

**Department of Health and Human
Services**

**Social and Affordable Housing
in Tasmania
Options Paper**

November 2008
This report contains 66 pages

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Disclaimer

The findings contained in the report have been obtained after undertaking a high-level analysis in limited time based on the information, statements and results (together "Information") made available to us by the Department of Health and Human Service Tasmania.

We have applied our professional judgment in making a number of assumptions, such that they constitute an understandable basis for estimates and projections. Beyond this, to the extent that certain assumptions do not materialise, our estimates and projections of achievable results may vary.

The findings do not purport to contain all of the information that the Department of Health and Human Service Tasmania may require in order to make its decision regarding the entity and the expansion of affordable housing. KPMG may in its absolute discretion, but without being under obligation to do so, update, amend or supplement the Information and the findings.

Neither KPMG nor any employee undertakes responsibility in any way whatsoever to any person or organisation in respect of the Information, including any errors or omissions therein, or otherwise however caused. Although we have taken all reasonable care in interpreting such data, KPMG cannot be held responsible for the accuracy of the findings based upon the Information and our assumptions.

1 Introduction

The Tasmanian Government is looking to provide immediate investment into public housing stock, to provide further accommodation options for the homeless and to further increase the supply of affordable housing for low to moderate income earning Tasmanians.

1.1 Purpose of the paper

The purpose of the paper is to provide further information on the options available to assist in reforming the housing system in Tasmania. Prior to this paper, a series of consultations was undertaken seek feedback from stakeholders on:

- role of government and the non government sector in the provision of housing;
- issues associated with access to housing and housing services including information, referral, eligibility, prioritisation, allocation, waiting periods, location;
- administrative efficiency and capacity of the service system and government;
- stakeholder inclusion in strategic planning, funding, priority setting, policy development;
- perceived strengths and weaknesses of the current system; and
- options for future directions.

1.1.1 Consultation process

The consultation process undertaken is outlined below:

- the period of consultation will be three months – September, October and November;
- the focus will be on an appropriate sustainable model for public and social housing in Tasmania;
- stakeholders to be consulted include:
 - community members and tenants of the current public and social housing services;
 - current community housing providers;
 - service providers that currently interact with the housing system; and
 - Government departmental representatives.

First round consultation dates and locations

The dates and locations for the first round consultations that were undertaken are outlined below:

- 9th September - Burnie/Devonport
- 10th September - Launceston
- 11th September - Hobart
- 12th September - Hobart

Second round consultations dates and location

The consultation dates for the second round to discuss the options are outlined below:

- November 18th – Burnie/Devonport
- November 19th – Launceston
- November 20th – Hobart

The purpose of the second round consultation sessions is to discuss:

- the issues raised from the first series of forums, and how that feedback has been used in developing any proposed options for the future;
- future directions for public and social housing; and
- recommended option for future directions for public and social housing.

KPMG Contact details

If you have any questions regarding the consultations and/or the process, or would like further information please contact:

- KPMG Project Manager – Martin Joyce: (03) 9288 5840, or martinjoyce@kpmg.com.au
- KPMG Project Director – Liz Forsyth: 0418 659 857, or lforsyth@kpmg.com.au.

1.2 Structure of the options paper

The options paper is structured as follows:

- Section 2 discusses housing affordability and land development;
- Section 3 presents the current issues;
- Section 4 details the feedback from the stakeholder consultations across a range of themes; and
- Section 5 outlines the proposed options for reform.

Appendix A provides an overview of three examples of housing models in other jurisdictions, including NSW, Queensland and Canada.

1.3 Your feedback

This paper is provided to stimulate feedback on the options presented. In particular we are seeking your views on the way forward.

We are interested in any points of clarification or areas of further investigation you may identify.

We are interested in any other ideas you may have that may inform the issues that need to be addressed in developing a viable and sustainable social and affordable housing system in Tasmania.

Feedback will be accepted up until 16th December.

Feedback can be emailed to:

au-fmhousingreview@kpmg.com.au

All feedback received will be acknowledge upon receipt.

2 The current environment

This section outlines the current environment around affordable housing in Tasmania and includes a short discussion on housing affordability in the broader environment.

2.1 Housing affordability

“Housing affordability is not just about the price of the house, it is about the cost of using that house”, Adam Farrar, Executive Director, NSW Federation of Housing Associations.

According to the Commonwealth Senate ‘*Select Committee on Housing Affordability in Australia, June 2008*’ on a number of measures, housing affordability is ‘*at a record low*’.¹ These measures include:

- increases in house prices in capital cities are now equivalent to over seven years of average earnings;
- only one-third of houses (units) bought and sold would have been available to young households in the last financial year (2006/07); and
- around two-thirds of households in the bottom 40 per cent of income distribution were paying more than 30 per cent of their income in mortgage or rent payments – the benchmark for mortgage stress.²

While the decrease in housing affordability is a complex issue, it is worth noting that it is both a demand and supply side issue. Demand pressures include:

- higher incomes and the relative purchasing power that higher incomes allow;
- smaller household sizes;
- decline in interest rates in the 1990s and early 2000s; and
- cheaper and less restrictive finance being made available.

Supply side pressures include:

- land shortages and the long lead times to bring land onto the market;
- lack of affordable products for potential home buyers;
- planning processes are complex, time consuming and can involve high cost;

¹ Commonwealth of Australia, ‘*Select Committee on Housing Affordability in Australia*’, page 3, June 2008.

² Ibid page 3

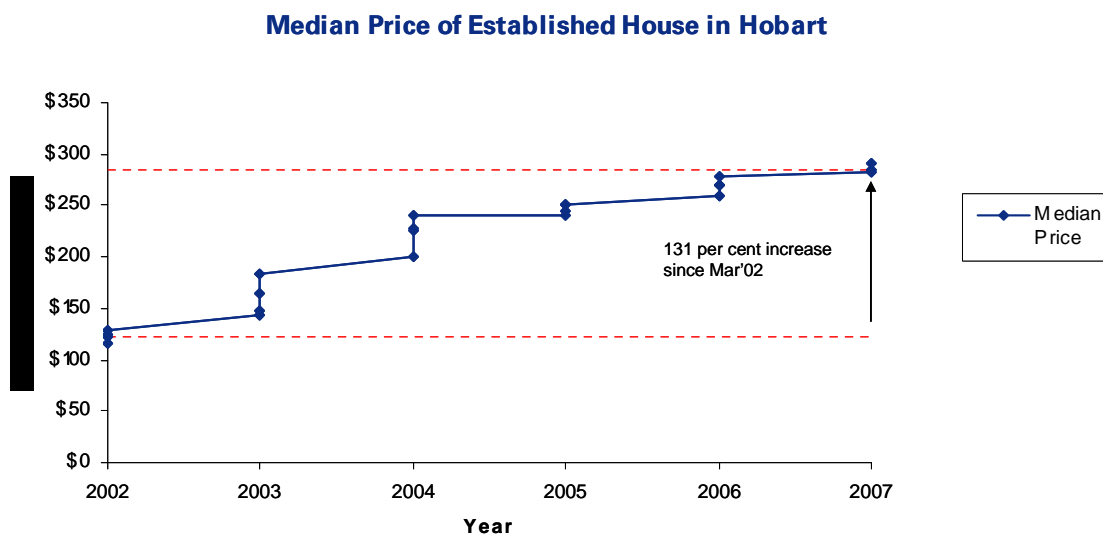
- developer infrastructure charges are impeding the supply of land; and
- shortages of skilled workers in the construction industry.

2.1.1 Housing affordability in Tasmania

A commonly cited index of affordability is the HIA-Commonwealth Bank Housing Affordability Index³, and this highlights that for Hobart there was a 3.8 point fall in the index from March 2007 to March 2008. More significantly, in the rest of Tasmania, housing affordability dropped even further with a 26.5 point fall in the affordability index (168.4 to 149.8 from March 2007 to March 2008) – this translated to a 12.6 per cent increase in the median house price across Tasmania, excluding Hobart.

Further proof of housing affordability being pushed further out of the reach of many potential home owners includes the median house price in Hobart increasing by approximately 131 per cent from July 2002 to June 2007, as highlighted in Figure 1 below.

Figure 2.1: Median House Price - Hobart July 2002 to June 2007



(Source: ABS, 6416.0 House Price Indexes: Eight Capital Cities Mar 2002 to Sept 2007)

The overall increase in the median house price of 131 per cent in Hobart compares to a 53 per cent increase in Melbourne and an 88 per cent increase in median house prices in Canberra.⁴

³ The index utilises Commonwealth Bank price data to measure the ratio of average disposable income to the qualifying income required to meet payments on a typical dwelling. The price index for established houses covers transactions in detached residential dwellings on their block of land regardless of age. Price changes therefore relate to changes in the total price of the dwelling and land.

⁴ ABS, 6416.0 House Price Indexes: Eight Capital Cities Mar 2002 to Sept 2007

Housing affordability particularly impacts on first home buyers as they are beholden to increasing prices and interest rates. In 2006-07, according to the ‘*Tasmanian State and Regional Indicators Dec 2007*’, there were 2,100 first home buyers’ dwellings financed⁵, a decrease of 6.6 per cent on the previous year, whilst the overall proportion of first home buyers’ dwellings financed dropped from 19.1 per cent in 2005-06 to 16.6 per cent in 2006-07.⁶

Home owners are not the only group experiencing the strain of rising property prices, renters are also confronting rental stress. The 2006 Census data indicates that there are 11,576 in rental stress.⁷ This represents 17.3 per cent of all low-income rental stress. Across all incomes, 13,332 or 8.9 per cent of households are determined to be in rental stress.⁸

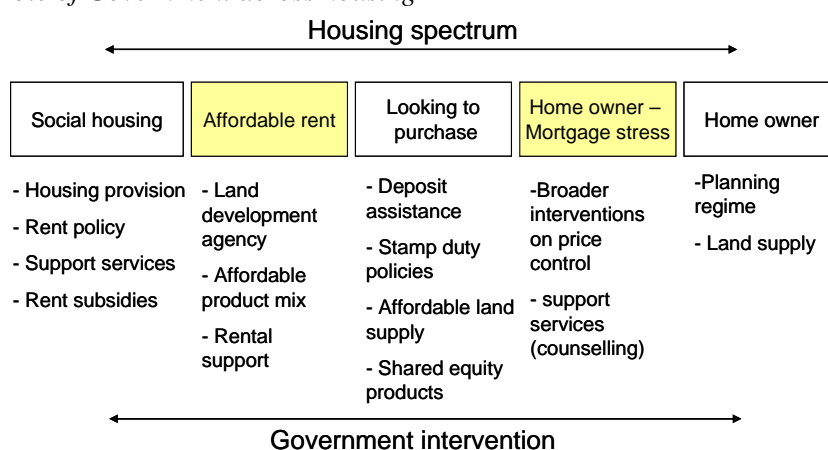
2.2 What role does State Government have?

Governments play an important role in the provision of affordable housing to the community, in particular, in assisting the most vulnerable in the community. While housing affordability is a complex issue that is underpinned by wider macro economic forces, State Governments can play a critical role, including:

- provision of affordable public housing;
- assistance to those looking to purchase a house; and
- facilitating the supply of land in order to increase the stock of housing in the community through improving land use planning processes and developing public land.

This is illustrated in Figure 2 below.

Figure 2.2: Role of Government across housing⁹



⁵ ABS, 1307.6, Tasmanian State and Regional Indicators, Dec 2007.

⁶ Ibid

⁷ Source: DHHS briefing note provided to KPMG via email 17/3/08

⁸ Ibid

⁹ In addition a variety of tax relief is provided for various home ownership options. It should also be noted that the Government has a significant role in responding to homelessness which could be seen to be part of the continuum.

The above outlines the typical interventions by government in the housing environment and are described below.

2.2.1 Social housing

Government is heavily involved in the provision of social/community housing through a number of mechanisms, including:

- provision of housing to accommodate income support recipients and low income earners who cannot afford the private rental market. This includes the capital requirements (i.e. the physical stock) and rental subsidies;
- developing appropriate rent setting and assistance policies for this cohort; and
- providing support services to the tenants such as employment services and counselling. Included in this is providing information on services peripheral to housing but integral to the health and well being of that person such as health services.

Government intervention and investment is the greatest at this end of the spectrum.

2.2.2 Affordable rent

People in the community who can afford to pay higher rents fall into this category, however, government is still required to play a role. This includes:

- rental assistance for those eligible, although not to the same extent as those in the social/community housing category;
- providing incentives for the private sector to provide housing at affordable rent; and
- providing options to move from the rental market towards purchasing at below market prices, such as through shared equity products.

2.2.3 Looking to purchase

People looking to purchase houses are usually caught between paying rent and saving for a deposit. However, since 2000 first home buyers have been eligible for a Commonwealth grant to assist in purchasing a house, with most States also providing assistance to first home buyers. Government also has a role in:

- the provision of stamp duty policies to assist first home buyers obtain some relief from stamp duty charges;
- providing the required supply of land to allow for housing developments to meet demand;

- implementing planning regimes that are efficient and keep the costs to developers and purchasers to a minimum; and
- providing products that do not constrain those looking to purchase from doing so, in particular shared equity products.

Government intervention at this point starts to take a more macro view of the housing market in order to facilitate the supply of affordable housing and policies that assist in keeping costs to a minimum.

2.2.4 Home ownership - Mortgage stress

For those people in mortgage stress, currently government intervention is constrained to broader economic policies, such as:

- price (inflation) control; and
- wages policy to ensure fair income distribution.

However, government also supports and provides services to assist those experiencing mortgage stress to seek assistance, such as financial counselling, in an attempt to alleviate the effects of rising interest rates and those who may have financially over committed.

2.2.5 Home ownership

Technically, government intervention is not required for those in the community who currently own their home and are not experiencing mortgage stress. However, as above, Governments do play a role in price control and wages control to ensure interest rates remain steady and to use appropriate levers to keep house prices in check so that more people do not experience mortgage stress.

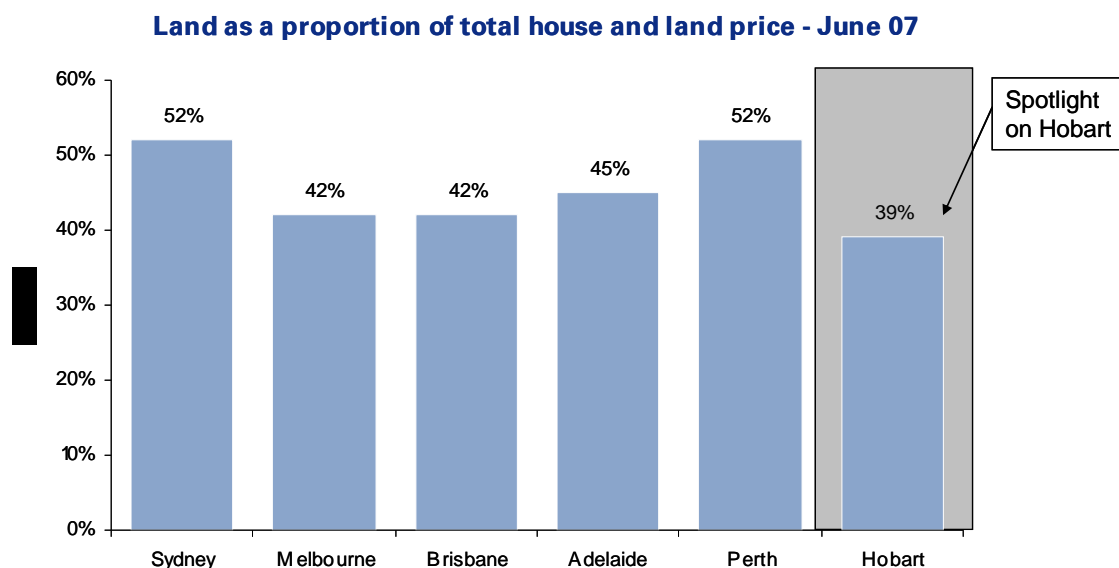
2.3 Land supply and development

A land development agency can assist in the unblocking of land for development and the delivery of more supply to the market.

In terms of price competitiveness, Hobart's competitiveness regards land value (which drives house prices) is diminishing. Its land price position relative to the major capital cities, especially to Brisbane, is shifting. Figure 3 shows that the ratio of land prices to the total new house-and-land prices is 39 per cent for Hobart, which is nearly as high as Brisbane and Melbourne, being 42 per cent respectively as at June 2007. This is a six per cent increase on December 2006.¹⁰

¹⁰ HIA-APM Land Monitor, June 2007, pg 2

Figure 2.3: Hobart land price as proportion of total land and house package



(Source: Adapted from HIA-APM Land Monitor, June 2007, pg 2.)

Experience in other States demonstrates that, where there is a dedicated authority/officer and appropriate resources invested (such as New South Wales Growth Centres Commission, Victorian Growth Areas Authority or Land Release Coordinators in Western Australia), this has the effect of expediting the process and removing blockages. It ensures that resources are quarantined to the implementation and delivery of land and housing supply outcomes.

Further, according to the 'Competition Index 2006-07',¹¹ Tasmania currently ranks first on the land and accommodation indicator against the other States and Territories. However, this competitive advantage could be slowly eroded if housing costs continue to rise, and land supply is not managed appropriately allowing more supply to come on-line efficiently. Considering Tasmania's population is increasing, both through natural increase and net migration¹², it is important that the supply of land (and importantly, affordable land) is reliable and well planned.

2.4 Summary

Overall housing affordability has decreased in Australia, and in particular in Tasmania. This has consequences for the governments of the day as they grapple with the effects of providing affordable housing to the community. Government intervention plays an important role in the provision of social/community housing to ensure those most vulnerable have access to housing. Further, broader market factors also require appropriate government policies to ensure the

¹¹ Tasmanian Government, Department of Treasury and Finance 2007, 'The Competition Index 2006-07'

¹² According to the Department of Immigration and Citizenship report 'Population flows – Immigration Aspects 2006-07', Tasmania's population increased by 3,419 in 2006-07. This included 2,619 through natural increase and 1,252 through net overseas migration. Conversely, there was a net interstate migration loss of 452. Tasmania's population has increased each year for the last six years according to the report, see page 128.

affordability of housing is within reach of those in the community wanting to move across the spectrum of housing options, from affordable rent to home ownership. Also, land supply and development is important to ensure that affordable housing can be maintained and therefore benefiting the growing population and the advantages that Tasmania may enjoy over other States and Territories on land price.

3 The current issues in the provision of affordable housing options in Tasmania

This section outlines some of the current issues facing social and public housing in Tasmania, including:

- operating shortfalls;
- the age and declining condition of housing stock and increasing maintenance backlog;
- there is no dedicated land management agency that can develop public land and provide affordable housing products;
- land use planning and approval processes are inflexible and slow with 29 different planning schemes; and
- while some small innovations have been trialled, these have not made a serious impact on housing affordability.

This section also details:

- current initiatives;
- trends in other jurisdictions; and
- Commonwealth policy directions.

3.1 Operating shortfalls

Like many jurisdictions, Tasmania faces the following problems in the provision of public and social housing:

- allocation policies have concentrated on the poorest people in public housing;
- whilst that is good public policy, it has not been matched with Commonwealth investment in income support and capital to reconfigure the existing stock away from highly dysfunctional housing estates; and
- the above means that revenues and Commonwealth grants have not kept pace with rising operational costs. These costs have increased over time to the point where there is an operating shortfall and a maintenance backlog valued at approximately \$80 million.

As outlined in the *Legislative Council Select Committee on Housing Affordability* report (page 111), Housing Tasmania has had recurrent operating shortfalls from financial year 2001-02 to financial year 2006-07 (see Table 1 below¹³).

Table 3.1: Housing Tasmania Financials

Category	FY01/02 (\$M)	FY02/03 (\$M)	FY03/04 (\$M)	FY04/05 (\$M)	FY05/06 (\$M)	FY06/07 (\$M)
Funding/ Revenue	\$100.8	\$116.5	\$108.1	\$119.6	\$112.1	\$105.6
Expenditure	\$111.2	\$128.7	\$109.7	\$104.6	\$114.4	\$117.1
Operating (Shortfall)/Surplus	(\$10.4)	(\$12.2)	(\$1.6)	\$15	(\$2.3)	(\$11.5)

As highlighted in the above table, revenue and funding has remained stable over time (4.7 per cent increase over six years) whilst expenditure has increased by a higher proportion over the same period (5.3 per cent). However, in the last three financial years, 2004/05 to 2006/07, revenue has dropped by 11.7 per cent and expenditure has increased by 11.9 per cent exacerbating the financial position of Housing Tasmania. Further, it is anticipated that in 2007/08, the operating shortfall will be in the vicinity of \$5.8 million¹⁴, with an existing maintenance backlog of \$80 million. This shortfall will impact on the capacity to upgrade and maintain stock, purchase additional stock and develop further supply for affordable housing.

Recent announcements on housing in Tasmania

Funding Boost

“The State Government recently announced an immediate \$60 million dollars into public housing. DHHS will consult the community sector about how to best use the \$60 million to further boost housing supply.”

Minister for Health and Human Services, Media Release: Welcome Boost for Housing and Hospitals, Thursday, 14 February 2008.

Homelessness

“The first area of housing need Tasmania will tackle is homelessness and the provision of emergency accommodation. The Premier has announced the development of a Tasmanian Homelessness Strategy, which will aim to halving the number of people sleeping rough by 2010.”

Premier, Media Release: Next Steps in Reducing Homelessness, Thursday, 20 March 2008.

¹³ Table summarised from *Legislative Council Select Committee on Housing Affordability in Tasmania* report, page 111, 2008.

¹⁴ Department of Health and Human Services, ‘*Review of Housing Tasmania – Business Sustainability*’, pg. 20. 2006 unpublished.

3.2 Stock condition

Stock condition has declined over time with the average age of stock being 25 year¹⁵, and approximately 68 per cent was built in the 1970s and 1980s¹⁶. Further, there has been a decline in the condition of amenities such as plumbing and roofing which require replacement. The condition and age of stock has consequences for the maintenance of such stock, including:

- recurrent maintenance cost – shortfall estimated to be at least \$45 million per annum using 3.17 per cent of replacement value of the total portfolio;
- planned maintenance costs, including newly identified maintenance costs of approximately \$700,000 per month;
- percentage of funds now used for existing rather than new stock – as outlined in the *'Legislative Council Select Committee on Housing Affordability in Tasmania (2007-08)'*, the current funding for capital expenditure was inclusive of debt repayments in accordance with the CHSA, such that, in 2006-07 of \$10.9 million in capital allocations, \$6 million was used to repay the principal of the outstanding debt. This left \$4.9 million to be used for capital expenditure; and
- cost of backlog of deferred maintenance – according to Macquarie Bank *'Strategic Review Final Report'*, the estimated maintenance backlog in 2003-04 was \$50 million. However, as indicated in the Legislative Council Select Committee review (page 113), this figure is likely to now be approximately \$80 million (using the reinvestment figure of 3.17 per cent of the property portfolio value). In the current financial year (07/08), approximately \$1.02 million is set aside for capital works. To assist with this issue, a planned sell down of 60 houses in 2007/08 will be undertaken.

This limits the ability of Housing Tasmania to reinvest in new and additional stock, at the same time as managing an asset base that is slowly deteriorating. Further, the economic life of stock is diminished earlier, requiring replacement investment decisions to be considered earlier.

3.3 Stock profile

Currently, there is a mismatch of the type of housing stock and the profile of demand (see Table 3.2 below). Essentially, the configuration of the current stock does not meet the needs of those people requiring housing assistance.

¹⁵ Department of Health and Human Services, *'Review of Housing Tasmania – Business Sustainability'* pg.16. 2006 unpublished.

¹⁶ Macquarie Bank, *'Strategic Review Final Report'*, pg.19. 2005 unpublished.

Table 3.2: Stock profile and demand

Type of Stock	Number ¹⁷	Proportion of total stock	Demand for stock type ¹⁸
One Bedroom	2,609	22.4 per cent	80 per cent
Two Bedroom	3,548	30.5 per cent	
Three Bedroom	5,210	44.7 per cent	15 per cent
Four Bedroom	281	2.4 per cent	5 per cent
Total	11,648	100 per cent	100 per cent

As highlighted above, the majority of clients seeking assistance require one or two bedroom houses, whereas the configuration currently does not provide for this, leading to a mismatch between client needs and appropriate stock availability.

Further, a significant percentage of housing is concentrated in large estates which adds costs to other parts of government, such as health, human services and justice. According to Housing Tasmania, approximately 30 per cent of public housing is contained within 10 suburbs where the density of public housing ranges from 25 per cent to 65 per cent. Suburbs with significant numbers of public housing include:

- Bridgewater – 587 properties;
- Gagebrook – 543 properties;
- Rocherlea – 249 properties;
- Burnie – 383 properties;
- Chigwell – 223 properties;
- Devonport – 693 properties (plus 377 properties in East Devonport); and
- Glenorchy – 563 properties.

Housing services

Housing Tasmania provides a range of services including:

- *public housing;*
- *Indigenous housing;*
- *community housing;*
- *emergency accommodation;*
- *assistance to private renters;*
- *home ownership assistance; and*
- *supported housing products.*

Housing stock

Public housing consists of dwellings owned or leased and managed by Housing Tasmania to provide affordable rental accommodation.

*In 2006-07, Housing Tasmania**

- *owned 11 673 dwellings with a market value of \$1.5 billion;*
- *had a waiting list of 3,055 applicants; and*
- *collected \$47.6 million in total rent.*

The net recurrent cost of providing assistance was \$6,752 per dwelling.

*[*Source: Productivity Commission 2008, Report on Government Services, Table 16A.1]*

¹⁷ Information provided to KPMG on 18th March 2008 by DHHS and current to 31 January 2008.

¹⁸ Department of Health and Human Services, 'Review of Housing Tasmania – Business Sustainability', pg.16-17. 2006 unpublished.

The areas above can be defined by the concentration of public housing, however, they should be no more disadvantaged than other areas in Tasmania. Affordable housing options should include, and involve, tenants in these areas to transition from long-term public housing tenure to affordable housing.

Also, stock will require reconfiguration and to be maintained to appropriate levels, which may reduce maintenance requirements in the early years due to new stock or upgrades, however, this will reduce to the overall maintenance requirements in the long term.

3.4 Land supply and planning

Currently, there is no land development agency which could bring land onto the market and increase the supply of affordable housing. Further, the capacity to provide products which are affordable, such as shared equity, is diminished as a result.

The absence of a land management agency also means that there is limited capacity to utilise surplus government sites for the supply and development of affordable house and land packages.

Housing supply is mostly constrained by:

- a lack of clear government policy and direction on land supply and growth;
- a failure to plan for and acknowledge the long lead up times needed for land release and development and for major infill developments;
- government imposed restrictions on release of land;
- slow and inefficient administrative and regulatory processes;
- inflexible and slow planning processes e.g. rezonings; and

SA Land Management Corporation – Activities

Activities include:

- releasing State Government owned land, facilitating sustainable industrial and residential development;
- working with public, private and voluntary sectors to bring lasting social, economic and physical regeneration to existing communities;
- assisting the State Government with strategic land and real estate issues disposing of surplus State Government land;
- creating developments in partnership with the private sector or independently;
- constructing, leasing or selling commercial and industrial properties of strategic importance; and
- providing advice and service to other State Government agencies on land related matters.

[Source: Land Management Corporation 2007, Annual Report 2006-07, p.5]

Land Use Planning and Approvals Act 1993

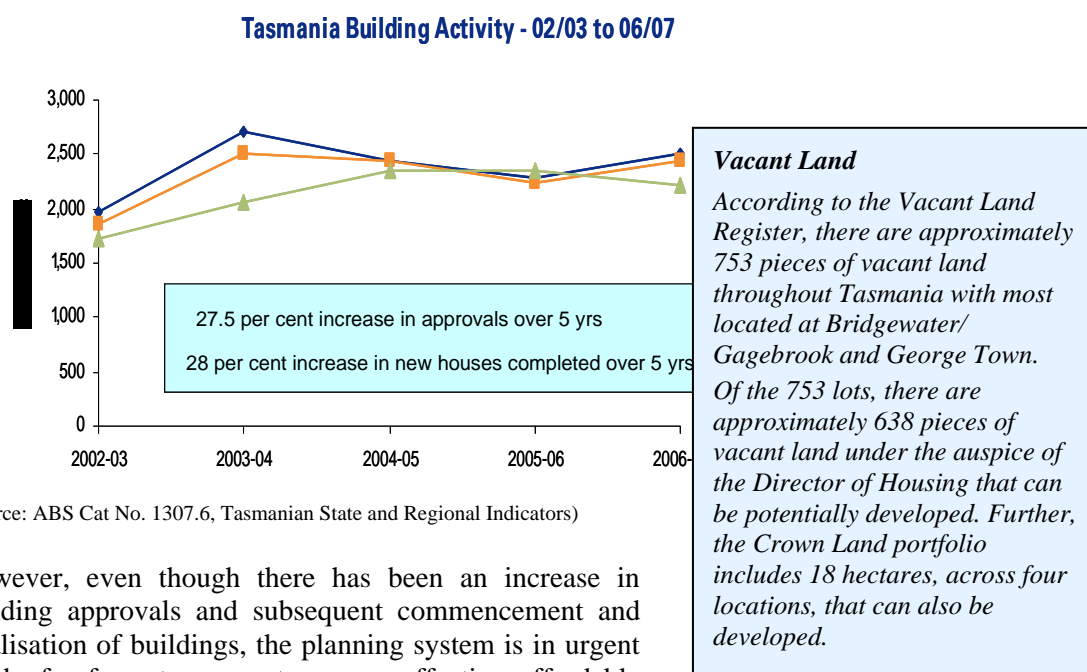
In Tasmania, the Land Use Planning and Approvals Act 1993 is the primary planning legislation. Under this legislation, councils have responsibility for land use planning (planning schemes) and development assessment in their local areas.

- genuine constraints such as geographical constraints, legitimate environmental constraints, competition for land use and fragmented and small parcels of land ownership that make bringing land onto the market or redeveloping land extremely difficult in some circumstances.

As an example of the current land supply issues in the broader housing market, the average vacant lot price in Hobart in June 2007 was \$125,000 (an increase of 59 per cent on the previous year), whilst in the rest of Tasmania, the average lot price was \$85,000 (a 21 per cent increase from the previous year).¹⁹ Further, the land price as a proportion of the Total House and Land Price in Hobart was 39 per cent (an increase of six per cent in six months from December 2006).²⁰

However, it should be noted that land supply is only one of a range of issues that can contribute to housing affordability more broadly. Interestingly, there has been an almost 28 per cent increase in building approvals in Tasmania over the five-years to 2006/07, and a 28 per cent increase in houses completed over the timeframe.²¹ This is highlighted in Figure 4 below.

Figure 3.1: Residential construction activity Tasmania



(Source: ABS Cat No. 1307.6, Tasmanian State and Regional Indicators)

However, even though there has been an increase in building approvals and subsequent commencement and finalisation of buildings, the planning system is in urgent need of reform to support a more effective affordable housing system by both government and the private sector. Currently, there is no strategic planning at a State and regional level that focuses on clear directions, actions and targets to guide the future growth and development.

¹⁹ HIA-APM Land Monitor, June 2007 report, page 14.

²⁰ Ibid, page 2.

²¹ Source: ABS, Cat No.1307.6, Tasmanian State and Regional Indicators, December 2007

The planning system is an important mechanism in the supply of land through:

- strategic planning – for example, *Melbourne 2030* or the *Sydney Metropolitan Strategy*;
- programs that identify appropriate opportunities for developments;
- planning mechanisms that allow for land availability for developments; and
- appropriate assessment processes.

Effective strategic planning will enable efficient planning of capital programs, land acquisitions, investment strategies and overall implementation program. The private sector can also plan, invest and enter into partnerships with the State Government with greater certainty and confidence. Local councils and communities are also engaged earlier in the planning cycle on major affordable housing projects and initiatives.

3.5 Growth of the non government sector

The trial of small innovations has not made a serious impact into the supply of affordable housing. Examples of small innovations include:

- Red Shield Housing (Salvation Army), a housing association to which Housing Tasmania transferred approximately 120 properties to manage and maintain. Under this initiative, there has been no additions made to the stock number, and it is of a relatively small scale; and

- Community housing initiatives throughout Tasmania where small numbers of stock have been transferred to the community sector. There are approximately 50 providers, with a total of 500 houses, providing housing assistance. This approach is again small in scale and somewhat fragmented with limited capacity to add additional stock.

A benefit of growing the community housing sector is that these tenants are able to access Commonwealth Rental Assistance, which enables a greater share of Commonwealth funding to

Achievements to date of the strategy

Achievements include:

- purchase or construction of 402 public housing properties;
- upgrading of 428 public housing properties;
- upgrading or replacing of six disability group homes;
- commencement of three new supported residential facilities;
- expansion of the PRSS to an additional 3,300 households;
- establishment of the PRTSS, assisting 1,200 households;
- grants to 28 community groups; and
- employment and training of 34 people in building and construction related trades.

TAHL housing stock

By the end of 2008, TAHL housing stock will consist of:

- 169 properties constructed through the Home Folio tender;
- negotiated contracts for 165 properties;
- tenders awarded for 145 properties; and
- negotiations in progress for an additional 175 properties.*

[*Source: TAHL strategic plan 2007-2008.]

be utilised to support and grow social housing in Tasmania. However, this strategy will take some time to realise and would also involve the creation of appropriate regulatory arrangements.

3.6 Current initiatives

3.6.1 Tasmanian Affordable Housing Strategy

Stage 1 of the Affordable Housing Strategy (the Strategy) was launched in December 2003, with a \$95 million commitment from Government, to provide a focus on increasing the supply and access to affordable housing.

The strategy is underpinned by four objectives:

1. A sustainable social housing system;
2. The capacity to expand supply of social and affordable housing in response to the community's immediate and longer-term housing needs;
3. A range of effective and responsive housing models that meet a diverse range of housing needs, including special needs and the particular requirements of local areas; and
4. *A housing market that underpins the economic growth area vitality and strong, safe, resilient communities*

Tasmanian Affordable Housing Ltd

Tasmanian Affordable Housing Limited (TAHL) is a not for profit, unlisted company established in 2006 to increase the supply of affordable housing for low income Tasmanians.

A Funding Agreement between the State and TAHL was signed in September 2007. The agreement sets out the State's provision of up to \$6 million per annum, the provision of State owned land for development and requirements in relation to strategic plans, reporting and provision of waiting list information.

The target of 700 new affordable properties being completed and available for occupation is anticipated being achieved in financial year 2011.

Options provided to assist with affordable housing

The following options are provided to assist housing affordability:

- *Streets Ahead Incentive Program* – provides \$6,000 to eligible applicants seeking to purchase a home offered for sale by Housing Tasmania or to build a home through Housing Tasmania's House and Land package;

- *Home Ownership Assistance Program (HOAP)* - provides a home loan option designed for people receiving low incomes who can afford to buy a home, but who may not be eligible for a home loan from banks or other financial institutions. The maximum home loan available under HOAP is \$120,000;
- *Shared Equity Scheme* - announced in the 2007/08 Budget, this scheme allows tenants to purchase their current dwelling at a reduced rate. Prospective owners are required to purchase 75 per cent of the property with 25 per cent remaining with Housing Tasmania;
- *Private Rental Support Service (PRSS)* - the PRSS provides financial assistance with bonds, removal assistance and/or rent in advance or arrears to low income people. Housing Tasmania funds not-for-profit organisations to administer the PRSS²². Intensive Tenancy Assistance Packages are also available to provide 'one-off' assistance; and
- *Private Rental Tenancy Support Service (PRTSS)* - PRTSS is a state-wide tenancy support program which assists low income Tasmanians in the private rental market to maintain their tenancy. PRTSS is provided state-wide by Centacare in partnership with the Salvation Army. Information, advocacy and assistance is provided free of charge.

3.7 Trends in other jurisdictions

Throughout Australia, the issues around affordable housing are not uncommon, in that all jurisdictions are grappling with how to respond in an effective manner. In other jurisdictions, there has been a range of responses and initiatives put forward to tackle the growing issues.

These include:

- the emergence of the Housing Association sector to develop a supply of affordable housing, in particular in Victoria and the UK. In Victoria, the Housing Associations have the ability to leverage private finance up to 20 per cent and are able to receive funding for development on the basis that the Housing Association brings a contribution of not less than 25 per cent of the project cost;
- undertaking a development role as it can minimise the overall cost per unit by being both the developer and provider, such as City West Housing in NSW. Further, by keeping the development function in-house, it allows the company to exercise maximum control over its developments and ensures a long term asset management approach is taken from the earliest stages of each development;
- providing housing that is complementary to public housing, and not a replacement of such stock. In particular, the Brisbane Housing Company (BHC) sees this as an objective, whilst being a self-sustainable entity in the process and not being a future drain on public funds in Queensland;

²² Housing Tasmania Fact Sheet: Private Rental Support Service, February 2008, <http://www.dhhs.tas.gov.au/services/channels/abouthousing/view.php?id=3343>

- government partnerships with private sector (and not-for-profits) is becoming more significant across jurisdictions as a means to supply and construct additional housing stock. Of note was the recent announcement in Western Australia that the Government will provide \$75 million in 2008-09 for a community house construction program. The Government is also funding \$210 million in the State Community Housing Investment Program, with \$60 million to be spent this financial year²³;
- value adding by providing energy efficiency features in many new housing developments (such as lighting and heating) is being utilised more often, particularly in British Columbia, Canada; and
- multiple products available to tenants, including shared equity arrangements, to allow tenants to purchase their own home from housing stock and begin to transition tenants away from public housing to affordable housing.

While this is only a small selection of initiatives being undertaken to address affordable housing, it does highlight the necessity to have multiple strategies in place to respond effectively. Also, it highlights the need for Government to be proactive in looking at innovative ways to upgrade and maintain stock, leverage finance, provide viable alternatives to public housing tenants and enhance the affordable housing market.

3.8 Commonwealth policy

Currently, the Council of Australian Governments (CoAG) is undertaking a program of reforms in housing. New initiatives include:

- negotiating a new National Affordable Housing Agreement between the Commonwealth and States and Territories. This agreement will integrate housing programs including the Commonwealth Rental Assistance (CRA), funding for public housing, responses to homelessness and the First Home Owners Grant;
- establishing a National Housing Supply Council;
- release of Commonwealth land to provide more supply in an attempt to ease housing affordability;
- creating a Housing Affordability Fund to assist developers and local government increase supply of housing and pass any savings on to home buyers – the focus of the fund will be on proposals that improve the supply of new housing and will address two barriers to supply:²⁴
 - holding costs incurred by developers as a result of long term planning and approval waiting times; and

²³ http://www.dhw.wa.gov.au/index_1933.asp

²⁴ Source: <http://www.facs.gov.au/internet/facsinternet.nsf/housing/haf.htm>

- infrastructure costs, such as water, sewerage, transport, and open space;
- establishing the First Home Savers Account to assist first home buyers save a deposit for their first home;
- introducing a five-year plan to reduce homelessness “A Place to Call Home”; and
- implementing the National Rental Affordability Scheme (NRAS).²⁵

The Commonwealth Government is undertaking these reforms at pace in recognition of the seriousness of housing affordability, and with this reform brings significant opportunities for Tasmania to address the current issues.

Recently, at the COAG level, a range of expectations have been flagged for housing reform including:

- jurisdictions will need to demonstrate that their public housing program is operationally efficient. To achieve this end consideration need to be given to common rent setting across all jurisdictions to implement more uniform targeting policies in public housing to assist those in the greatest need.
- there is a greater mix of products and services ranging from very low income based rents to affordable rental to shared equity to providing access for some low income households to home ownership are available to individual and their families. The Commonwealth Government is looking for a system which provides an opportunity for people to improve their circumstances without having to move out of their family home which in turn is a disincentive for some people to re-enter the labour market.
- there is an increased role for commercially focused non-profit housing associations who would work alongside public housing authorities to deliver a broader range of products and services as well as providing assistance to those in the greatest need.
- there is support for private sector investment in the form of partnerships for the renewal of large public housing estates and by way of direct lending to entities such as housing associations.
- there is encouragement rent models to protect the poorest while ensuring greater alignment between rent setting policies of public and not for profit housing organisations and the Commonwealth Rent Assistance Scheme.
- there is new capital available that is closely targeted to improving the viability of the public housing and broader social housing system. That is, a system focused on meeting unmet

²⁵ NRAS is intended to deliver 50,000 new affordable rental properties across Australia over five years. The Commonwealth will provide an incentive of \$6,000 per year for 10 years to properties rented at 20 per cent below market value, while States and Territories will provide \$2,000 per year over the same timeframes in cash grants and/or in kind contributions.

demand; in assisting jurisdictions in re-configuring their portfolios to meet demand; and a reduction in the concentration of large poor performing and run down housing estates.

COAG is seeking fundamental reform of public housing systems to ensure that there is greater affordable housing available to the community along with ensuring those that are most vulnerable are protected from homelessness through the establishment of a viable public housing system tailored to their needs.

3.9 Consequences of current issues

If the current situation continues with minimal change that is:

- no change to rent structures (other than what is proposed);
- no change to stock configuration; and
- the ability to borrow is restricted (other than State based borrowing).

Housing Tasmania will require additional supplementary funding amount of \$486.8m over 30 years, for a public housing system that will only be able to maintain current arrangements and address the current maintenance liability.

If there is no change to funding there will be a significant loss of stock (3,800 units over 30 years).

In addition there will be:

- **no contribution to home ownership under a possible shared-equity program**
- **no change in total stock numbers after 30 years (reduction if no supplementary funding is provided)**
- **the supply of land and development issues would continue to be problems for the system and housing affordability would become more critical**

3.10 Conclusion

Tasmania is no different from other jurisdictions- systemic reform is essential, incremental reform will not adequately address the problems.

It is essential that there is a partnership with the Commonwealth in this process. There is real opportunity for Tasmania to take a National leadership position.

To achieve this end it is essential that reform be focussed on the total housing system not simply the public housing system.

An integrated and aligned package of reforms is essential no single intervention will suffice.

4 Consultations

This section details the key themes to arise from consultations with relevant stakeholders, Housing Tasmania staff, community members and tenants about the direction of affordable housing in Tasmania.

4.1 Consultation process

A range of consultations were held throughout September to gather information on the experiences, views and opinions of a range of housing stakeholders. The consultations included:

- three workshops (one in Burnie, one in Launceston and one in Hobart) with housing stakeholders;
- three workshops (one in Burnie, one in Launceston and one in Hobart) with Housing Tasmania staff; and
- six workshops (two in Burnie, two in Launceston and two in Hobart) with community members and tenants.

Approximately 55 service provider representatives, 92 Housing Tasmania staff members and 13 community members and tenants participated in the workshops around the state, as follows:

- Service Providers – 10 Burnie, 14 Launceston and 31 Hobart
- Housing Tasmania – 19 Burnie, 16 Launceston and 66 Hobart
- Community Members and tenants – 3 Burnie, 6 Launceston and 4 Hobart

A total of 32 people participated in the Burnie forums, 36 in the Launceston forums and 81 in the Hobart forums.

Workshop participants included representatives from:

- Anglicare
- Steps
- Master Builders Association
- Tassie Home Loans
- Northern Midlands Council
- City Mission

- Youth futures
- Devonport City Council
- Centrelink.

4.2 Strengths identified by stakeholders

Three key strengths of the housing sector in Tasmania were identified during the consultations. These were:

- Key strength 1 – The effectiveness of Housing Tasmania
- Key strength 2 – Availability of land
- Key strength 3 – Current product offerings.

Key strength 1 – The effectiveness of Housing Tasmania

Housing Tasmania and its staff are seen to play an important role in providing affordable public housing to Tasmanians, and also in assisting public housing tenants to progress to alternate forms of housing such as shared equity arrangements. Housing Tasmania and its staff are considered by participants to be a key strength in the current housing system. A number of reasons were identified by participants, including:

- Participants acknowledged the existence of a public housing system as a strength in itself, along with the shorter waiting lists when compared to other states.
- Housing Tasmania was seen by participants as having a proactive attitude and being responsive to the needs of tenants and the community. The new service delivery model used by Housing Tasmania, though in its early stages, is seen to be positive, being responsible for low vacancy rates, low levels of arrears and evictions, and more success in matching services to the needs of clients.
- Participants identified that Housing Tasmania staff are approachable, dedicated, knowledgeable and well trained. It was agreed by all participants that Housing Tasmania and its staff are increasingly more flexible by taking an increasingly holistic focus on the client with the goal of meeting their individual needs.
- Furthermore, the departmental ties and active communication with relevant agencies and non-government organisations are seen to work effectively, allowing all providers to integrate their services to a sufficient standard.
- There is currently a focus on homelessness and breaking the cycle of poverty, which participants felt was overdue.

Key strength 2 – Availability of land

With the supply of affordable housing noted as an issue, participants drew attention to the low population and housing density in the state, along with the significant amount of land available for development in Tasmania. Some of the vacant land is located in central locations close to services that could be utilised for affordable housing.

Key strength 3 – Current product offerings

The current product offerings were also considered to be a key strength, for the following reasons:

When compared to the private rental market, it was considered that Housing Tasmania are providing affordable rental properties, responsive and timely maintenance services, and a large and diverse range of stock (11,000 around the state). This is resulting in the increased satisfaction amongst tenants.

Participants acknowledged the existence of the shared equity arrangements and first home ownership programs to aid home ownership and this is a positive step forward – however take-up of these products has been variable.

Further, security of tenure for tenants was identified as a strength. Many participants thought that tenants are given adequate time periods and support to assist tenants when they are in difficult circumstances, in which they sometimes find themselves.

4.3 Weaknesses and issues identified by stakeholders

Five key weaknesses of and issues with the housing sector in Tasmania were identified during the consultations. These key issues are:

- Key issue 1 – Inappropriate and insufficient housing supply
- Key issue 2 – Poor condition of existing housing stock
- Key issue 3 – Strain on demand for affordable housing
- Key issue 4 – Resource, legislative and fiscal constraints
- Key issue 5 – Poor communication and collaboration.

Key issue 1 – Inappropriate and insufficient housing supply

Participants noted that this is caused by a number of factors, including:

- In some cases, the locations of public housing do not have adequate access to support services and infrastructure. This is particularly evident in broadacre estates and cluster

areas. Tenants have only a limited choice of areas in which to live, so cannot choose locations with appropriate *services and infrastructure* in close proximity.

- There is an inappropriate mix of properties to suit prospective client needs. There has been limited consideration of the incorporation of sustainable features in houses to reduce the ongoing running costs. Furthermore, there is inadequate reassessment of people's needs to ensure their housing meets their ongoing and changing needs. This results in a significant portion of the housing stock being underutilised and under-occupied as a result of poor tenant matches.
- There is a lack of affordable housing for low to medium income earners. Mainland developers, who have the scalability to produce more affordable houses, are not attracted to Tasmania. This has a flow-on effect that Housing Tasmania has a lack of affordable stock available to acquire to replace the existing ageing stock and to build their portfolio to meet the needs of tenants.
- Life tenure policies mean there is no exit points resulting in a lack of opportunity to progress tenants through the system, even when their income is sufficient to sustain them
- There are a lack of crisis beds and transitional accommodation options.
- Historically there has been poor development planning, resulting in broadacre estates with limited 'green' space or community areas. These houses are often in isolated areas with a high density of clients with complex needs. There are indirect social consequences of this approach including poorer health outcomes for tenants.

Key issue 2 – Poor condition of existing housing stock

It was unanimously agreed by all participants that the existing condition of Housing Tasmania's stock is in poor condition. The poor condition of the stock was thought to be the result of a number of factors, such as:

- Housing Tasmania's existing stock having an average age of 25 years, resulting in a high-maintenance portfolio
- Housing Tasmania having an existing maintenance backlog estimated to be in the vicinity of \$80 million with inadequate funding to meet this backlog along with a lack of skilled tradespeople. Many participants thought that there is insufficient collection of fees by Housing Tasmania to cover the vacating maintenance costs incurred by Housing Tasmania to rectify a property after a tenant vacates it
- A potential lack of accountability or 'ownership' by some tenants towards their house was considered to contribute to the poor state of the Housing Tasmania portfolio. Many participants thought that this lack of ownership by the tenants is made worse by the requirement for tenants to bring the property back to the condition that it was in when the tenant moved in.

- Some participants commented on there being a waiting period for maintenance, while other participants commented on the timeliness of maintenance services. There was also some concern that maintenance requirements were not adequately assessed before being attended to, resulting in maintenance funding being spent on non-essential maintenance.
- Participants noted that the outsourcing of the maintenance function has resulted in cost savings, but inadequate quality assurance being performed on the work undertaken by contractors.

Key issue 3 – Strain on demand for affordable housing

Participants identified a number of factors creating this increased demand:

- There is a lack of affordable housing and potential low income home owners are finding it difficult to obtain financing, resulting in a lack of options for public housing tenants who would like to purchase their own home. Participants also felt that there is a lack of information available to clients about the different products available, resulting in them remaining in the public housing system.
- Existing home owners are increasingly unable to keep up with mortgage payments and there is a lack of government support for these people in mortgage stress. Home owners in mortgage stress are at risk of losing their homes and potentially will fall back on the public housing system to try to meet their housing needs.
- A proportion of public housing tenants have high and complex needs and are unable to sustain themselves in the private rental market.
- Tasmania has lower income levels than other states which has become even more of a problem with wage increases not keeping pace with housing price and/or rental increases.
- Private rentals are increasingly becoming more expensive, resulting in increased demand for public housing and creating disincentives public housing tenants from moving into the private rental sector.
- There is a culture amongst public housing tenants that they should expect life tenure and be able to remain in public housing throughout their life regardless of changes in their personal circumstances or income levels.

Key issue 4 – Resource, legislative and fiscal constraints

A number of resource, legislative and fiscal constraints were identified by participants, including:

- The lack of integrated planning for land and building in Tasmania and existence of a complex planning regime creating high administrative costs for new developments.

- The historical lack of blended developments, with a lack of public transport between regions and towns.
- Lack of skilled tradespeople in Tasmania.
- Dispersion of housing in Tasmania and relative low density.
- Inadequate government support for housing in the past and no long term budgeting.

Key issue 5 – Poor communication and collaboration

Some participants indicated that there is poor communication and collaboration between the Government sector, non-government sector and public housing tenants. Issues highlighted included:

- Inadequate cooperation between the Government and non-government sector.
- Lack of engagement or consultation with public housing tenants.
- Lack of education of tenants of what is expected of them and also what rights they have to access services available to them.
- Lack of support for housing associations and under-funding of agencies and non-government organisations.

5 Principles for reform

Five key reform principles have been developed based on the analysis of the effectiveness of affordable and social housing in Tasmania and in light of the feedback received from key stakeholders through the consultation process. These principles are proposed to guide the development of options for the future. The principles are:

- Key principle 1 – Financially sustainable
- Key principle 2 – Contemporary approaches to housing
- Key principle 3 – Flexible responses tailored to individual needs
- Key principle 4 – Matching supply with demand
- Key principle 5 – Security of tenure

Key principle 1 – Financially sustainable

The development of a financially sustainable model was agreed to be a compulsory element of any strategy going forward. A financially sustainable model would be one in which:

- The capacity of community housing associations is increased and an injection of capital would be received to reinvigorate the housing portfolio.
- The not-for-profit and private sectors are encouraged to invest in housing in Tasmania.
- The government guarantees funding over a long term period to allow long term budgeting to be undertaken.
- Rent setting is reviewed that promoted movement of clients into the private market when appropriate.

Key principle 2 – Contemporary approached to housing

A progressive and sustainable housing system would include:

- Alternative and low maintenance designs incorporating sustainable, ‘green’ features.
- Inclusion of community spaces in new developments.
- Access to support services and appropriate infrastructure (i.e. transport, education).
- Incentives for tenants making improvements to their home

- Smaller land sizes to assist with maintaining properties.
- Up-skilling local communities to assist in meeting the maintenance backlog, i.e. training of young people in trades.

Key principle 3 – Flexible responses tailored to individual needs

The housing system needs to be flexible, including:

- Dwellings appropriate to people's needs.
- Dwellings that can change with resident needs and different phases of a tenant's life.
- Individuals can move from renting to home ownership without having to leave their residence.
- Infrastructure to support location of stock.
- Tenancies managed by local service providers in remote areas (e.g. King Island).

Key principle 4 – Matching supply with demand

Matching supply with demand to ensure efficient utilisation of stock by:

- Increasing the number of affordable houses.
- Creating incentives to ensure appropriate home and land packages (in terms of price and size are developed).
- Simplifying and reducing the costs associated with the process for releasing land.
- Increasing the number of smaller houses in the social housing system.
- Creating an optimal mix of product types.

Key principle 5 – Security of tenure

Security of tenure, including:

- Ensuring vulnerable groups have full access to services and community participation.
- In-built safeguards for statutory tenants to be protected from major changes to the system now and into the future.
- More support for 'working poor'.

- Multiple sustainable tenancy options for complex clients.
- Review tenure for life principle.

6 The future options

In light of the issues raised earlier in the assessment of the viability of affordable and social housing and consistent with the principles that emerged from this analysis and stakeholder feedback, it is proposed that the Tasmanian Government give consideration to a radical re-shaping of the public housing and social system to:

- improve long-term viability of the system and minimise the expected drain on State budget resources;
- diversify the product offerings to suit the range of needs of low to moderate income earning households;
- maximise the value and return to the State via Commonwealth NRAS and CRA;
- provide a capacity for growth in affordable housing supply; and
- provide a capacity to reconfigure public housing stock.

The proposition centres on the creation of a new asset holding and development entity which operates to fulfil the objectives of better meeting the current and future social and affordable housing needs in Tasmania.

The key decision points for the Tasmanian government are as follows:

- firstly, what type of entity to create;
- secondly, whether to transfer some or all stock of Housing Tasmania to the new entity ;
- thirdly, to grandfather rental arrangements for existing tenants but change arrangements for new tenants and the level of rental to be charged; and
- finally, the mix of products and services to be offered in any new organisation to better service the needs of those who need access to affordable and social housing.

Due to the nature and range of issues currently being experienced with social and affordable housing in Tasmania and the role of the Commonwealth Government in housing provision, it is essential that a joint solution is developed between the two levels of government to meet the social and affordable housing needs of Tasmanians.

6.1 What needs to happen?

Based on the issues outlined previously and feedback from the consultation process, it is clear that:

- systemic reform is essential, incremental reform will not adequately address the problems;

- a partnership with the Commonwealth is critical if Tasmania is to address the problems;
- reform be focussed on a social and affordable housing system, not simply the public housing system;
- an integrated and aligned package of reforms is essential as no single intervention will suffice; and
- this is an opportunity in undertaking this program of reform to stimulate the local market and provide a competitive advantage for Tasmania.

This section presents an overview of future options for Tasmania. It includes information on the:

- objectives of the reforms and the initiative;
- governance structure of the initiative;
- rental and income streams for the entity;
- capital base to achieve the outcomes;
- market for affordable housing that the entity should be targeting;
- role of Housing Tasmania;
- planning changes for the initiative; and
- facilitating partnerships (private and non-government sectors).

The paper has, as a starting point, an understanding that the current institutional and rental arrangements are not sustainable, and it puts forward three options for different types of institutional arrangements. However, in all three options, it is proposed that the current uniform rent policy be reconfigured to protect the lowest income households, at the same time sending stronger prices signals for tenants who could pay more.

These changes are dependent on access to CRA . It is also assumed that existing tenants would be grandfathered into the new arrangements; that is, the current rental arrangements in the current properties in which they reside would be protected.

6.2 Objectives of the reform

The reform strategy should be structured to achieve the following objectives:

- growth of accommodation options (including a mix of options to cater for individuals, women with children and families) by providing an increase in the exit points for people who are homeless or at risk of homelessness;
- growth in the supply of affordable housing to Tasmanian low income earners:
 - this growth in supply of affordable housing should cater to a mix of markets (for example customer segments) and should see a mix of products (such as rental assistance and shared equity arrangements) made available; and
- renew and reconfigure the existing public housing with a particular priority given to renewal of large, rundown housing estates by generating a mix of stock more suited to the profile of demand for affordable and social housing in the community.

The reform will also need to set a target of net additions to stock over a 10-year capital program. This will need to be given priority in the early years as part of the strategy for meeting unmet demand.

The process of reconfiguration should also set targets for changing the mix of housing on large estates to better represent current and future demand, including ensuring that a range of options are available for different client groups.

6.3 Key elements of the reform strategy

The following sections describe the optimum policy levers in more detail, including:

- governance arrangements;
- stock transfer;
- capital and income base for reform, including impacts on tenants;
- managing the maintenance liability;

- the market for the entity;
- planning environment; and
- partnership arrangements.

6.4 Legislative mandate

Regardless of the options preferred, underpinning any reform program is the need to establish a legislative mandate for the reform.

It is expected that new legislation will need to be established for any new entity that specifies its role and responsibilities. In particular, the legislation will need to ensure that:

- specific protections are established to ensure that tenants have access to affordable rental arrangements (including the establishment of an independent rent umpire);
- in balancing commercial imperatives with its community service obligations, the entity must ensure that its priority remains focussed on providing social housing to those most in need; and
- Government remains ultimately responsible for the provision of affordable and social housing and that the entity is only a vehicle to ensure maximum commercial benefit to facilitate the provision of services.

6.5 Governance arrangements for the initiative

The current structural arrangements (as a classic State Housing Authority) have limitations as to the required capacity to undertake a reform program, including:

- a debt burden that limits the capacity to undertake maintenance and reconfiguration of stock;
- limited capacity to borrow to fund maintenance and reconfiguration of current stock;
- the ability to release and develop parcels of land as required to meet demand and portfolio configuration needs for the future;

Metro Tasmania Pty Ltd

Metro Tasmania Pty Ltd is a state owned company established in February 1998 under the Metro Tasmania Act 1997. The company is a successor in law of the Metropolitan Transport Trust.

Metro Tasmania has entered into a Community Service Agreement (CSA) with the Government (via the Department of Infrastructure, Energy and Resources (DIER)), with contract payments designed to enable it to achieve a break-even operating result. Metro Tasmania receives the majority of its revenue from this contract. In 2006-07, the contribution was \$26.421m representing 69 per cent of Metro Tasmania's total revenue. Fare revenue comprised 26 per cent of total revenue.

For the year ended 30 June 2007, Metro Tasmania recorded a profit before income tax of \$307,000 (2006: \$30,000) and a profit after tax of \$ 184,000 (2007: loss of \$16,000).

No dividend was paid from the profit recorded in the year ended 30 June 2006.

(Source: Metro Tas Pty Ltd 2007 Annual Report)

- limited capacity to charge differential rents to maintain a secure and viable income stream; and
- no access to CRA.

To undertake the reforms, the new entity will need to have the ability to:

- borrow funds to assist in development and reconfiguration of stock;
- fully reconfigure the stock;
- enable its tenants to access CRA;
- charge different rents and offer shared equity products; and
- be an asset manager and land developer.

In meeting these requirements, three options have been considered (as a commercial entity), including:

- a State Owned Company (SOC); or
- a State Owned Company with Public Benevolent Institution (PBI) status; and
- a Housing Association.

6.5.1 Option one - State Owned Company

SOCs are established under specific or generic legislation that defines the purpose of the SOC and the general functions for which it is responsible. SOC's are subject to the *Corporations Law* with two shareholders, the Treasurer and the Portfolio Minister, holding the shares in trust for the Crown.

These entities:

- operate outside the Public Account, principally on the basis of funds derived through their operations, and have no direct impact on budget expenditure except in circumstances where they receive funding for Community Service Activities (CSAs), equity injections and in circumstances where they receive payment for services provided, e.g. electricity provided to agencies;
- provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees;
- are subject to specific legislation (e.g. TT-Line Company Pty Ltd is subject to the *TT-Line Arrangements Act 1993*) or generic enabling legislation (e.g. Aurora Energy Pty Ltd is subject to the *Electricity Companies Act 1997*);

- are subject to Commonwealth Corporations Law;
- prepare annual reports, with financial statements complying with Australian Accounting Standards, which are tabled in Parliament and are subject to audit by an auditor appointed by the shareholders, currently the Auditor-General; and
- may receive CSA payments which are reported as Grants and Subsidies expenditure by the purchasing department.

Primary benefits of a SOC include:

- the entity is government-owned and is an appropriate vehicle to redevelop surplus public land and maximise the supply of affordable housing;
- the model is known to the market, particularly important when attracting private sector investment;
- the organisation is subject to normal corporate structures and accountabilities;
- legislative requirements are straightforward and only require a portfolio piece of legislation that outlines the purpose of the SOC; and
- the model provides greater flexibility to undertake borrowing programs.

The potential issues that emerge from this approach, requiring further investigation include:

- the need for the entity to operate on a commercial basis (i.e. to pay tax equivalents and dividends); and
- whether the SOC's tenants would be eligible to receive CRA. It would appear that currently CRA would be available, however obtaining the confirmation and agreement of the Commonwealth Government to the arrangement would be desirable.

Housing Associations – Victoria

Housing associations in Victoria currently exercise the power to terminate existing leases, operate on rent retention (optimise the CRA) and contain performance standards, a constitution, rules and functions.

Currently the major source of funding for housing association developments is the Director of Housing through programs designed to increase affordable housing options for low-income Victorians. These funds are available to registered housing associations on the basis that the housing association brings a contribution of not less than 25 per cent of the project cost.

[Source: Department of Human Services, Social housing in Victoria – Review of major projects 1999-2006, <http://hnb.dhs.vic.gov.au/OOH/ne5ninte.nsf/LinkView/E9572CE7580B4A35CA25721D007A18140AE2EDFE1A3ADBF9CA25712300816307>]

In terms of implementation, a SOC could be implemented as part of a stage transition with the Director of Housing owning title until the initiative reaches minimum operating viability.

6.5.2 Option two – SOC: PBI

As discussed above, the SOC is a well established governance model and has important benefits.

A public benevolent institution (PBI) is a non-profit institution organised for the direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness. The characteristics of a PBI are²⁶:

- it is set up for needs that require benevolent relief;
- it relieves those needs by directly providing services to people suffering from them;
- it is carried on for the public benefit;
- it is non-profit;
- it is an institution; and
- its dominant purpose is providing benevolent relief.

Direct provision of services

PBIs provide their services directly to persons in need of relief.

Examples of PBIs include:

- medical clinics treating the sick;
- hostels providing accommodation for the homeless; and
- emergency services rescuing people in peril.

If an organisation exists to promote social welfare in the community generally, it will lack the required direct benevolence. For example, organisations for lobbying, advocacy, research and policy studies, and disseminating information are not PBIs.

Housing bodies may be PBIs where they give benevolent relief by providing low rental or subsidised accommodation to underprivileged people affected by poverty, disability or other needs requiring benevolent relief.

The value of having a SOC with PBI status is that the entity is eligible for GST exemption which provides significant financial benefit in terms of expenditure, making more funds available for direct expenditure on social and affordable housing.

²⁶ http://www.ato.gov.au/print.asp?doc=/content/26553.htm&page=2#P86_8003 accessed 1 November 2008

6.5.3 Option three – Housing Association

In general, Housing Associations:

- are not for profit organisations (either limited by shares or limited by guarantee);
- have an expertise based board to govern the association;
- retain an Income Tax Exempt Charity status, GST exempt from development, and are Public Benevolent Institutions (PBI);
- develop, own and manage rental housing for people on low incomes;
- must be in a position to expand supply of affordable housing;
- can borrow against property they own (or the rental income they receive if leasing properties from the Director of Housing);
- operate on rent retention and optimise CRA and potentially assistance and taxation exemptions under the proposed the Housing Affordability Fund. Surpluses are put back into the provision of additional housing and community capacity building;
- have planned maintenance reserves to undertake maintenance on stock;
- are not seen to be a privatisation option (i.e. policy neutral); and
- do not have tenure limits.

Further, tenants under a Housing Association structure are generally charged between 25 to 30 per cent of household income in rent, in addition to CRA (this is the current model which operates in most jurisdictions in Australia).

Also, the social nature of a housing association requires the organisation to be responsible to the tenants, the communities they are operating within and accountable to government.

In considering Housing Associations as a viable entity, a number of issues will need to be resolved. These include:

- whether housing associations will or can hold the government's equity or any equity contribution and have the capacity to undertake redevelopment activities, including on surplus government sites;
- the relationship between housing associations, government, private finance providers and developers; and
- whether, in the first instance, a single entity can be established to build critical mass and to address any preliminary implementation and risk management issues encountered during the establishment phase

It is worth noting that the best model is premised on commercially driven principles, such that the entity is founded on commercial grounds and allowed the flexibility required to meet outcomes and, from a governance perspective, either a SOC or Housing Association are feasible and viable options.

Preferred option: Either a SOC PBI (which provides the most commercial benefit while ensuring that the entity remains closely aligned as a core government function) or a Housing Association (which has similar commercial benefits but is further removed from government) are viable options.

Note: For the following sections – SOC-PBI and Housing Association are used interchangeably as the only main difference is the ownership structure at the entity level. Matters related to financing broadly impact similarly regardless of whether the entity is a SOC – PBI or Housing Association.

6.6 Stock transfer

As outlined above, the Government has choices regarding any stock transfer to any new entity charged with the responsibility of social and affordable housing into the future. However, it is worth highlighting three options: No transfer, partial transfer and full stock transfer.

A stock transfer, for analysis purposes, is the transfer of title from the Government to a new entity, usually for a nominal 'peppercorn' consideration. Full ownership of the new properties reside with the new entity, however, there can be contractual caveats or a legal framework limiting what the new entity can do (e.g. limiting the sale of properties) with the asset base. It would be intended that such caveats would be incorporated into any legislation that was developed to support the establishment of the new entity.

6.6.1 Base Case – No transfer of stock

It is estimated that there are approximately 4,000 properties that will be sold over a 15-year period as they are no longer viable to maintain. In a 'no transfer approach', where the ownership and management of the housing stock remains with Housing Tasmania and no new properties are procured nor disposed properties replaced, total housing stock will decrease over time.

The table below shows the impact of a 'no transfer approach' (see 1).

Table 6.1: No transfer approach

Do nothing approach stock level overview					
Entity	Beginning stock (A)	Total stock sold (B)	Total stock added / replaced (C)	Total properties after 30 years (A-B+C)	Percent increase (decrease)
Housing Tasmania	11,673	4,000	0	7,673	(34%)

Source: KPMG financial modelling

Under the 'No transfer' option, for the new entity to then meet its mandate of expanding the range of social and affordable housing, it will be dependent on growing the base from the starting point of a limited asset base. That is, it will have access to available Crown land for

development but no access to public housing stock. This significantly limits the entity’s ability to borrow funds in the market to finance new supply which in turn limits the ability for the entity to rapidly respond to unmet demand by leveraging its available resources.

In addition, the ‘no transfer’ option will result in a significant loss of housing stock and clearly is not a feasible option going forward.

6.6.2 Partial transfer

Recognising that there is need to replace stock and expand the supply, a partial transfer of public housing stock has been considered.

Though feasible at a theoretical level, such a strategy would result in a dual system being developed with stock being managed by both Housing Tasmania and the new entity. Analysis suggests that, in practice, this option has limited or no benefit and, as a result, it has not been explored further.

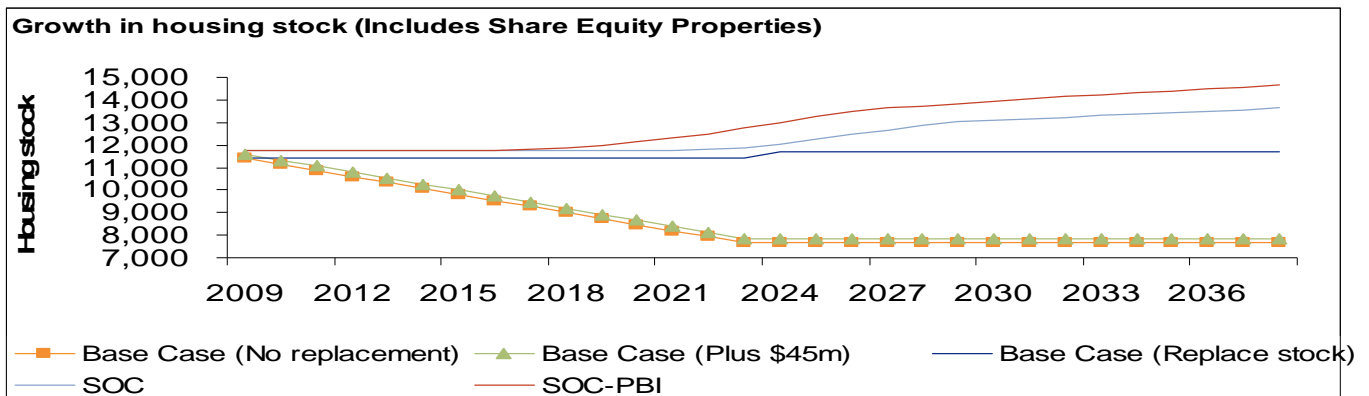
6.6.3 Full stock transfer

Under this option, all Housing Tasmania houses would be transferred to a separate entity to maintain, expand and develop into the future.

Outlined below is analysis that highlights the growth in housing stock under three models (see Figure 6.1):

- No transfer (Base Case);
- SOC; and
- SOC with PBI status.

Figure 6.1: Growth in Housing Stock



Source: KPMG financial modelling

Table 6.2 Government funding summary

Government funding summary (NPV)								
Option	Entity	CHSA, State & other funding	Supplementary funding	Gov't rental contribution³	NRAS contribution	Total net cost	Total properties (after 30 years)	Percent change
Base Case (replace stock)	Housing Tasmania	\$309.1m	\$564.3m ²	\$0	\$0	\$873.4m	11,673	0%
Full transfer	SOC	\$470.1m ¹	\$0	\$26.8m	\$81.5m	\$578.5m	13,639	17%
	SOC-PBI	\$459.5m ¹	\$0	\$0	\$102.3m	\$561.9m	14,641	25%

The assumptions underpinning the above modelling are:

- 1) Under the SOC and SOC-PBI cases, the \$45 million initial grant does not contribute to the replacement of stock, but rather towards increasing initial stock levels
- 2) Under the SOC and SOC-PBI cases, in order to maintain the increased stock levels from the \$45m investment, additional funding from Government will be required to acquire replacement properties until those under construction are complete (5 years)
- 3) New cases where there is no replacement of stock under the Base Case and inclusion of the \$45m grant under to the Base Case.

Source: KPMG financial modelling

In order to achieve the outcomes, the following capital base is proposed:

- \$45m contribution from the State Government with a percentage ring-fenced to respond to the needs of those who are homeless and those at risk of homelessness;
- at least two significant housing estates for renewal, with the option of private sector partnership to both renew and reconfigure stock - this would require a change of housing mix. Some of the \$45m may be needed to seed the renewal projects. The renewal would be done in stages to allow the entity to be established with an active rental portfolio;
- transfer of a rental portfolio to provide cash flow while redevelopment and reconfiguration takes place; and
- transfer of agreed surplus government land (vacant land under the auspice of the Director of Housing is 632 sites and a number of other vacant land options).

This capital base would allow for the initiative to have the equity to borrow appropriate funds and attract private sector development.

The strength of the SOC-PBI entity cash flow provides the ability to procure a greater number of new properties over a 30-year period and enjoys a lower capital expenditure cost due to the GST exemption.

Preferred Option: A SOC PBI or Housing Association with an upfront \$45million will immediately provide an additional 180 – 200 properties while providing less demand for State government funding. This option, over a 30 year investment cycle, will see a 25 per cent increase in properties

6.7 Rent and income streams for the reform

As outlined in Section three, Housing Tasmania is currently facing operating shortfalls due to a decrease in income (rent income), and an increase in expenditure (11.9 per cent since 2004/05).

Currently, Housing Tasmania has a negative cash flow which is expected to continue to deteriorate over time as current rent setting arrangements do not align with its operational cost base²⁷.

6.7.1.1 Current rental arrangements²⁸

Based on tenancy data as at 24 October 2008 provided by DHHS, the table below outlines the typology, rental charge per family unit type and the weighted average rental charge across all family unit types.

Tale6.3 Housing Tasmania Rental charge as at 24th October 2008

Rental charge assessment					
Family unit type	Number of family units	Tenant distribution	Weighted average contribution	Weighted tenant average market rent	Variance
Couples	965	8.1%	\$128.61	\$169.67	\$41.06
Couple with dependent(s)	1032	8.7%	\$152.12	\$170.58	\$18.45
Group household	39	0.3%	\$145.79	\$161.97	\$16.18
Lone person household	5712	48.2%	\$66.07	\$147.65	\$81.58
Multiple family household	1523	12.9%	\$133.64	\$178.53	\$44.90
Single parent family	2572	21.7%	\$103.36	\$169.43	\$66.07
Totals/Weighted average by tenant distribution:					
	11,843	100.0%	\$95.72	\$160.19	\$64.47

Source: KPMG financial modelling

²⁷ As raised earlier in this section, the capacity of Housing Tasmania to pay down debt, provide maintenance and reconfigure stock is severely restricted by the decreasing revenue base.

²⁸ Community tenancies have not been included in the analysis and are not included within the scope of this assessment

The weighted average rental as a per cent of assessable income²⁹ is 21.7 per cent. The table below demonstrates the comparison between current tenant contribution and assessable income under each family unit type.

Table 6.4 Weighted average rent

Current rental charge to assessable income			
Family unit type	Weighted average tenant contribution	Weighted average assessable income	Rental as a per cent of assessable income
Couples	\$128.61	\$498.06	25.8%
Couple with dependent(s)	\$152.12	\$726.03	21.0%
Group household	\$145.79	\$744.34	19.6%
Lone person household	\$66.07	\$291.75	22.6%
Multiple family household	\$133.64	\$709.94	18.8%
Single parent family	\$103.36	\$519.37	19.9%
Weighted Average by tenant distribution:	\$95.72	\$436.66	21.7%

Source: KPMG financial modelling

For modelling purposes, tenants currently earning in the ‘Very low’ income category are assumed to be eligible for statutory rental arrangements, whilst tenants in the ‘Low’ and ‘Average’ categories are assumed to be on a market-based rental arrangement.³⁰

²⁹ Assessable income is the percentage of gross income used to determine the amount of rental charge to be paid by the tenant. As advised by Housing Tasmania, the percentage of gross income is determined by the source of income of the tenant and can range from 100 per cent to 0 per cent of gross income.

³⁰ To determine the percentage of tenants that are expected to require a statutory rental arrangement the cut-off on ABS Census median annual household income data.

Table 6.5 Income cut off

Income Quintiles ¹ (weekly gross income)		
Income category	Weekly income	Rental arrangement
Very low	Under \$339	Statutory
Low	\$339 - \$680	Government and Market-based
Average	\$681 - \$1,019	
Above average	\$1,020 – \$1,360	n/a
High	Over \$1,360	n/a

1 ABS 2006 figures escalated by CPI over two years to estimate 2008 figures.

Source: KPMG financial modelling

Based on the income-based cut-off and the data provided by DHHS, approximately 45 per cent of tenants are earning below \$339 and are therefore assumed to be eligible for a statutory rental arrangement in any future scenarios.

Youth

Note: Due to income limitations, specific rent setting arrangements will need to be established in households where the tenant is 18 years and under and dependent on statutory income support. As at the 28th October, there were 71 households (single parent and lone person households in this category).

6.7.2 Rent setting under a SOC, SOC PBI/Housing Association model

Under the new entity, a range of different rental products including an income-based rent, Government market-based rent (existing dwellings) and market-based rent are proposed. Access to these products will be determined by factors such as choice, income levels and availability of properties.

The potential rent setting arrangements are modelled in Tables 6.6 - 6.8 on the following pages.

Under the preferred arrangements, a SOC PBI will deliver:

- grandfathering of all current tenants at their current rents in their current home;
- protection for the most disadvantaged by ensuring rents will be linked to income; and

- Clear price signals for those with the capacity to pay.

6.7.3 Shared equity arrangements

In addition to rental arrangements, it is proposed to provide a range of shared equity products for those individuals/families wishing to secure equity in a property.

In respect of shared equity³¹ it is expected that residents would need to pay a lease on that portion of the equity which remains. Shared-equity is assumed to roll out under the SOC and SOC-PBI/Housing Association options as follows:

- clients will purchase an initial equity stake of 25 per cent of the property value;
- at the end of year five, clients will purchase an additional 25 per cent, increasing their stake to 50 per cent; and
- at the end of year 10, client will have the option to purchase the remaining stake in the property if financial circumstances allow. Otherwise, the entity will hold the remaining 50 per cent equity in the property.

Having allocated a proportion of stock for shared equity arrangements, if these are not taken up by residents, there is no impact on the modelling forecasts.

³¹ The analysis assumes that 20 per cent of properties would be available for shared equity arrangements for tenants.

Table 6.6: Base case – Rental impact by household category, Source: KPMG financial modelling

Rent Model	Couple only	Couple with dependent(s)	Group household	Lone person household	Multiple family household	Single parent family	Weighted average
Income based rent							
Proportion of total tenants	100%						
Tenant distribution	8.1%	8.7%	0.3%	48.2%	12.9%	21.7%	
Tenant contribution (rental charge per week)	\$128.61	\$152.12	\$145.79	\$66.07	\$133.64	\$103.36	\$95.72
CRA component	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Net rental charge	\$128.61	\$152.12	\$145.79	\$66.07	\$133.64	\$103.36	
<i>Net weighted rental charge</i>	<i>\$128.61</i>	<i>\$152.12</i>	<i>\$145.79</i>	<i>\$66.07</i>	<i>\$133.64</i>	<i>\$103.36</i>	\$95.72
As a percent of assessable income (pre-CRA)	25.8%	21.0%	19.6%	22.6%	18.8%	19.9%	21.7%
As a percent of assessable income (post-CRA)	25.8%	21.0%	19.6%	22.6%	18.8%	19.9%	21.7%
Summary							
Total weighted average rent	\$128.61	\$152.12	\$145.79	\$66.07	\$133.64	\$103.36	\$95.72
Increase (Decrease) from Base Case	-	-	-	-	-	-	-

The Base Case assumes no change in rental policy resulting in all tenants paying the existing rental charge without CRA contributions. The table above shows the current rental charges per household type. On average, tenants are contributing 21.7 per cent of their assessable income, or \$95.72, to rent.

Table 6.7: SOC – Rental impact by household category, Source: KPMG financial modelling

Rent Model	Couple only	Couple with dependent(s)	Group household	Lone person household	Multiple family household	Single parent family	Weighted average
Income based rent							
Proportion of total tenants	45%						
Tenant contribution (rental charge per week)	\$128.61	\$152.12	\$145.79	\$66.07	\$133.64	\$103.36	\$95.72
CRA component	\$52.70	\$52.70	\$52.70	\$28.80	\$52.70	\$84.70	
Net rental charge	\$75.91	\$99.42	\$93.09	\$37.27	\$80.94	\$18.66	\$47.59
Increase (Decrease) from Base Case	\$ (52.70)	\$ (52.70)	\$ (52.70)	\$ (28.80)	\$ (52.70)	\$ (84.70)	\$ (48.12)
As a percent of assessable income (pre-CRA)	25.8%	21.0%	19.6%	22.6%	18.8%	19.9%	21.7%
As a percent of assessable income (post-CRA)	15.2%	13.7%	12.5%	12.8%	11.4%	3.6%	10.9%
Government market based rent							
Proportion of total tenants	30%						
Rental charge per week (75% of market rent)	\$127.25	\$127.93	\$121.48	\$110.74	\$133.90	\$127.08	\$120.14
CRA component	\$52.70	\$52.70	\$52.70	\$47.90	\$52.70	\$52.70	
Net rental charge	\$74.55	\$75.23	\$68.78	\$62.84	\$81.20	\$74.38	\$69.76
Increase (Decrease) from Base Case	\$ (54.06)	\$ (76.89)	\$ (77.01)	\$ (3.24)	\$ (52.44)	\$ (28.99)	\$ (25.96)
As a percent of assessable income (pre-CRA)	25.6%	17.6%	16.3%	38.0%	18.9%	24.5%	29.7%
As a percent of assessable income (post-CRA)	15.0%	10.4%	9.2%	21.5%	11.4%	14.3%	17.1%
Market rent based							
Proportion of total tenants	25%						
Rental charge (75% of market rent)	\$247.60	\$292.86	\$280.67	\$127.20	\$257.27	\$198.98	\$184.27
CRA component	\$52.70	\$52.70	\$52.70	\$52.70	\$52.70	\$52.70	
Net rental charge	\$194.90	\$240.16	\$227.97	\$74.50	\$204.57	\$146.28	\$131.57
Increase (Decrease) from Base Case	\$ 66.28	\$ 88.03	\$ 82.18	\$ 8.43	\$ 70.93	\$ 42.92	\$ 35.85
As a percent of assessable income (pre-CRA)	49.7%	40.3%	37.7%	43.6%	36.2%	38.3%	41.7%
As a percent of assessable income (post-CRA)	39.1%	33.1%	30.6%	25.5%	28.8%	28.2%	28.3%
Summary							
Total weighted average rent	\$105.25	\$127.35	\$119.52	\$54.25	\$111.93	\$67.28	\$75.24
Increase (Decrease) from Base Case	(23.36)	(24.77)	(26.27)	(11.82)	(21.71)	(36.08)	(20.48)

The table to the left provides a summary of the impact to tenants under different household units.

There is an increase in rental charge net of CRA for those households under 75 per cent of market-based rent.

On average, tenant on a market-based rental arrangement, the increase will be \$36.

The last rows highlight the net weighted rental for all household types and show average rent at \$75, a \$20 decrease from the Base Case.

Table 6.8: SOC PBI – Rental impact by household category, Source: KPMG financial modelling

Rent Model	Couple only	Couple with dependent(s)	Group household	Lone person household	Multiple family household	Single parent family	Weighted average
Income based rent							
Proportion of total tenants	45%						
Tenant contribution (rental charge per week)	\$128.61	\$152.12	\$145.79	\$66.07	\$133.64	\$103.36	\$95.72
CRA component	\$52.70	\$52.70	\$52.70	\$28.80	\$52.70	\$84.70	
Net rental charge	\$75.91	\$99.42	\$93.09	\$37.27	\$80.94	\$18.66	\$47.59
Increase (Decrease) from Base Case	\$ (52.70)	\$ (52.70)	\$ (52.70)	\$ (28.80)	\$ (52.70)	\$ (84.70)	\$ (48.12)
As a percent of assessable income (pre-CRA)	25.8%	21.0%	19.6%	22.6%	18.8%	19.9%	21.7%
As a percent of assessable income (post-CRA)	15.2%	13.7%	12.5%	12.8%	11.4%	3.6%	10.9%
Government market based rent							
Proportion of total tenants	24%						
Rental charge per week (75% of market rent)	\$127.25	\$127.93	\$121.48	\$110.74	\$133.90	\$127.08	\$120.14
CRA component	\$52.70	\$52.70	\$52.70	\$47.90	\$52.70	\$52.70	
Net rental charge	\$74.55	\$75.23	\$68.78	\$62.84	\$81.20	\$74.38	\$69.76
Increase (Decrease) from Base Case	\$ (54.06)	\$ (76.89)	\$ (77.01)	\$ (3.24)	\$ (52.44)	\$ (28.99)	\$ (25.96)
As a percent of assessable income (pre-CRA)	25.6%	17.6%	16.3%	38.0%	18.9%	24.5%	29.7%
As a percent of assessable income (post-CRA)	15.0%	10.4%	9.2%	21.5%	11.4%	14.3%	17.1%
Market rent based							
Proportion of total tenants	31%						
Rental charge (75% of market rent)	\$247.60	\$292.86	\$280.67	\$127.20	\$257.27	\$198.98	\$184.27
CRA component	\$52.70	\$52.70	\$52.70	\$52.70	\$52.70	\$52.70	
Net rental charge	\$194.90	\$240.16	\$227.97	\$74.50	\$204.57	\$146.28	\$131.57
Increase (Decrease) from Base Case	\$ 66.28	\$ 88.03	\$ 82.18	\$ 8.43	\$ 70.93	\$ 42.92	\$ 35.85
As a percent of assessable income (pre-CRA)	49.7%	40.3%	37.7%	43.6%	36.2%	38.3%	41.7%
As a percent of assessable income (post-CRA)	39.1%	33.1%	30.6%	25.5%	28.8%	28.2%	28.3%
Summary							
Total weighted average rent	\$112.47	\$137.25	\$129.07	\$54.95	\$119.33	\$71.60	\$78.95
Increase (Decrease) from Base Case	(16.14)	(14.88)	(16.72)	(11.12)	(14.31)	(31.77)	(16.77)

A SOC with PBI status generates a greater proportion of new properties, which is reflected in a higher percentage of tenants under a market-based rent.

The table to the left provides a summary of the impact to tenants under different household units.

Due to a greater number of new properties there is a higher average rental charge relative to the SOC option of \$79, a \$17 decrease from the Base Case.

Preferred option: The SOC PBI entity has capacity to not only meet the social housing needs of statutory tenants but can also generate more stock to respond to the affordable housing needs of others on low incomes. It provides more affordable options and is more able through rent setting arrangements to ensure that tenants are not in housing stress.

6.8 Maintenance liability

It is essential that the current maintenance liability be discharged as part of any reform of the public housing system. The modelling assumes that the current estimated maintenance liability of \$80 million would be discharged after 10 years.

6.9 The market for the initiative

The entity would cater to a mix of housing markets to ensure the maximum benefit across the continuum of social and affordable housing requirements – that is, from crisis assistance to long-term affordable housing. It is proposed that the initiative would cater for:

- people who are at risk of homelessness and those who are homeless, exiting crisis or medium term services and who are receiving SAAP assistance;
- social housing rental, for example, people who would normally have been priority listed for public housing and would pay an income based rent subject to review (approximately 45 per cent of residents); and
- affordable rental housing at cost rent recovery (capped potentially at between 70-80 per cent of market rent).

The initiative would develop products of which approximately 45 per cent should be targeted to persons earning less than \$30,000 per annum³² to ensure that low income persons are provided with targeted assistance to either rent or purchase housing.

Further, affordable home purchase initiatives for the market would include:

- low cost house and land packages included on any future proposed land development, that is smaller cottage style houses built on government land holdings appropriated for development by either Housing Tasmania or private sector developers;
- full home ownership such as innovative design and climate ready housing (i.e. energy efficient houses); and

³² KPMG has used ABS Census median annual household income data and information provided by DHHS to categorise median household income into categories: Very Low (under \$339 gross p/week), Low (\$339-\$680 gross p/week), Average (\$681-\$1,109 gross p/week), Above Average (\$1,020-\$1,360 gross p/week) and High (over \$1,360 p/week).

- private sector shared equity products to allow people to purchase in tranches of 25 per cent equity until full ownership over a 10 year period, with the entity retaining equity until full ownership is achieved by the individual (or family). The target market for shared equity arrangements should be people with annual earnings between \$45,000 to \$70,000.

It is important to note here that these products for the market (i.e. social housing rentals, affordable housing rentals and shared equity arrangements) are not mutually exclusive, in that a person could effectively migrate from one product to another, depending on their circumstances at particular points in time.

This is particularly important for those who are homeless or at risk of homelessness due to factors including mortgage/rent stress.

The initiative would also look to incorporate a range of housing options to address homelessness, including:

- crisis accommodation;
- transitional accommodation; and
- long term tenancy as people's situation stabilises.

Essentially, the concept is to provide stable accommodation such that the person(s) does not have to continually move, rather, the range of products and options are flexible so that a person can move through the continuum (i.e. from crisis/social accommodation, to subsidised rent as their economic situation improves, through to market rent options and the possibility of home ownership through shared equity products).

It is also important to provide options at the early intervention and prevention stages as rental/mortgage stress increases. Identifying those at risk groups is vital to ensure that early intervention and prevention support is available.

A focus for the initiative will be on the transfer and reconfiguration of stock to meet the continuum of housing need.

Land development would also be a responsibility for the initiative. This would include:

- planning and developing any potential growth precincts (including broadacre estates);
- planning infrastructure requirements;

Private Sector Involvement – A successful example

Kensington Redevelopment

Kensington is an inner-suburb of Melbourne, and the redeveloped site originally comprised 15 walk-up blocks (built in 1963-64), and three high-rise blocks (built in 1969-70). All the walk-up flats and one high-rise tower were demolished.

The redevelopment work consisted of upgrading the two remaining high-rise blocks, and the redevelopment of the remaining area with public and private housing and associated infrastructure.

In July 2002, the Director of Housing signed a Development Agreement for the redevelopment work with the Becton Group. This work included a total of 195 new public housing units, and up to 421 new private dwellings resulting in an approximately 50:50 private and public housing mix on the redevelopment site when combined with the high-rise upgrade works.

[Source: www.dhs.vic.gov.au – accessed 25/3/08]

- undertaking planning with key stakeholders for new developments (i.e. developers, community, local government etc); and
- managing the projects.

6.10 The planning environment

To ensure that the initiative is effective and can meet the outcomes and policy objectives, changes to the planning regime would be beneficial. It is essential to integrate planning reform with the establishment of any new entity whose focus is land development. The following planning changes would assist the entity increase supply of affordable housing throughout Tasmania:

- the Director of Housing retains compulsory acquisition powers to acquire land on behalf of the initiative;
- all the initiative's developments fall within major projects legislation for re-zoning and development approval process; and
- the initiative uses the Victorian structure for planning processes to rezone land and simultaneously grant development consent to subordinate applications. This reduces development times, holding costs and substantially increases the interest and value of private sector participation.

These changes would provide flexibility to the entity in the use of land to be developed, assist in the timeliness of development and could provide certainty to the market that the planning environment is stable to better attract private sector participants.

6.11 Facilitating partnerships

The initiative, as described in the objectives, is required to facilitate partnerships (both private and non-government sectors) to increase the supply of affordable housing. Involving the private sector can be undertaken via either:

- partnerships to renew large estates where both parties share the upside of redevelopment, upgrade and generally increased density of the site. This, however, requires careful site selection when "value uplift" is effectively ensured because of the potential capital gain that will arise through redevelopment; or

***Planning environment
Resource Planning and
Development Committee***

The Resource Planning and Development Commission (RPDC) also has a role in the planning system through assessing and approving draft planning schemes and planning scheme amendments and assessing draft State Policies and State significant projects.

Homes Act 1935

The provisions within the Homes Act 1935 are also worthy of consideration. They provide the Director of Housing with a strong suite of tools to acquire, develop and manage land (vested Crown land and land acquired under the Act) and supply and deliver affordable housing.

- debt through normal debt borrowings which will need to be matched to a capacity to generate rental returns to support a loan portfolio. This necessitates the need to transfer stock capable of generating return (i.e. houses not requiring major capital upgrades, as well as land and housing intended for renewal and development).

Facilitating partnerships is considered essential to provide an increase in housing stock, and for future estate developments to ensure that any developments provide an allocation for affordable housing. Partnerships are also critical in the current turbulent market environment as they provide flexibility and leverage to ensure an effective response to deliver on affordable housing outcomes.

6.12 Conclusion

This paper has presented options for consideration. **No decision has been taken by government.** The paper seeks to highlight that the **current system is unsustainable and will not meet the future needs of low income Tasmanians.**

The paper argues that the only option to create a truly viable social and affordable housing system in Tasmania is **a fundamental reform of rental arrangements, institutional arrangements, and land supply arrangements which will create a more responsive and more flexible affordable housing system.**

It also argues for substantial expanding of the role of housing providers into the area of land supply and development aimed at responding to different market segments and ensuring a holistic approach to the affordable housing challenge.

No single intervention will be sufficient to place the system on a sustainable footing (e.g. simply adding more supply) and fundamental reform, which is acknowledged by all jurisdictions (States Territories and the Commonwealth) as essential.

The paper acknowledges the **significant transitional issues that will confront the Tasmanian government in implementing this initiative; however, it argues these are manageable.** These reforms can be achieved whilst protecting existing tenants and protecting future tenants in greatest need whilst providing greater diversity and choice in housing products and, most importantly, generating an additional 1,000 houses and 2,334 shared equity arrangements for the people of Tasmania.

The alternative to reform is a declining system which sees a net loss of stock of some 3,800 dwellings (without a significant injection of funds from government) and no capacity to address systemic problems such as the urgent need to reconfigure and improve large housing estates and provide greater housing choices for the community.

A Examples of other housing models

A.1 City West Housing Company (NSW)

Administration and Policy Lead

Public housing is administered by Housing NSW (Department of Housing), and reports to the Minister for Housing

Housing Policy

The *NSW State Plan* (November 2006) is a 10 year plan which comprises 14 long term social, economic and environmental goals, 34 specific priorities for action and 60 targets, against which progress can be measured. The plan is divided into five major areas of Government activity.³³

The Metropolitan Strategy sets out the directions for growth in Sydney over the next 25 years. The Greater Metropolitan Region (“GMR”) extends from Kiama in the south to Port Stephens to the north and has the Great Dividing Range running down its western edge. It comprises the Sydney region together with the Central Coast, the Lower Hunter and the Illawarra.

Planning for the Future sets out directions for the range of community housing providers in NSW.

The Government has also established an Affordable Housing Innovations Fund, valued at almost \$50 million, which will be released by competitive tender over the next three years,

The current environment

The social housing sector in NSW consists of public, community and Aboriginal housing.

City West Housing Company aims to develop affordable housing in Ultimo/Pymont and Green Square under a funding agreement with the Commonwealth Government. It performs the functions of developer, owner, asset manager, tenancy manager.

City West manages over 126,000 public housing homes, 15,000 community housing properties, 4,200 Aboriginal housing properties, housed 339,000 people.³⁴

Funding for development includes approximately \$50million Commonwealth funding, 4 per cent revenue from NSW Government land sales, development levies.³⁵

NSW Target: To grow community

- housing from 13,000 to 30,000 homes over the next 10 years.

[Source: *Planning for the Future: New directions for community housing in New South Wales 2007/08 – 2012/13*]

³³ NSW State Plan, November 2006

³⁴ City West Housing Company, Annual Report 2007 www.citywesthousing.com.au/files/AnnualReport2007.pdf

According to the 2007 Annual Report, City West Housing built 365 units, housing approximately 670 people.

Recent strategies

The NSW government will spend an initial \$70 million directly through community housing providers to develop social and affordable housing.³⁶

Housing NSW has developed the debt equity model as a way of attracting new resources to affordable housing projects. Under the model, the NSW Government provides up to 60 per cent of a project's costs and a registered community housing provider provides the remaining funds through a combination of debt, its own funds and contributions from partners, such as local government.

Recent Innovations

New initiatives, announced in March 2007, include:

- \$49.8 million in new funding to establish an Affordable Housing Innovations Fund to kick-start investment in affordable housing by expanding debt equity;³⁷
- partnership programs, as well as to provide 70 new rental properties in Western Sydney;
- \$70 million of funding directed to community housing providers to allow them to develop housing directly; and
- offering long-term leases over community housing properties to provide a predictable income stream to support debt finance to build affordable housing.

Overview of product range

City West takes responsibility for the land purchase, consultant selection, design, authority approvals, tendering of building contracts and then management of construction, right through to obtaining the final certificate of occupancy.

It is also venturing into tenant-managed cooperatives and developing a Crisis Accommodation Program. These have been identified as areas where future growth capacity will be pursued.³⁸

³⁵ Housing NSW Annual Report 2007, http://www.housing.nsw.gov.au/NR/rdonlyres/97AD8ECE-B628-4920-97B8-ACFC8BDDD3E2/0/Annual_Report_Dec07.pdf

³⁶ Housing NSW Annual Report 2007, http://www.housing.nsw.gov.au/NR/rdonlyres/97AD8ECE-B628-4920-97B8-ACFC8BDDD3E2/0/Annual_Report_Dec07.pdf

³⁷ City West Housing Company, Annual Report 2007 www.citywesthousing.com.au/files/AnnualReport2007.pdf

³⁸ City West Housing Company, www.citywesthousing.com.au

Learnings from City West Housing Company

Learnings include:

- it minimises the overall cost per unit by undertaking the development and provider role itself;
- keeping the development function in-house allows the company to exercise maximum control over its developments, ensures a long term asset management approach is taken from the earliest stages of each development; and
- City West illustrates how an independent not-for-profit body can operate functionally in the private market and take an integrated approach to developing, providing and managing affordable and attractive rental housing.

Affordable housing strategies in NSW have focussed largely on direct provision of rental housing to low-moderate income groups and on increasing supply of new housing through land release strategies, redevelopment and changes to the planning system. This reflects the State's policy stance that it does not control many of the variables affecting affordability (e.g. interest rates, tax laws, funding for public housing etc).

[Source: Planning for the Future: New directions for community housing in New South Wales 2007/08 – 2012/1]

A.2 Brisbane Housing Company Ltd

Administration and Policy Lead

Direct and indirect assistance for housing is provided by the Department of Housing (overseen by the Minister for Public Works, Housing and Racing).

Brisbane City Housing (BCH) Company Ltd is a Queensland Department of Housing and Brisbane City Council joint initiative. Its objective is to increase affordable housing supply in inner Brisbane for low income people.

Housing Policy

The Queensland Strategic Plan 2007-2012 outlines the broad strategic direction of the Department of Housing. The Department delivers its housing objectives through the Improving People's Lives Through Housing and the department's strategic policy statements.

The department also outlined strategies for affordable housing in the Affordable Housing in Sustainable Communities Strategic Action Plan – the Affordable Housing Strategy – released in June 2001.

The Bilateral Commonwealth State Housing Agreement 2003-2008 (Bilateral) between the Australian Government and the Queensland Government outlines the directions for the delivery of housing assistance in Queensland.

The Commonwealth State Housing Agreement 2003-2008 (Multilateral) is the major source of government funds for the Department of Housing.

Recent Innovations

- the Queensland Government has contributed \$50 million funding, \$10 million Brisbane City land and cash investment over four years commencing from 2002/03;³⁹
- Brisbane Housing Company's Board recently approved an increase to the company's development program enabling the company to develop 781 units. This increase in development is well above the company's original target of 400 units;⁴⁰ and
- Hartopp Lane, Kelvin Grove is BHC's first mixed use development to provide affordable housing for low income earners as well as space for commercial tenancies.

From 1 January 2006, all social housing – that is, public rental housing, Aboriginal and Torres Strait Islander rental housing and community housing – will be provided cohesively through one social housing system. From next year, people will be able to register their housing need through one common register, be assessed through one common assessment system and, if eligible, be assisted with the type of housing assistance that best meets their needs.

[Source: A message from the Minister for Public Works, Housing and Racing, Robert Schwarten, Information Paper, Paving the way: housing people in need in the Smart State, October 2005]

Recent strategies

BHC is structured to maximise charitable contributions and residents' access to Commonwealth Rent Assistance, and to minimise GST.

The company uses income from rents to manage and maintain its properties, and any surplus to fund further expansion.

Queensland *Home Link* is a conceptual model designed to stimulate the supply of affordable housing in Queensland. It has been developed in conjunction with the Queensland Treasury Corporation using inputs relative to the Queensland market. The concept model is designed to deliver a new supply of affordable residential private rental properties for low income households.

The current environment

BHC assisted almost 255,000 Queenslanders, and managed over 65,490 properties.

Since its incorporation, BHC has received \$99 million in grant funding from the State Government and \$10 million in funding from the Brisbane City Council. Rental income for the 2005-2006 financial year was \$1.55 million (60 per cent increase on previous year) and revenue

³⁹ Department of Housing, Paving the way: housing people in need in the Smart State, <http://www.housing.qld.gov.au/about/strategic/paving.htm>

⁴⁰ Brisbane Housing Company, Annual Review 2005-2006, www.brisbanehousingcompany.com.au/references.html

for the year was \$37.1 million. Total assets increased by 51 per cent from the previous year to a total of \$117.5 million.⁴¹

With a staff of 12 people, BHC manages 430 units and oversees over 230 development program completions per annum.

BHC has assisted over 700 households to date. Over 95 per cent of households assisted since incorporation have led to sustained tenancies.

The first four year business plan ended in June 2006. During this period, 430 units were constructed which stretched the anticipated target by 30.⁴²

The department owns approximately 56,000 properties (through public housing, Aboriginal and Torres Strait Islander rental housing and departmentally owned community housing properties). The department is redeveloping its portfolio by using its equity in existing land assets to provide a better match between available properties and demand for those properties.

Overview of product range

The Brisbane Housing Company aims to acquire over 600 units of accommodation over a period of four years. The BHC therefore has an emphasis on construction.⁴³ This includes an increasing focus on:

- pre-fabricated dwellings (playing an increasing role) focus on reducing labour costs as a percentage of total construction rather than on “caravan” style dwellings.

Role of shared equity products (New build):

- Housing Associations are built (with combination of private capital and government subsidy);
- the HA sells shares to eligible households;
- households can buy shares or sell back equity;

Although it has no statutory responsibility for the provision of housing, the Brisbane City Council (BCC) has made a clear policy commitment to social inclusion that includes making the city an affordable place for all sections of society to live. The Queensland Government, through its Department of Housing (DoH), has a “commitment to a flexible and integrated approach to the provision of secure, affordable and appropriate housing”.

[Source: Brisbane Housing Company: Funding Prospectus and Business Plan V3, p. 8]

BHC rely heavily on funding sources:

- *the Department of Housing contributed \$50 million over four years and the Brisbane City Council, \$10 million over four years;*
- *the Queensland State Budget 2002-2003 states that \$12.5million in cash and property has been allocated annually to the BHC.*

In addition, the Company relies on receiving contributions of \$2 million per annum for 10 years due to sponsors imposing conditions of sale on land disposals supplemented by charitable donations and voluntary developer contributions.

*[Source: Brisbane Housing Company Ltd, Annual Review 2005-2006
Ibid]*

⁴¹ Brisbane Housing Company, Annual Review 2005-2006, www.brisbanehousingcompany.com.au/references.html

⁴² Brisbane Housing Company, www.brisbanehousingcompany.com.au

⁴³ Brisbane Housing Company, www.brisbanehousingcompany.com.au/references.html

- the household share is privately financed; and
- households assume all maintenance charges.

Learnings from Brisbane Housing Company

Learnings include:

- BHC will develop into being a self-sustainable entity and thus not be a future drain on public funds in Queensland;
- housing provided by the BHC is complementary to public housing, not a replacement;
- it will attract continue to attract additional resources through contributions due to its model; and
- BHC will receive ongoing benefits from innovation and partnership between private developers and community housing stakeholders.

A.3 British Columbia - Canada

Administration and Policy Lead

The Office of Housing and Construction Standards, Housing Policy Branch is responsible for developing provincial housing policy, strategies and programs in conjunction with British Columbia Non-Profit Housing Association (BCNPHA) as the primary service provider.

The BCNPHA is an umbrella organisation serving non-profit housing providers across the province

Housing Policy

Serves 80,726 households and has completed 2,472 units.

British Columbia is investing \$600,000 to expand a successful pilot project that will add energy efficiency features to 90 more social housing developments. This involves Government partnership with BCNPHA.⁴⁴

⁴⁴ British Columbia Non-Profit Housing Association, <http://www.bchousing.org/aboutus/activities>

Recent strategies

The Office of Housing and Construction Standards, in collaboration with First Nations and Aboriginal partners, other provincial ministries and federal departments, is leading the development of a 10-year off-reserve Aboriginal Housing Action Plan.

Recent Innovations

Innovations in British Columbia include:

- Housing Endowment Fund created \$250 million Fund;
- redevelopment process begun on Little Mountain public housing 224 units to be redeveloped; and
- signing of the Canada–B.C. Social Housing Agreement bringing the total households served to 80,726.⁴⁵

The current environment

About 56 per cent of social housing is provided by the non-profit and cooperative housing sector. Almost 50 per cent of these providers are responsible for a single housing development.

Overview of product range

Assistance provided includes:

- installing energy efficient lighting, appliances and heating control systems; and
- provincial grant will pay for "Welcome" starter kits to low-income families moving into provincially subsidised housing.

Learnings from British Columbia

Learnings include:

- government partnership is significant and the housing association is the primary means of service delivery; and
- value adding by providing energy efficiency features to social housing developments.

⁴⁵ Ibid

B Assumptions

A number of assumptions have been made in relation to the assets transferred to the entity and its operations, in consultation with the Department. In addition, there are a number of financial assumptions for the purpose of analysing the financial impact of each of the scenarios. They cover development activities, capital expenditure, government funding, operating expenditure, income and financial assumptions, as outlined below⁴⁶.

Development activities

- The addition of housing stock to entity's portfolio occurs through development activities, such as the construction of new affordable housing dwellings on land transferred to the entity.
- On average, the outcome of development activities on the transferred land equates to a rate of 5.55 affordable houses per ha.
- The development activities only occur on the land transferred to the entity as part of the initial arrangements between the entity and Housing Tasmania. No allowance is made for the purchase of additional land by Island Housing for development activities.
- Of the transferred land, 85 per cent is available for development. The remaining 15 per cent of the transferred land will need to be subdivided before development can occur. For this remaining 15 per cent of the transferred land, allowed a cost of \$35,000 per block for the subdivision works.
- It is assumed that the scale of the development activities undertaken by the entity does not have a macro economic impact that in turn require changes to the financial inputs or assumptions made in the models.

Capital expenditure

- An average construction cost of \$157,000 for a new house, using a weighted average of 80 percent of the houses being one or two bedrooms and the remaining 20 per cent of the houses being larger.
- Assumed that the construction program for new houses takes 5 years. Within each package of dwellings built, 10 per cent of the construction cost is incurred in Year 1, increasing thereafter in 5 per cent increments up to 30 per cent in Year 5. We have assumed that Island Housing will make provision for 100 per cent of the construction cost for each house in the first year of the five-year program.
- Capital costs are escalated at the rate of 3.0 per cent p.a.

⁴⁶ All financial figures in the report are in real dollars, as at 1 July 2008, unless stated otherwise.

- It is assumed the cost of acquiring additional housing stock from the market to be 90 per cent of the average total cost of the land and the development activities undertaken by Island Housing.
- The entity funds the construction and acquisition of properties by using a combination of its net cash flow, the \$45m Government grant and borrowings.

Operating expenditure

- Operational expenditure for both Housing Tasmania (when applicable) and the entity includes the cost of administration, management, insurance and maintenance.
- Operating expenditure is escalated at the rate of 3.0 per cent p.a.
- Annual maintenance costs are set at 3.17 per cent of the assets value, and assumed to cover both periodic, planned maintenance and lifecycle costs.
- Insurance costs are derived from the FY07 total of \$6.33m p.a. for Housing Tasmania's total stock of housing assets and adjusted as required on a pro rata basis to reflect the number of stock within the entity at any point in time.

Income

- Housing Tasmania currently receives a subsidy of \$21.7m p.a. from the Federal Government and \$10.68m p.a. from the State Government. Housing Tasmania pays the Federal Government \$16.7m p.a. as a repayment on an outstanding loan of \$242m. The net result is that Housing Tasmania currently receives a subsidy of approximately \$15.6m p.a. (which has been indexed at CPI).
- NRAS is payable to the entity for all new dwellings developed by the entity, including those new dwellings that it acquires from private developers in the market.
- The NRAS funding of \$8,000 per property, comprising \$6,000 from the Commonwealth and \$2,000 from the State, is annual funding, for a period of 10 years per house beginning in the year of acquisition or five years after the construction/development program commences, as the case may be.
- Occupancy rate for the housing stock is 98.7 per cent.
- Tenant churn rate is 8.0 per cent p.a.
- Tenant revenue escalates at the CPI rate of 3.0 per cent p.a.

Financial

- All properties transferred to entity are not encumbered and may be used as security for the purpose of obtaining debt funding.
- The entity is classed as having at least an investment grade credit rating.
- Debt funding is available soon after the properties are transferred to the entity.
- The term of the loan will be seven years, but for the purpose of analysis we have assumed that entity refinances its debt every five years to coincide with the period required to deliver each construction package.
- Borrowing costs are based on the 90-day bank bill swap rate, which at the time of this report is 8.00 per cent, plus a debt margin of 200 basis points.
- Based on prevailing market conditions, financial performance of the borrower, security offered by the borrower, stability of the income stream, nature of the assets and the purpose of its use, we have applied the restrictions listed below when analysing the options considered in this report:
 - LVR of 50 per cent of the market value of assets at the time of borrowing;
 - in addition to the payment of interest, we have allowed debt repayment such that 50 per cent of the principal is repaid at the end of the seven-year term of the debt
 - Minimum coverage ratios to determine debt serviceability as follows:
 - loan-life coverage ratio (LLCR) of 1.5;
 - debt service coverage ratio (DSCR) of 1.2;
 - interest coverage ratio (ICR) of 2.0.
- The Project term extends over 30 years from 1 July 2008 to 30 June 2038.
- All financial inputs received from the Department are assumed to be in real dollars as at 1 July 2008.
- A discount rate of 8.50 per cent (nominal) is used in the discounted cash flow analysis.
- CPI is estimated to be 3.0 per cent p.a.
- The net project cash flow is directed towards construction activities on the transferred land, up to the point the transferred land is fully developed. Beyond this point, expansion occurs only through the acquisition of additional housing stock.