



Submission to the interim report from the Welfare Review Taskforce

August 2014

**Submission prepared by the
Community Housing Federation of Australia**

Endorsed by

NSW Federation of Housing Associations

Churches Community Housing (NSW)

Community Housing Federation of Victoria

Shelter Tasmania

Community Housing Council of South Australia

Community Housing Coalition of Western Australia

NT Shelter



This report has been prepared by the Community Housing Federation of Australia (CHFA), the national industry body for community housing in Australia. CHFA represents the views of community housing providers throughout Australia. CHFA is funded by the Australian Government Department of Social Services.

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1 Introduction and overview

1.1 About CHFA

The Community Housing Federation of Australia (CHFA) is the national industry body representing community (not-for-profit) housing providers (community housing providers) in Australia. We do this through research, public policy development, and advocacy of housing issues to governments and other key stakeholders. This submission has been prepared in consultation and collaboration with state and territory peak bodies for community housing.

1.2 The community housing sector

Community housing providers (CHPs) in Australia are part of a diverse sector. It includes:

- Neighbourhood housing providers that may manage small numbers of properties which they own or lease from government;
- Growth providers that manage large portfolios of housing and with the capacity to undertake housing development activities;
- Organisations that specialise in the provision of housing to particular tenant groups (e.g. people with disabilities, older people);
- Rental housing co-operatives; and
- Organisations that specialise in providing and managing housing and others that provide housing as part of a broader range of services.¹

Community housing providers (CHPs) in Australia are part of a diverse sector. It includes:

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The community housing sector in Australia has undergone significant changes over the last decade. Community housing providers have increased their involvement in partnerships with the private sector, taken on debt in order to grow supply, become developers and managers of National Rental Affordability Scheme (NRAS) properties, had management and / or ownership of public housing assets transferred from state housing authorities (SHAs), and received capital funding for expansion from SHAs. These changes have led to significant growth in the sector. According to the 2013

¹ Community Housing Federation of Australia (2011) "Community futures, new opportunities for neighbourhood housing providers", Canberra

² Community Housing Federation of Australia (2011) "Community futures, new opportunities for neighbourhood housing providers", Canberra

Report on Government Services, across Australia the community housing sector now comprises 15.3% of all social housing dwellings (61,563 dwellings)³.

1.3 Purpose of this submission

The purpose of this submission is to respond to *A New System for Better Employment and Social Outcomes: Interim Report of the Reference Group on Welfare Reform to the Minister for Social Services*⁴ (hereafter the Interim Report).

The Reference Group was asked by the Minister for Social Services, Kevin Andrews, to advise how the welfare system can:

- Provide incentives to work for those who are able to work;
- Adequately support those who are genuinely not able to work;
- Support social and economic participation through measures that build individual and family capability;
- Be affordable and sustainable both now and in the future and across economic cycles; and
- Be easy to access and understand, and able to be delivered efficiently and effectively.⁵

The Interim Report makes a number of recommendations about welfare payments that, if implemented, would have considerable implications for the community housing sector. These fall in to two broad categories: possible changes to the rate of payments or the type of payment that various types of welfare recipients might be eligible for (which would impact on community housing providers' rental incomes, because these are usually set as a proportion of a tenants' income); and suggested changes to Commonwealth Rent Assistance (CRA) and ways of determining the amount of rent paid by social housing tenants.

Although the Interim Report notes up front that that broader social support system, including housing, should work with the income support system to assist those most in need⁶, the remit of the Reference Group was to examine only the welfare system, and their report does not cover a number of related policies, programs, and factors that impact on housing and housing affordability, such as the National Affordable Housing Agreement (NAHA). Nonetheless, this submission periodically makes reference to other areas of government policy.

The Interim Report refers to public housing throughout, and does not always mention community housing specifically or use the broader term 'social housing'. It is understood by CHFA, however, that the various comments in the Interim Report about public housing (including those that refer to income-based rents) refer to the social housing system as a whole.

³ Steering Committee for the Review of Government Service Provision, "Report on government services 2013", table 16A.3. Community housing here refers to social housing provided through Commonwealth-state/territory multilateral funding agreements by non-ATSI organisations. It does not include affordable rental housing provided by community organisations with finance from other sources including NRAS; it specifically does not include submarket rental housing provided under disability and aged care programs.

⁴ A copy of the report is available at <http://www.dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system/a-new-system-for-better-employment-and-social-outcomes-full-version-of-the-interim-report> (accessed 30 June 2014).

⁵ See <http://www.dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system> (accessed 30 June 2014)

⁶ Interim Report, p5

1.4 Rental affordability in Australia

Rents in Australia have been rising faster than incomes. Between 2003-4 and 2009-10 the amount Australians spent in rent increased by 55%.⁷ For people that do not own their own home, rent is the largest single item of household expenditure, and the amount of rent that a household pays affects its ability to pay for other essentials.⁸ The most common measure of assessing housing affordability is the '30/40' rule: if a household in the lowest 40% of income distribution pays more than 30% of its gross income on housing costs it is deemed to be in housing stress. In Australia over 720,000 households pay more than 30% of their income in housing costs, and of these more than 460,000 households spend more than 50% of their household incomes on housing.⁹ The National Housing Supply Council estimated in 2012 that there is a shortage of 539,000 rental properties that are affordable and available to Australian households with incomes in the lowest two quintiles.¹⁰ Unsurprisingly, demand for social housing is high: there are 217,000 people on social housing waiting lists in Australia.¹¹

As noted above, one of the terms of reference for the Reference Group was to examine how the welfare system can support social and economic participation through measures that build individual and family capability. With regard to housing, the report notes that:

*Stable housing is essential to support employment and wellbeing. Housing fundamentally enables participation through access to shelter and security. Affordable housing with easy access to jobs and services is essential to allow people to participate socially and economically in society. Importantly it provides a stable base for raising children and supports community engagement.*¹²

CHFA commends this statement. Access to affordable and accessible housing is a critical precursor for wider economic and social participation.¹³

1.5 Government approaches to housing assistance

Governments in Australia provide housing assistance to low and moderate income earners (including people in receipt of welfare payments) in a variety of ways. State and territory governments have primary responsibility for social housing in their jurisdictions, including through the provision of public housing and the funding and / or regulation of specialist homelessness services, community housing providers, and coordination of shared waiting lists and / or access points where these exist.

The Federal Government has two broad approaches to housing assistance:

⁷ Australians for Affordable Housing (2012:1) "Australia's Broken Housing System", Melbourne

⁸ Hulse, Kath (2012) presentation at NSW Shelter "What's the Rent?" seminar, slides available at http://www.sheltersnsw.org.au/publications/conference-papers/doc_view/95-kath-hulse-what-s-the-rent-current-arrangements-and-possible-reform-directions (accessed 30 June 2014)

⁹ Phillips, Ben (2011) "The Great Australian Dream - Just a Dream?" in AMP-NATSEM Income and Wealth Report, Issue 29, AMP, Sydney

¹⁰ National Housing Supply Council (2013) "State of Supply Report" Commonwealth Government, Canberra

¹¹ Steering Committee for the Review of Government Services (2014: Tables 17.A5, 17A6 and 17A7) "Report on Government Services 2013" Productivity Commission, Canberra

¹² Interim Report, p30

¹³ See, for example, Ravi and Reinhardt (2011) "The Social Value of Community Housing in Australia" Netbalance, Melbourne

- the National Affordable Housing Agreement and its associated National Partnership Agreements, such as the National Partnership Agreement on Homelessness, which provide funding to state and territory governments to manage social housing and homelessness services;¹⁴ and
- Commonwealth Rent Assistance (CRA), which is a non-taxable amount paid to eligible recipients of a government pension, allowance or benefit to help cover the cost of renting.¹⁵

As it is outside of its terms of reference, the Interim Report does not directly deal with the NAHA, however its proposals regarding reforming social housing rent setting, including making CRA available to public housing tenants, mirror those of the Commission of Audit Report on Findings¹⁶, which does make a recommendation about scrapping the NAHA in favour of broader eligibility for CRA, and would have major impacts on other areas of housing policy.

There are, of course, many other policy and funding settings controlled by both state / territory and Federal Governments. At the state level, for example, these include land release, stamp duty, and zoning. At the Federal level, the Australian Government also has control over tax settings (including tax rates, negative gearing, capital gains tax exemptions) and is capable of investing in affordable housing programs directly, such as through the now disbanded National Rental Affordability Scheme and the one-off Supported Accommodation Innovation Fund. There is considerable potential for the National Disability Insurance Scheme to act as a catalyst for the construction of new accessible housing. The payment levels and eligibility for various income support payments, as well as award levels set by Fair Work Australia, also contribute to households' ability to afford housing.

The key question posed by the Reference Group in the Interim Report regarding housing is:

How could Rent Assistance be better targeted to meet the needs of people in public or private rental housing?¹⁷

In responding to this question, this submission will examine the role of the community housing sector within the context of the broader policy environment and the welfare system as a whole.

¹⁴ More information about the NAHA is available in Gronda and Costello (2011) "Beyond the current NAHA: what next for national housing policy?" Australian Housing and Urban Research Institute, Melbourne. It is worth noting that the 1999 Commonwealth State Housing Agreement, the precursor to the NAHA, specifically noted in its Guiding Principles that social housing should be targeted at "those whose needs for appropriate housing cannot be met by the private rental market."

¹⁵ See <http://www.dss.gov.au/our-responsibilities/housing-support/benefits-payments/rent-assistance> (accessed 30 July 2014) for more information. In order to receive CRA, a benefit recipient must first qualify for a social security income support payment, more than the base rate of Family Tax Benefit Part A or a service pension.

¹⁶ Commonwealth of Australia (2014) "Towards Responsible Government: The Report of the National Commission of Audit, Phase One", Canberra

¹⁷ Interim Report, p70

2 Housing related issues in the Interim Report

2.1 Perverse incentives in social housing

The Interim Report notes that there are two perceived 'perverse incentives' that make social housing more attractive than living in the private rental market. Because income-based rents are almost always lower than the net rents paid by tenants in the private rental market, the Interim Report argues that social housing tenants will be reluctant to take up work, as this will increase their income and cause them to fear either losing their place on the waiting list for social housing or become ineligible to retain existing social housing. It is also argued that, because rents are usually income-based, social housing tenants are put off working because of concerns about the associated increase in their rent.

Since the 1980s SHAs have shifted their focus from having broad eligibility criteria for public housing and providing housing to a range of tenant types to housing only those in greatest need. Community housing providers, whose eligibility policies often mirror or are determined by SHAs, also typically house people considered to be in greatest need. These households include single parents with child care responsibilities, aged pensioners, and those with psychosocial, intellectual, or other disabilities or illness, many of whom are unlikely to be in a position to increase their income through paid work. They stay in social housing because they have no other affordable alternative and the perverse incentives articulated in the Interim Report are unlikely to apply to the majority of people living in social housing or on social housing waiting lists who are most likely to be successfully housed.

Also at play are non-financial factors that impact on people's perception of whether they would be better off if they took up paid employment that are unrelated to their housing cost. Research by the Australian Housing and Urban Research Institute found that greater work incentives will likely be muted by other considerations such as the value placed by women on being a good mother and the negative impact on their parental capacity by taking on uncertain, episodic and low paid work.¹⁸ This is a key issue for social housing tenants, because once a household loses their social housing dwelling it is very difficult to re-enter social housing at a later date. The research went on to note:

Our findings have indicated that people do not make employment, housing and life decisions solely in response to financial incentives or disincentives. The decisions are shaped by cultural values, the way in which people understand and interpret these values, and the consideration of a complex range of financial and other factors, including the logistics of daily living.¹⁹

For those tenants in a position to work, moderating their level of participation in the workforce to maintain their social housing position can be viewed as a rational economic decision, not a deliberate avoidance of paid work. Tenants may well realise that keeping within the income eligibility levels to maintain their social housing home will prevent them from falling into severe rental stress in the private rental market where rents are substantially higher and with far less security of tenure. As noted

¹⁸ Dockery, Alfred et al. (2008) "Housing Assistance and economic participation" Australian Housing and Urban Research Institute, Melbourne

¹⁹ ibid

earlier, housing affordability affects many Australians, and there are nearly half a million low income households are paying more than 50% of their income on housing costs in the private rental market.²⁰

The second perverse incentive maintains that public housing tenants are reluctant to earn extra income because the income based rent setting policy will mean their rents will increase. Tenants are more likely to see paid work as a disincentive not because it raises their rent but because too much income will mean they lose their public housing altogether. In reality the rent increase from earnings would only equate to 25% of any increase, leaving 75% of any extra income to the tenant.²¹ As noted previously, entering the private rental market will likely mean a dramatic increase in rental costs, and even with the benefit of extra income from paid work this will likely leave many households worse off.

It should be noted that the community housing model is more flexible when it comes to accommodating increases in tenants' income. In some jurisdictions the income eligibility limits are higher than public housing allowing tenants, meaning tenants pay higher rents while still remaining eligible for their community housing dwelling. This removes one disincentive for tenants to engage in paid employment, while providing the community housing provider with a greater revenue stream that can be reinvested in developing and building more social housing stock or supporting other tenants with high support needs and low incomes.

What these incentives / disincentives highlight is the underlying problem that prevents people from leaving social housing: a dearth of other stable and affordable rental housing options for low income households. As noted earlier in this submission, there is a shortage of 539,000 private rental dwellings that are both affordable and available to those living in the bottom 40% of income distribution. The findings of a recent Anglicare Australia Rental Affordability Snapshot sharply highlight how the lack of affordable rental options in the private rental market for low income households. Of the 62,000 properties available for rent across Australia surveyed by Anglicare Australia in April 2014:

- Less than 1% of these vacancies were affordable (no more than 30% of income) for a single person on government payments;
- Only 3.2% of properties were affordable for a single person on minimum wage with two children, and only 4% were affordable if the single person was living on their own;
- Just 12.2% of properties were affordable for couples on a minimum wage with two children, but the same family on Newstart could only afford to live in 1.4% of the properties listed as available.²²

To address this supply shortage, which is at the heart of the disincentives, we need to address the drivers of supply, and that will a long-term approach to remedying a variety of structural problems at both state / territory and Federal levels, including land supply, planning, and taxation. These are beyond the scope of this submission, however CHFA looks forward to engaging with a broader range of policy areas that

²⁰ op cit, Ben Philips

²¹ It should be noted that there are a number of factors regarding effective marginal tax rates that can affect social housing tenants when they begin or resume paid work, including paying tax on their earnings and the tapering / cessation of benefits and concessions. These are outside the scope of this submission.

²² Anglicare Australia (2014) "Anglicare Australia Rental Affordability Snapshot", Canberra. Available at [http://www.anglicare.asn.au/userfiles/RAS%20National%20Report%202014%20final\(2\).pdf](http://www.anglicare.asn.au/userfiles/RAS%20National%20Report%202014%20final(2).pdf) (accessed 5 August 2014)

affect housing affordability in the upcoming review of housing and homelessness that has been announced by Minister Andrews.

In order to ensure that our welfare system encourages people to maximise their opportunities for employment and education, we need to 'de-link' increased income from their eligibility for safe, secure and affordable social housing. Income-based rents are susceptible not only to increased waged incomes but to changes to welfare payments, e.g. the transfer of people from Parenting Payment to Newstart Allowance. There is value in exploring different rent setting models with sufficient subsidies attached that are based on either a discounted market rent or a subsidy on cost rent. This proposal will be discussed under section 3 of this submission.

2.2 Commonwealth Rent Assistance (CRA)

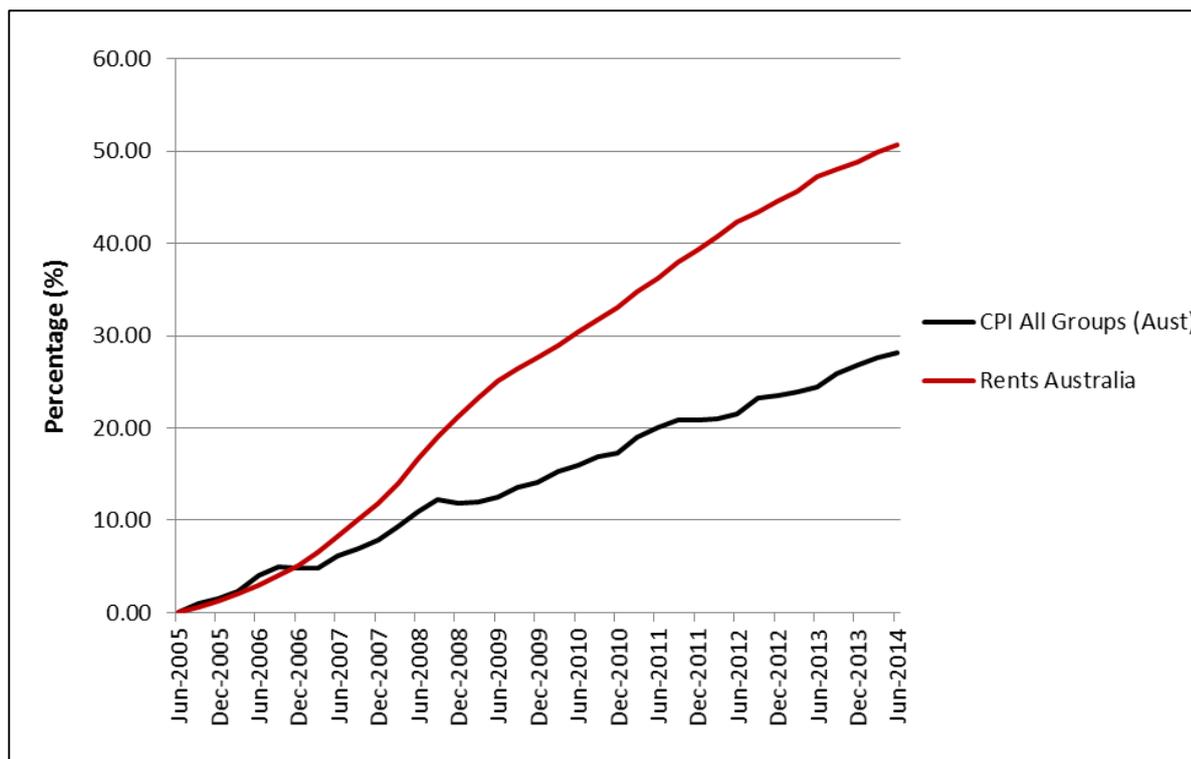
Any changes to Commonwealth Rent Assistance (CRA) must first address the adequacy of the payment to improve affordability. If Government is going to rely on CRA as the primary mechanism for subsidising the housing costs of low income households (regardless of whether this payment is made available to public housing tenants), the payment rate needs to be set so that there are better affordability outcomes for tenants in respect to the private rental market, and then indexed appropriately to maintain this outcome.

2.2.1 Adequacy of Commonwealth Rent Assistance

As noted in the Interim Report, the increases in Commonwealth Rent Assistance (CRA) have not kept pace with increasing rents paid by people on income support payments. Between 2007 and 2009, rents rose by an average of 10% per year while the maximum rate of CRA increased by only 2.7%.²³ Rents in general have risen sharply since 2007, and this rate of increase far exceeds the increase in CPI (see Chart 1).

²³ National Welfare Rights Network (2014) "The impact of Rent Assistance on housing affordability for low-income renters: Australia", Sydney. Available at <http://tutas.org.au/wp-content/uploads/2014/04/NWRN-Rent-Assistance-Report.pdf> (accessed 25 June 2014).

Chart 1 Percentage change headline CPI compared to rents in Australia, June 2005-June 2014



Source ABS Consumer Price Index data²⁴

Low income households renting from a private landlord are significantly more likely to experience housing stress than any other tenure type or landlord type.²⁵ Almost 70% of low income households renting in the private rental market were in housing stress in 2011-12. While CRA reduces the likelihood of people experiencing rental stress, nearly two out of every five households receiving CRA were still in housing stress, with 13.2% paying over half of their income in rent.²⁶ By contrast, only 8% of people in public housing reported being in housing stress due to government policies to not charge more than 30% of income in rent.²⁷

In the Anglicare Rental Snapshot cited earlier in this submission, it should be noted that their analysis of what was affordable to people on various payments *included* CRA in their assessment. This indicates that the market alone is failing to provide affordable housing and CRA is inadequate to bridge the gap.

Unlike other OECD countries Australia does not have an identified housing subsidy for low income households. While CRA is viewed as a 'proxy' subsidy, it is by definition an *income support* supplement and does not function in the same way as housing subsidies in countries such as the UK and New Zealand. In those countries their

²⁴ ABS Cat 64014.0 Consumer Price Index Australia, June 2014. Tables 1 and 2. CPI: All Groups, Index Numbers and Percentages Changes; ABS CAT 64014.0 Consumer Price Index Australia, June 2014. Tables 11. CPI: Group, sub-group, and Expenditure Class, Index Numbers by Capital City. Available at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202014?OpenDocument> (accessed 31 June 2014).

²⁵ Australian Institute for Health and Welfare (2013) "Housing Assistance in Australia 2013", Canberra

²⁶ op cit, National Welfare Rights Network

²⁷ Op cit Australian Institute of Health and Welfare

subsidy (the Housing Benefit in the UK and the Income Related Rental Subsidy (IRRS) in New Zealand) is available to households based on tenants' circumstances and their low income regardless of where that income is derived, i.e. wages, pensions or welfare payments. Since the housing benefit is not tied to an income support payment *all* people on low incomes are eligible. Under CRA, two significant groups are excluded regardless of their low incomes because they lack an attachment to either an employment-related payment or Family Tax Benefit: single people on low wages and couples without children on low wages.

As an income supplement, CRA is only available to households who are in receipt of some form of income support. For people on unemployment-related payments only, this presents a disincentive to work as 'earning' their way off unemployment benefits means they also lose their access to CRA.

As well, the UK Housing Benefit and NZ IRRS fills the gap between what a tenant can reasonably afford to pay and the cost of renting. A move towards a similar subsidy structure would greatly improve the housing affordability for tenants and reduce the growing instances of housing stress among low income renters.

Given the potential cost of implementing a similar subsidy scheme to what exists overseas, a more effective way for improving affordability would be to invest in supply-side initiatives. This would increase the amount of affordable rental housing rather than solely investing in a demand side response that leaves moderating affordability largely to the private market.

2.2.2 Significance of CRA to the community housing sector

The community housing model has a number of strengths that make it possible for providers to operate efficient, sustainable and dynamic businesses. In addition to strong linkages to support services and high tenant satisfaction, community housing providers have access to private finance, their tenants can access to CRA, and they are eligible for tax exemptions because of their charitable status. Larger providers also achieve operational efficiencies through economies of scale.

Over the last decade, community housing providers have been able to combine the cash flow from their rental income and the value of their asset portfolio to leverage external private finance. This has allowed community housing providers to enter into joint venture arrangements with private developers to build social and affordable housing. The transfer of public housing properties to community housing organisations, especially with title, has increased their leveraging capacity, giving them greater access to capital that can be borrowed against to obtain private finance. Commercial banks have indicated that as the scale of community housing grows, higher rates of leveraging may be possible, resulting in more advantageous commercial lending terms for providers and more efficient leveraging of assets and income.²⁸

For our sector, CRA forms a critical funding stream for community housing providers. Community housing organisations report that rents that include a CRA component increase their rental revenue by around 50%²⁹ and this income is vital to their ongoing viability.³⁰

²⁸ NSW Federation of Housing Associations (2014) submission to the NSW Legislative Council Inquiry Into Social, Public and Affordable Housing

²⁹ Community Housing Federation of Australia (2014) "Allocation, eligibility and rent setting in the Australian community housing sector", Canberra

³⁰ Community Housing Peaks Policy Network, "The Vital Subsidy: the importance of Commonwealth Rent Assistance to community housing providers", Canberra

CRA comprises over a third of most providers' rental income. This additional income is used for repairs and maintenance (83%), additional and improved services to tenants (75%), growing organisations' portfolios (67%) and other operational activities such as regulatory compliance and general running costs (46%).³¹ For larger providers in particular, CRA plays a key role in growing their housing portfolios as it increases their income stream and enhances their ability to leverage further private financing and expand their housing stock.

Unlike private landlords, community housing providers use this ability to optimise CRA to increase new housing supply through new construction and increase the quantum of affordable housing. For community housing providers, an increase in CRA rates will not only provide tenants with a greater degree of affordability but the additional revenue would provide an increased amount of funds that can be applied towards tenant services and/or additional stock.

2.2.3 Future directions

CHFA agrees that CRA should be reviewed to determine appropriate levels of assistance and the best mechanism for adjusting assistance levels over time.

As suggested earlier in this submission, using CPI as an index for CRA is an inadequate measure as it does not reflect the true cost of rental housing. A more accurate assessment could be achieved by using the rental component of CPI. This process would be more responsive to fluctuation in the rental market and, unlike the current indexing arrangement, would not be moderated by fluctuations in residential sales that can mask or overshadow changes in rental market figures.

However, if we are to seriously address the adequacy of CRA payments there *will* be a cost to the Federal Budget. As noted earlier in this submission, the current rate of CRA still leaves significant numbers of recipients in the private rental market in housing stress. Housing stress is more than just a statistical demarcation: when a disproportionate amount of a household's income has to go towards housing that leaves an insufficient amount of money for other essential items, especially food. Any changes to CRA must be more than tinkering at the edges and deliver real affordability outcomes to low income households experiencing high housing costs.

It has been suggested that CRA rates be restructured to provide varying payment levels in different locations to reflect higher housing costs in certain cities and regions. The administrative cost, complexity and additional red tape involved in implementing and administering such a change would need to be factored into any assessment to determine if it was a worthwhile approach to improving affordability and targeting areas with high housing costs.

³¹ Unpublished research by CHFA and state community housing peak bodies on CRA in the community housing sector, 2014

3 Rent setting

The private rental market is failing low and moderate income earners in Australia. As well as the problem of affordability, there are other issues that affect households living in private rental. These include a lack of stability compared to other tenure types (home ownership, public and community housing), and access and liveability problems for people with disability or aging tenants.

Regarding rent setting for social housing tenants, the Interim Report suggests “moving away from the current system of charging public housing tenants income-based rent towards the use of Rent Assistance as the preferred rent subsidy scheme across both private and public tenures”.³² As noted above, CHFA’s assumption is that this would involve a reduction or cessation in National Affordable Housing Agreement (NAHA) payments, as recommended by the Commission of Audit but outside of the scope of the welfare review. Regardless, moving from income- to market-based rent setting for social housing would represent a significant reform to Australia’s social housing system. Managing this change would be a complex task, and it would also have many effects on related policy and operational areas.

First, it would increase the rental revenue received by social housing providers, especially by State Housing Authorities (SHAs), whose tenants currently are not eligible for CRA and who charge income-based rather than market rents. This is significant for SHAs as they operate public housing at a substantial loss each year which severely limits their ability to increase the level of stock they have under management. Second, as the Interim Report argues, such a shift would result in social housing tenants being as ‘equally’ disadvantaged as their private rental market counterparts, often paying rents that will put them in housing stress.

CHFA believes that Interim Report’s focus on the unequal outcomes for social housing tenants (who receive a ‘deep’ subsidy from their public housing authority or community housing provider) and those in the private rental market (who receive CRA, which may or may not bridge the gap between paying affordable rent or being in housing stress) creates a false dichotomy between these two tenure types. The policy focus instead needs to be on affordability, and making sure that different types of subsidies are effective at helping people with affordability, stability, and, importantly in this context, better able to access employment and participate in civil society. Rather than equalising inequality across tenure types, a more constructive approach would be to investigate and remedy the deficiencies in the private rental market.³³ Changes to negative gearing and capital gains have been mooted as reforms that could deliver more affordable private rental stock.

Public and community housing providers use income-based rent setting models to ensure that their tenants are paying a rent which they can afford. If social housing tenants were to be charged the market rent, without the increased cost being offset by a sufficient increase in CRA or the rate of the pension, payment or allowance they receive (or their wages if they are in the workforce), it will place many social housing tenants in ‘housing stress’—potentially paying substantially more than 30% of their

³² Interim Report, p71

³³ CHFA, along with various other organisations, including ACOSS, National Shelter, and the Property Council of Australia have conducted work on broader issues of housing affordability and proposed ways to achieve an increase in supply and greater affordability for properties in the private rental market. These areas of policy are outside both the scope of the welfare review and this submission.

income in housing costs. Although the Interim Report is to be commended for noting the inadequacy of CRA, it falls short by not discussing the actual affordability of housing. Any shift towards a market-based rent structure must ensure that social housing tenants do not see their affordable rents lost in a trade-off for uniformity across publically subsidised housing tenures.

To revamp CRA into a subsidy under a market-based rent setting policy that filled the gap between what tenants can afford and market rent would be costly. To provide a sense of the magnitude of such a change, we have used rents in Perth to model potential expenditures. Assuming that public housing tenants were charged the full market rent for a property and households were able to access the current maximum rate of CRA, the level of CRA would need to increase by between 650% and 1192% depending upon their family situation and the payment they receive (see Appendix 1).

Assuming that a discounted market rent of less than 75% of the market rent was implemented, under the same scenario the level of CRA would need to be increased by between 361% and 748% (see Appendix 2).

It should be noted that although income-based rents (usually set at 25% of a tenant's income) are the most common type of rent setting structure for community housing providers, a number of other models are in use. These include market-based rents, which are almost always set at 74.9% (or less) of market rent in order to maintain exemptions from GST on this supply. Rents for properties managed as part of the National Rental Affordability Scheme are charged as no more than 80% of market rent. The Interim Report does not make clear whether its proposed changes to rent setting for social housing would be at full market or discounted market. Community housing providers would be unlikely to charge full market rent because of the aforementioned GST considerations. The CHFA research paper *Allocation, Eligibility, and Rent Setting in the Australian Community Housing Sector* (2014) provides more information about rent setting in community housing.

Unlike public housing tenants, community housing tenants are eligible for CRA. Since the mid-2000s there has been a widespread shift by community housing providers towards setting rents that are 'optimised' for a tenant's eligibility for CRA. Indeed, adopting this rent structure is a condition of funding contracts with SHAs in the four largest jurisdictions (New South Wales, Victoria, Queensland, and Western Australia).³⁴ Community housing organisations report that 'optimising' rents for tenants' eligibility for CRA increases rental revenue by around 50%.³⁵

Rents are optimised for tenants' eligibility for CRA by increasing rents to the point where the maximum amount of Rent Assistance can be claimed without leaving a tenant worse off than they would be if they were simply charged 25% of their income. In other words, by charging a higher rent the CHP can 'capture' the CRA payment the tenant receives while leaving the tenant in the same after-rent financial position as a public housing tenant on the same income.³⁶

The current use of CRA by community housing providers creates a *de facto* operational subsidy, much in the same way that the NAHA does for SHAs. Moving to market (or discount to market) rent models would indeed increase providers' rental

³⁴ For example, see NSW Department of Family and Community Services (2013:15-16) "NSW Affordable Housing Guidelines" NSW Government, Sydney

³⁵ Community Housing Peaks Policy Network (2014) "The Vital Subsidy: The importance of Commonwealth Rent Assistance to community housing providers", Canberra

³⁶ This process is explained in McNelis, Sean (2006:50-51) "Rental Systems in Australia and Overseas" Australian Housing and Urban Research Institute, Melbourne

income. However, this would be at the expense of affordability for tenants, and would serve to force people into greater financial stress, rather than act as a platform to encourage participation in employment or civil society.

As well, being forced to move tenants to market rents could have implications for providers' charitable status. CHFA believes that the present rent setting regimes used by community housing providers, coupled with the capacity of many community housing organisations to provide significant levels of non-housing support to their tenants, offers a more effective and sustainable way of achieving the goals of the Welfare Review Taskforce.

There are other policy and funding mechanisms that could achieve good outcomes for tenants and help increase the supply of affordable housing. The way that CRA is currently used as a subsidy for community housing providers is somewhat 'clunky'. The Housing Payment in the UK, as well as the Income Related Rental Scheme (IRRS) in New Zealand offer a different type of rental subsidy than CRA. Further, they are specifically targeted at social housing, not the private rental market, and the IRRS is paid to providers, not tenants. Given the success of these and other payments overseas, CHFA would welcome the opportunity to work with the government to develop an alternative investment mechanism to CRA.

It is also important to note that CHFA is not opposed to moving away from income-based rent setting models. Indeed, there would be many advantages of doing so, including ensuring a more predictable income stream for providers and moderating or eliminating workforce disincentives for tenants. There are a number of examples of different rent setting systems used overseas, and there is more innovation already taking place in Australia, such as the tiered system of market-based rents that Brisbane provider, BHC uses to accommodate different types of tenants.³⁷ Appendix 3 provides an overview of a number of rent setting models.

Moving towards a market-based rent setting system would require carefully working through the impacts on tenants, public and community housing providers and governments in order to offer the right mix of transparency, financial sustainability, employment incentives, and most importantly, affordability for low-income tenants.

³⁷ See <http://bhcl.com.au/tenant-information/prospective-tenants/our-rents/> for more information (accessed 5 August 2014)

4 Payments, payment levels, and mutual obligation

4.1 Simpler approach to payments

CHFA welcomes consideration in the interim report of a more appropriate method for adjusting government payments.

Most government benefits are adjusted twice yearly in line with the Consumer Price Index (CPI). CHFA does not believe CPI is an adequate method for adjusting payments.

Households on low incomes spend a disproportionately higher amount of their incomes on essential items such as food, utilities, housing costs and transport. Analysis of the percentage change of a basket of essential items compared to the headline CPI figure demonstrates that the cost of essentials has increased at a much faster rate than CPI. This means that over time the financial position of low income households is eroded as they pay more on essential goods and services and have less discretionary spending power. This ultimately impacts on the ability of households to participate more broadly in the community, both economically and socially, which in turn impacts on household wellbeing.

4.2 Payment levels

The Interim Report's discussion of the need to simplify the current system of welfare payments is to be commended. Refining the number of payments has the ability to produce a range of positive outcomes, such as making the system easier to understand for welfare recipients and the broader public. It would also simplify the administration of the system which should, theoretically, reduce the cost of administering it as well as providing greater assurance that recipients will receive what they are entitled to.

Nonetheless, simplifying the welfare payment architecture will likely have a negative impact on the payment rates of some recipients. CHFA does not support simplification if it is used as a means to reduce the amount of assistance or the payments that welfare recipients are entitled to receive.

As with public housing, the majority of community housing tenants are recipients of some type of welfare payment. Reducing the base rate of payments, or moving some cohorts of people (for example people with psychosocial disabilities from the Disability Support Pension to a payment based on Newstart) without compensating recipients through increased supplements (such as CRA, as discussed above) would potentially have a serious impact on the viability the community housing organisations that provide housing to these types of tenants due to reductions in income-based rental income. This could affect the growth targets of Community housing providers, and in cases where the reduction in revenue is significant, may represent a sovereign risk, especially for community housing providers paying off debt finance that was borrowed on the basis of projected rental yields.

4.3 Building community capacity

The Interim Report makes a number of strong arguments in favour of strengthening individual and family capability.³⁸ CHFA supports these broad principles, including the

³⁸ Interim Report, p79

association between employment and a range of positive outcomes for individuals and communities, the need to assist people, especially young people, to attain the education and skills they need to find and retain work. CHFA believes that access to stable, secure, affordable, and accessible housing lies at the foundation of achieving these goals, as well as many of the other positive goals articulated in the Interim Report.

The community housing sector already has a strong track record of supporting its tenants.³⁹ One advantage that housing providers have over other welfare or community support agencies are their ready access to, and an excellent knowledge of, their tenants and their support needs. Any reduction in providers' income as a result of a reduction in welfare payments to tenants will have a deleterious impact on the capacity of community housing providers to provide non-housing support services to tenants. That said, the benefit to community housing providers of a simpler welfare payment system is increased clarity and certainty of payments and payment amounts, providing the necessary financial assurance for providers to forward plan tenant services and community development and housing expansion activities.

In recent years there have been a number of major asset transfer programs for housing from public to community management.⁴⁰ In each of these instances applicants for housing tranches have had to demonstrate how they will build community capacity. Indeed, growing the supply of housing through redevelopment has, in many ways, been a less important outcome for these state governments than the community development and place-making outcomes that community housing providers are able to offer.

Investing in community housing dwellings does not just increase supply, it provides significant community benefit, and links tenants to a broader range of services than are available from public housing providers or the private rental market. Reforms to the welfare system need to capitalise on the many attributes of the third sector and how we deliver services, and maximise the potential for an expanding role in building healthy and sustainable communities.

4.4 Mutual obligation

The Interim Report discusses the concept of mutual obligation. CHFA believes that the focus should be on appropriate support and enhanced opportunities for welfare recipients, rather than punitive measures. Employment and education should be promoted, but not used as a trigger for sanctions, especially those that will drive people into further poverty. The purpose of the welfare system, and indeed the broader social support system, needs to remain focused on alleviating poverty. For welfare payments, this means they need to meet a standard of adequacy and be appropriately indexed (see above).

What is missing in the Interim Report is a discussion on how government can best meet its obligations to provide a robust labour market through job creation and / or improving the rental housing market by bolstering the supply of affordable housing.

³⁹ Community housing continues to receive high satisfaction ratings from its tenants with 74% of tenants satisfied or very satisfied with their housing (Productivity Commission, Report on Government Services, 2013, Table 17a.56). In another example, the biennial NSW Federation of Housing Association Awards for Excellence provide numerous examples of the excellent work being conducted by community housing providers in that state.

⁴⁰ These include major asset transfer programs in Queensland, Tasmania, and South Australia.

Mutual obligation as outlined in the Interim Report focuses heavily on the obligations of welfare recipient with little focus on the obligations of government. The role for government—its obligation—is to intervene where there is market failure, be it in employment or housing. Currently there are five jobseekers for every available job vacancy, meaning many people will remain unemployed despite their best efforts to find a job. As noted in this submission, there is a severe shortage of affordable housing and policies that force people out of affordable social housing into an uncertain and expensive private rental market punish low income tenants for a structural inadequacy in the housing market. These dynamics should be acknowledged and any sanctions applied judiciously in recognition of the current employment and housing environments.

Last, from a community housing perspective, the implication in the Interim Report that mutual obligation may extend beyond employment and Work for the Dole into other social mores such a school attendance and participation in rehabilitation programs is concerning. Fundamental to the community housing model is the strong connection between tenants and their community housing landlord, and the trust implicit in that relationship that facilitates positive tenant outcomes beyond housing to include employment, education, health and well-being. Community housing providers do not want to jeopardise that relationship by taking on a 'policing' or enforcement role to satisfy mutual obligation compliance requirements that are unrelated to their housing needs.

Appendix 1 Increase in Rent Assistance required to ensure housing is affordable at the full market rate

Table 1a: Total weekly income based on family situation and government benefit (as at July 2014)

Family situation	Government Benefit	Maximum payment weekly	Maximum Rent Assistance - weekly	Total weekly income
Single, with no children	Newstart	255.25	63.2	318.45
Single, 1 or 2 children	Parenting payment (includes Pension Supplement)	356.60	73.99	430.59
Couple, no children	Both Disability Support Pension	577.40	59.40	636.80

Table 1b: Income required for appropriate housing to be affordable base on full market rent (as at July 2014)

Family situation	Housing - number of rooms	Estimated weekly rent Perth (ATO figures)	Percentage of base income needed for rent (%)	Income required for rent to be affordable (\$)
Single, with no children	1 bedroom	218.75	69	729
Single, 1 or 2 children	3 bedrooms	393.75	91	1313
Couple, no children	2 bedrooms	362.50	57	1208

Table 1c: Dollar and percentage increase in Rent Assistance required to ensure affordability

Family situation	Amount of Rent Assistance required for housing to be affordable (\$)	Dollar increase in rent Assistance required to ensure affordability (\$)	Percentage increase required to ensure affordability (%)
Single, with no children	473.92	410.72	650
Single, 1 or 2 children	955.9	881.9	1192
Couple, no children	630.93	571.53	962

Appendix 2 Increase in Rent Assistance required to ensure housing is affordable at 75% of market rent

Table 2a: Total weekly income based on family situation and government benefit (as at July 2014)

Family situation	Government Benefit	Maximum payment weekly	Maximum Rent Assistance - weekly	Total weekly income
Single, with no children	Newstart	255.25	63.2	318.45
Single, 1 or 2 children	Parenting payment (includes Pension Supplement)	356.60	73.99	430.59
Couple, no children	Both Disability Support Pension	577.40	59.40	636.80

Table 2b: Income required for appropriate housing to be affordable base on 75% of market rent (as at July 2014)

Family situation	Housing - number of rooms	Estimated weekly rent Perth (ATO figures)	Percentage of total income needed for rent (%)	Income required for rent to be affordable (\$)
Single, with no children	1 bedroom	164.06	52	547
Single, 1 or 2 children	3 bedrooms	295.31	69	984
Couple, no children	2 bedrooms	271.87	43	906

Table 2c: Dollar and percentage increase in Rent Assistance required to ensure affordability

Family situation	Amount of Rent Assistance required for housing to be affordable (\$)	Dollar increase in rent Assistance required to ensure affordability (\$)	Percentage increase required to ensure affordability (%)
Single, with no children	291.62	228.42	361
Single, 1 or 2 children	627.8	553.8	748
Couple, no children	328.85	269.45	454

Appendix 3 Methods of calculating property rents

Calculation method	Description	Advantages	Disadvantages
Market-based rent	Based on the amount of rent that would be paid for the property if it were rented in the private rental market.	<ul style="list-style-type: none"> • Administratively simple overall • Provides fair competition with private sector • Easy to explain and justify 	<ul style="list-style-type: none"> • May not reflect full cost of provision, especially in depressed rental markets and remote areas • Hard to calculate in areas where there is no effective market e.g. large public housing estates, remote communities
Historic cost method	Factors in the cost of acquiring the housing at the time of its acquisition along with current management costs.	<ul style="list-style-type: none"> • Reflects actual costs of provision 	<ul style="list-style-type: none"> • Administratively complex and difficult to explain • Difficult to allow for replacement costs • May result in low maximum rents comparative to market, reducing incentives for better off tenants to move on
Current cost method	Based on the cost of acquisition and management at current values	<ul style="list-style-type: none"> • Reflects the actual cost of provision in today's terms and hence can include a replacement cost • Will move with inflation, avoiding artificially low rents 	<ul style="list-style-type: none"> • Administratively complex and difficult to explain • Can potentially result in maximum rents above market level, particularly in remote areas where costs are high

Source Adapted from 99 Consulting (2012:5-6) "Rent Setting for Social Housing" Unpublished report for Tenants Union of Queensland, Brisbane