

Campaign brief 1

Increased supply/expansion of social housing

What we want

Increased supply/expansion of social housing.

The situation we face

The supply of social housing is dependent on a subsidy from someone other than the direct provider because the main source of revenue for social housing – tenants' rents – is inadequate to cover operational costs and the long-term management of the dwellings as an asset. Tenants' rents are set at a submarket value to promote affordability. The subsidy of social housing could come from nonprofit agencies or private firms for charitable or philanthropic reasons, but in practice, it is governments that are the major subsidizers of social housing in New South Wales.

Housing NSW manages the major part of the social housing sector: it provides and manages most dwellings for social rental (as 'public housing'), it manages over two-thirds of the dwellings owned by the Aboriginal Housing Office, and it subsidizes those providers of community housing participating in its community housing programs. It collects rents from tenants of public housing and of the Aboriginal housing it manages, but that rent revenue provides under half of its operating revenues. The state government does not expect Housing NSW to make a surplus, and classifies it as a 'noncommercial public trading enterprise', like buses and trains. The government makes a grant to it from the state budget.

Some of the subsidy allocated through the state budget is sourced by grants from the Commonwealth Government. Those made up 57% of the state budget subsidy and 25% of the revenues of Housing NSW in 2006–07. The size of the Commonwealth subsidy is the reason the proposed National Affordable Housing Agreement, to be settled in December, is important. The Commonwealth subsidy to housing assistance programs under the Commonwealth–State Housing Agreement fell by 16.7% in real terms from 1997–98 to 2006–07.

The state budget subsidies have been used in New South Wales to keep the public housing business operating at a roughly similar level, in terms of number of dwellings, over the last 10 years. The number of social housing dwellings has remained much the same in that period, at 143,503 in 1989–99, and 147,880 in 2008–09.

One result of limited revenue and the decision by Housing NSW to keep the stock numbers steady was a deterioration in condition of the dwellings, with the development of a 'maintenance backlog'. This backlog was costed at \$650 million in 2001, at which point only 35% of the department's properties were maintained to the department's own standards. A commitment to address the maintenance backlog was a core element of the 'NSW Government's plan for reshaping public housing' announced in April 2005. The Housing NSW budget for 2008–09 includes \$165.4 million in 2008–09 for general and backlog maintenance, to be financed from rent revenue and other internal funds.

Another result of reduced revenue, from all sources, has been a limited capacity to grow the total number of dwellings in social housing. The government subsidies that have been going into the

social sector in New South Wales have been used to cover costs for a similar number of dwellings, as costs have gone up and as the other major revenue source, rent revenue from tenants, has dropped as a proportion of total revenue (down from 66% in 1999–00 to 51% in 2006–07).

While the overall state of the sector appears pretty static, there have been changes in public, community and Aboriginal housing. The number of public housing dwellings is slightly down, largely as a result of transfer of property and tenancy management to nongovernment providers (community housing). The number of social housing dwellings under property and tenancy management by nonprofit nongovernment organizations is slightly up. The number of Aboriginal housing dwellings is pretty static, primarily because of a need to address the conditions of dwellings and to upskill Aboriginal community organizations in governance and property and tenancy management.

The proportion of NSW households in social housing remained the same between 2001 and 2006 censuses, at 5.3%. The proportion in public housing fell from 4.8% in 2001 to 4.4% in 2006 (a trend mirroring the Australia-wide trend, where the proportion of households in public housing fell from 4.9% in 2001 to 4.0% in 2006).

Why are we concerned?

The lack of growth in social housing stock has led to the government, when determining eligibility criteria for allocations, to give priority to people who are most in need, particularly those who are poor and with compounding complex needs. This means that many low-income households who, in the past, might have been expected to be eligible for social housing are now unable to access it. Not everybody who needs housing at an affordable price or who is who eligible for social housing, wants social housing or applies for it. Bu we are concerned that social housing is not an available or realistic option for many who would choose it. Notwithstanding tight income eligibility, the number of applicants for social housing is some 67,380 (down from 125,603 in 2001).

There are many reasons people who are eligible for social housing might not apply for it. These include stigma, the lack of choice and autonomy, and the lengthy waiting time that might make an application seem futile. However, it is also the case that the stability of housing provided by social housing providers who offer continuous tenancies or 'lifelong' tenancies can help tenants achieve a better quality of life (nonhousing outcomes). These associations show up in health status and, for children in social housing households, in school performance.

What is being done?

Smart thinking on the use of government subsidies for affordable rental housing is that whatever or however much government money there is or will be, it should be made to go further by matching it with money from other sources, being private firms, nonprofit organizations, or other spheres of government ('leveraging').

The most important new initiative along these lines is the National Rental Affordability Scheme (NRAS), launched by the Commonwealth Government in July. The 50,000 additional dwellings hoped to be built under this scheme will each be financed by: (a) a Commonwealth subsidy of \$6,000 a year for 10 years; (b) a state government subsidy of at least \$2,000 a year for 10 years; and (c) resources in the form of capital or borrowings brought in by nonprofit or commercial developers of the dwellings – the contribution of these parties will be much higher than the governments' subsidies.

A similar approach had been used in New South Wales under Housing NSW's affordable housing debt-equity program, where certain community housing associations could apply for a grant to help build or acquire new dwellings linked to a capital contribution of their own and to borrowing from a financial institution. That scheme has now been wrapped up with the establishment phase of the National Rental

Affordability Scheme, as 'NRAS A' – under which 7 community housing providers selected as 'growth providers' may apply for a grant worth up to 40% of a housing project's costs.

The rationale for favouring community housing providers is that they can make a government subsidy go further. This is because they have capacities that government providers of social housing do not:

- (i) They may go into debt (i.e. borrow from private financiers).
- (ii) They can use their income-tax exempt charity status to avoid goods and services tax on building construction and supply of services.
- (iii) Their very-low income tenants are eligible for Centrelink rent assistance, enabling the providers to factor that supplement to tenants' income when setting rent.
- (iv) They have a capacity (unless constrained by government funding programs in which they participate) to lease to tenants from a range of incomes, allowing for 'cross-subsidization' of the service and for higher rent revenues.

The state government has two other initiatives aimed at encouraging community housing providers to build or acquire new dwellings using leveraging.

It has given a number of community housing providers, including the 'growth providers', St George Community Housing and Affordable Community Housing, long-term leases, i.e. leases for 35 years, on 600 dwellings that they sublease from Housing NSW. The idea is that the providers will be able to use the greater surety of a revenue stream from tenants' rents to borrow money from financial institutions, to build or buy dwellings of their own: the government expects those providers will raise more than \$11 million in loans from the private sector.

The government is introducing legislative-based regulation of community housing providers, which is intended to (among other things) give the community housing sector certainty to partner with other not-for-profit organisations, local government and the private sector on affordable housing projects and to encourage investment from the private sector in community housing. This regulation will take the form of secondary legislation (Regulations) under the *Housing Amendment (Community Housing Providers) Act 2007*. These Regulations will apply not just to those community housing providers that wish to do property development, but to all of the 500 or so community housing providers that get assistance from Housing NSW in the form of dwellings, land or grants.

In relation to public housing, the government has adopted the mechanism of a public-private partnership for the redevelopment of a public housing estate, Bonnyrigg, in south-western Sydney. A public-private partnership involves the creation of a new asset through financing, ownership control, and service delivery by the private firm. The resources brought into the venture by the private sector are added to those provided by the government, e.g. land, capital works, or risk-sharing.

The government's rationale for considering private financing arrangements is to get better value for money over traditional methods of government delivery, enabling savings to be used to improve or expand other services. To assess whether the arrangement would be better value for money, the NSW Treasury uses a tool called a 'public sector comparator', which compares the cost of delivering the services by government financing with the cost of delivering them by private financing. In the case of Bonnyrigg redevelopment, the government estimates the cost of the facilities and services of \$368 million over 30 years will be 6.3% lower than had the redevelopment been undertaken by the government itself.

Housing NSW is also looking at ways it can unlock the value of sites where it has dwellings that need renewal or realignment to changing needs and where the site allows for greater densities.

In the Southern Redevelopment Projects (encompassing 5 sites in Bulli, Bowral, Batemans Bay and Narooma), Housing NSW has called for expressions of interest from builders to demolish 31 existing social housing dwellings and provide 31 new social housing dwellings, with the builder able to keep

or sell new market dwellings they build on the sites, greater densities on the sites being allowed by the development controls.

At Riverwood North in Sydney, Housing NSW has called for expressions of interest from developers to demolish 150 existing social housing dwellings and provide a minimum of 150 new social housing dwellings, with the developer able to keep or sell new market dwellings they build on the site, which can take up to 600 dwellings. In this case (being different from the Southern Redevelopment Projects), Housing NSW might also contribute funds to the redevelopment, as well as the land.

Housing NSW is using a similar approach in Villawood in Sydney. In this case, Housing NSW has a vacant site which had 111 social housing units (now demolished). It has called for expressions of interest from developers to provide a minimum of 120 new social housing dwellings, with the developer able to keep or sell new market dwellings they build on the site, which could take about 427 dwellings. In this case (as with Riverwood North), Housing NSW might also contribute funds to the redevelopment, as well as the land.

What could be done?

The NSW government has made a financial commitment to the National Rental Affordability Scheme for the 2-year establishment phase only (2008–09 and 2009–10). It has capped the number of dwellings it is prepared to make a matching contribution of \$2,000 (for 10 years) to 3,000 out of a potential 11,000 dwellings Australia-wide. This contribution of some \$22 million is being financed from within the housing portfolio, not with an additional allocation from the state budget.

In the case of 'NRAS A' subsidies available to 'growth' community housing providers, the total amount of grants available is \$18.5 million. Again, this money is available only for the scheme's establishment phase. Furthermore, the money is 'off budget' in that it does not come from a state budget allocation, but consists of part of a one-off grant to Housing NSW from the Rental Bond Board.

Should the state government allocate money to Housing NSW through the state budget to allow it to participate in the National Rental Affordability Scheme in the expansion phase of the scheme (2010–11 to 2012–13)?

The government's 2007 decision to pilot long-term leases with some community housing associations can be seen as a rejection of an argument that some of the public housing dwellings managed by those associations should be given to them to own. This transfer of title would give them an asset against which they could borrow money for new housing development projects. In the Australian Capital Territory, the government is supporting the main community housing provider, CHC Affordable Housing, by transferring ownership of 135 properties worth \$40 million. Should Housing NSW transfer ownership of a small proportion of its stock (say, 3,000 dwellings) to registered community housing providers?

Something that does not seem to have been tried yet in Australia is what the Americans call a 'community land trust'. This is a nonprofit nongovernment organization that buys land and then either rents it out to homebuilders or to nonprofit rental housing providers. Since the community land trust is not profit-motivated, its land holdings can counter the trend to high land prices in favored locations. It contributes to housing affordability by taking the cost of land out of the equation for developers and builders of affordable housing. The organization does not necessarily have to be a property developer or provider itself. The community land trusts in the USA have been set up independently but have been assisted with government grants, donations of land by local councils, etc. Would a community land trust be a useful contributor to supply of new affordable rental housing in New South Wales?

In New South Wales and South Australia, resourcing bodies engaged with rental housing cooperatives are looking at how to expand the number of dwellings under cooperative, tenant management. This is

currently a very small sector with less than 500 dwellings across the state. The expansion options involve pooling of the ownership and asset management of the dwellings into a state-wide ‘common equity’ cooperative, able to undertake property development using its assets as a lever. The local cooperatives would keep responsibility for tenancy management. At the moment, the local cooperatives lease Land and Housing Corporation dwellings. This initiative would require transfer of ownership of those dwellings managed by those cooperatives to the new body, for those dwellings where the cooperatives agree to participate in the new property-holding body. Would a common equity cooperative be a useful contributor to supply of new affordable rental housing in New South Wales?

With public housing, the public-private partnership model has only been used to redevelop an existing housing estate, not to increase the supply of social housing. In estates where it would suit, such as those well-placed near urban and civic services and amenable to densification, is this model one that could be used to increase the supply of social housing?

Note

Social housing is a rental housing product whose defining characteristic is that it is priced to the consumer (tenant) at a submarket price (rent) for non-commercial reasons. The owner of the dwelling may be a private firm/individual, a nonprofit nongovernment organization, or a government agency. The property and tenancy management of the dwelling might be implemented by a nonprofit nongovernment organization, a government agency, or – in principle – a private firm/individual (though we do not have many models of this in Australia, unlike, say, Germany). Because the submarket rent affects the economic viability of maintaining the dwelling, its management requires an operating subsidy from an entity who might not be either the owner of the dwelling or the provider of housing services, the subsidy being given for distributive or philanthropic reasons – typically by a government agency but also by nonprofit nongovernment organizations. It is not a defining characteristic of social housing that it be allocated to tenants in particular income bands, e.g. very low income people, or on ‘better’ terms (e.g. more security of tenure) than provided by private providers of rental housing – though social housing providers have generally sought to rent dwellings to lower-income tenants, in a physical condition that is better than normal market standards, and with more secure occupancy rights than in rental housing markets generally.

The social housing sector includes public housing, community housing, and government-owned Indigenous housing, all of which have been subsidized through the Commonwealth–State Housing Agreement. It also includes local government-owned rental housing, rental housing owned by Indigenous organizations, rental housing owned and managed by nonprofit organizations targeted to older people, rental housing owned and managed by nonprofit organizations targeted to people with a disability (e.g. group homes), crisis accommodation managed by nonprofit organizations, and rental housing provided by government-owned affordable housing companies.

Question

1. Should the state government allocate money to Housing NSW through the state budget to allow it to participate in the National Rental Affordability Scheme in the expansion phase of the scheme (2010–11 to 2012–13)?
2. Should Housing NSW transfer ownership of a proportion of its stock to registered community housing providers?
3. Are small-scale initiatives like community land trusts and common equity cooperatives feasible contributions to supply of new affordable rental housing?
4. How could joint venture approaches with private developers, e.g. public private partnerships, be used to increase the supply of social housing in tandem with asset renewal and reconfiguration or with unlocking the value of land?
5. What other ways could the state government assist increased supply of social housing?