from private finance sectors including superannuation funds. The clear and consistent message we have heard is private investors will participate but may take some time to assess their level of risk.

The example of the U.K. is that private investors and financial institutions were reluctant partners in the growth of community housing and factored risk at a high level at first. Once they became used to the business they reduced the risk factor and invested heavily in this area.

### **Tax, NRAS and Charitable Status.**

When the GST was introduced, part of the logic about exemptions from GST for charitable activity was a ruling that non commercial activities would be GST free.

The definition of Non-commercial activities is as follows:

#### ***“Non-commercial activities***

The commercial activities of a charitable institution, charitable fund, gift deductible entity (see [note 2](#)) or government school are taxable but the non-commercial activities of these organisations can be GST-free.

This means that, if it is registered for GST, the charitable institution, charitable fund, gift deductible entity or government school does not pay GST on the payment it receives for its non-commercial sales, and, it can claim GST credits for the GST included in the price of things acquired to make these sales.

The term ‘non-commercial activities’ refers to sales made when the payment received for the sale is less than a specified amount. The sale is GST-free if the amount charged is:

- less than 50% of the GST-inclusive market value, or
- less than 75% of the amount the charitable institution, charitable fund, gift deductible entity or government school paid to acquire the things that are subsequently sold.

When the sale is a supply of accommodation by a charitable institution, charitable fund, gift deductible entity or government school, the sale is GST-free if the amount charged is:

- less than 75% of the GST-inclusive market value of the accommodation, or
- less than 75% of the cost of providing the accommodation.<sup>1</sup>

This ruling creates a potential problem for not for profit community housing providers seeking to bring NRAS projects to the more than 600,000 households in housing stress. As NRAS is a provision

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<sup>1</sup> [http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33862.htm&page=4#P117\\_7044](http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33862.htm&page=4#P117_7044)

of accommodation at up to 80% of market value it could exceed the 75% condition of the GST exemption.

It is also somewhat at odds with the provision of accommodation in retirement villages which has no requirement for a discounted charge:

“The range of supplies to a resident of a charitable retirement village, to which GST-free treatment applies, includes the supply of accommodation in the retirement village, services related to the supply of accommodation and meals. This would include, for example, the supply of accommodation in an independent living unit or serviced apartment, property maintenance fees and gardening services and meals and beverages.”<sup>23</sup>

The recommendation of National Shelter would be that the ATO redefine the provision of affordable housing and homelessness services in line with the provision of retirement villages to exempt the activity of affordable housing provision, that is equal to or below 80% of market value from GST.

This would in effect define the provision of affordable housing as a charitable activity and remove this potential major blockage from community housing providers in developing NRAS projects.

The other aspect to this is that if community housing providers do develop NRAS projects without this ruling being changed, they potentially put at threat the existing provision of income based and discounted market housing they currently supply as engaging with NRAS could threaten their current GST exempt status.

## **NRAS must be complemented by a broader suite of housing affordability measures**

NRAS will play an important role in increasing the availability of affordable housing. However, it forms part, and not all, of the solution. NRAS has never been viewed by National Shelter as a stand-alone product that will address all affordability issues. Rather we see NRAS as best used in conjunction with other programs and initiatives.

It is important that the NRAS is linked to other Commonwealth, State and Local Government subsidies and incentives to maximise its value, including the Housing Affordability Fund, Commonwealth Rent Assistance, the National Affordable Housing Agreement and homelessness initiatives.

National Shelter has maintains that a suite of measures is required to improve access to affordable housing, including:

- Increasing investment in public and community housing to;
- Strengthening rental tenancy protections to provide secure, affordable long-term rental;
- Reviewing the Commonwealth Rental Assistance program to ensure that it best meets the needs of struggling renters; and
- Improving support for those experiencing, or at risk of, homelessness (including early intervention, prevention, crisis and post-crisis support).

National Shelter, and a coalition of housing and welfare organisations, recently made six key recommendations to improve access to affordable rental housing for low-income households:

1. A Growth Target should be established involving an increase in the stock of public and non-profit housing by 30,000 additional dwellings by 2012;

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<sup>2</sup> <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33862.htm>

2. An Affordable Housing Growth Fund should be established with funding of \$7.5 billion over 4 years strictly ear-marked for expanding the stock of public and non-profit housing, contributed on a proportional matching basis by the Commonwealth and the States/Territories;
3. An Operating Subsidy Program should be established, with funding of \$3.5 billion over four years provided by the Commonwealth;
4. These funding arrangements will require approximately \$5 billion above funding currently provided by the Commonwealth and State/Territory Governments through the Commonwealth State Housing Agreement (CSHA);
5. New stock should meet standards relating to dwelling quality, disability accessibility and energy efficiency;
6. Commonwealth Rent Assistance (CRA) should be reviewed to ensure that it best meets the needs of all low income renters. As a first step, the maximum rate of CRA should be increased by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA at a cost of \$500 million per annum.<sup>4</sup>

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<sup>4</sup>National Shelter, ACOSS, Community Housing Federation of Australia and Homelessness Australia, *National Rental Housing Advocacy Day Position Statement*, 24 September 2008, available at: <http://www.australiafair.org.au/public/Publications.aspx?ArticleID=5184>.