

Chapter 20

National Rental Affordability Scheme (NRAS)

20.1 The National Rental Affordability Scheme (NRAS) is a partnership between the Australian Government and the states and territories to invest in affordable rental housing. It is a \$6.0 billion initiative intended to stimulate the supply of affordable rental homes across Australia.¹ In this chapter, the committee examines NRAS and its implementation.

NRAS objectives

20.2 NRAS aims to:

- increase the supply of new affordable rental housing;
- reduce rental costs for low and moderate income households; and
- encourage large-scale investment and innovative delivery of affordable housing.²

20.3 From its commencement in 2008, the scheme sought to address the shortage of affordable rental housing. It was designed to bring forward additional housing supply by offering annual financial incentives to private investors and community organisations to build and rent homes to low and moderate income households at a rate that was at least 20 per cent below market rates.³

20.4 It should be noted that some community housing providers rent out their properties at an even more generous rate. For example, Ms Croce noted that members of the Community Housing Federation of Australia did not go above 74.9 per cent of market rates—which was linked to tax concessions and to maintaining charitable status.⁴ According to the Community Housing Council of South Australia, this reduced rent meant that tenants were less likely to experience housing stress. Professor Beer noted that NRAS in some ways tried to emulate the German financing model by giving tax breaks and tax subsidies to support and underpin long-term tenancies.⁵

1 Department of Social Services, *Submission 198*, p. 31.

2 *Portfolio Budget Statements 2014–15*, Budget Related Paper No. 1.5A, Social Services Portfolio, p. 133, https://www.dss.gov.au/sites/default/files/documents/05_2014/2014-2015_dss_pbs.pdf (accessed 18 March 2015).

3 *Submission 198*, p. 31 and Mr Somerville, *Proof Committee Hansard*, 10 September 2014, p. 57.

4 *Proof Committee Hansard*, 10 November 2014, p. 15.

5 *Proof Committee Hansard*, 28 July 2014, p. 17.

Incentives

20.5 The annual incentives available to NRAS providers last for ten years, are indexed annually for the rental component of the Consumer Price Index (CPI) and comprise two parts. The incentive values for 2014–2015 were:

- a Commonwealth Government incentive of \$7,996 per dwelling per year as a refundable tax offset or payment; and
- a state or territory contribution of \$2,665.⁶

The total amount came to \$10,661.

20.6 When announced, the original proposal was for an initial round of 50,000 incentives. If the scheme proved successful and investors came on board, another 50,000 incentives were to be considered.⁷ Mr Pisarski, National Shelter, argued that in order to get institutional investment on board, that scale of program was needed to create the momentum to attract institutions.⁸

20.7 Mr Pisarski, who was involved in the design of NRAS when it was first under consideration, proposed NRAS as a national rental affordability incentive rather than as a scheme. He observed that:

...as soon as you call something a scheme, people expect it to do far more than it was perhaps ever designed to do. We called it an incentive deliberately because it was supposed to be used in conjunction with other things in our minds. It was not a stand-alone thing that was going to fix this problem.⁹

20.8 According to Mr Pisarski, NRAS was implemented differently from the initial recommendations. He explained that the summit group's implementation proposal intended the scheme to be applied 'more at scale in a portfolio approach so that it worked with other things'.¹⁰ He stated:

We always thought that it would take at least six years to generate institutional investment and that, in the first place, it would still follow a pattern of mum and dad investors being the ones to invest, until we could create the vehicles and sorts of banking processes that might agglomerate

6 Department of Social Services, National Rental Affordability Scheme (NRAS), NRAS Incentive (indexation) https://www.dss.gov.au/sites/default/files/documents/04_2014/nras_incentive_indexation_factsheet_-_dss_template_-_indexation_update_april_2014_2.pdf (accessed 23 February 2015) and Realestate, 'What is NRAS: the National Rental Affordability Scheme', <http://www.realestate.com.au/blog/what-is-the-national-rental-affordability-scheme/> (accessed 23 February 2015).

7 *Proof Committee Hansard*, 10 September 2014, p. 39.

8 *Proof Committee Hansard*, 10 September 2014, p. 39.

9 *Proof Committee Hansard*, 10 September 2014, p. 38.

10 *Proof Committee Hansard*, 10 September 2014, p. 38.

some of that smaller investment into larger investments to really drive it more as an institutional investment vehicle.¹¹

20.9 The summit group involved in the early discussion on the design of NRAS was of the view that the government's targets should have been more modest: that they were too ambitious. Even so, Mr Pisarski explained that NRAS had exceeded the estimates that the summit group thought it would reach.¹²

Support for NRAS

20.10 A diverse range of organisations and individuals supported NRAS including community housing providers, researchers, academics, think tanks, state representatives and organisations advocating for groups with particular housing needs such as older Australians, those with disability and women experiencing domestic violence.¹³

20.11 When explaining their reasons for endorsing the scheme, many witnesses highlighted the scheme's achievements and the many examples of where it had worked well.¹⁴ The Urban Development Institute of Australia (UDIA) was among the numerous organisations that recognised NRAS' achievements in boosting the supply of affordable housing. From the UDIA's perspective, NRAS had been successful in providing tens of thousands of homes affordable to those on low incomes.¹⁵ Likewise, COTA noted that NRAS had made 'a very useful contribution to increasing the supply of affordable housing, particularly in locations close to services'.¹⁶ In its submission, Regional Development Australia, Gold Coast supported NRAS' continued rollout.¹⁷

20.12 Mr Schrapel, Uniting Communities, thought that by and large NRAS had produced a very good result. He understood that, even though some cases indicated that the scheme may not have been targeted as well as originally intended, it had brought a lot of new properties into the market that would not otherwise have been there for lower income households.¹⁸ Ms Croce, Community Housing Federation of Australia, described the scheme as:

11 *Proof Committee Hansard*, 10 September 2014, p. 38.

12 *Proof Committee Hansard*, 10 September 2014, p. 38.

13 There are too many submitters that supported the continuation of NRAS to list here but see for example, City of Perth, *Submission 43*, pp. 1–2; National Shelter, *Submission 78*, pp. 12–13; Tenants Union of Victoria, *Submission 119*, pp. 9–10; Shelter WA, *Submission 174*, p. 2.

14 Mr Flynn, Mission Australia, *Committee Hansard*, 10 November 2014, p. 26.

15 *Submission 190*, p. 14. See also Grace Mutual Limited, *Submission 1*; Neumann and Turnour Lawyers, *Submission 20*, p. 3.

16 *Submission 191*, p. 4.

17 *Submission 74*, p. 45.

18 *Proof Committee Hansard*, 28 July 2014, p. 36.

...a significant driver in the supply of affordable housing to people who do not qualify for public housing or who are not going to get in because they are too low on the waiting list but who are struggling to pay high rents in the private rental market.¹⁹

20.13 Likewise, the City Futures Research Centre acknowledged NRAS as:

...the most significant local policy innovation so far, generating as it has considerable investor demand and a momentum for a new public private co-financed model of affordable rental supply.²⁰

20.14 The Tenants Union of Victoria held the view that NRAS was one of the important supply side interventions that made a positive difference. In other words, NRAS addressed the allocation problem and dealt with affordability.²¹ Ms Young stated that NRAS had been very successful as a tool in a number of areas:

For a start it did deliver a housing construction industry where there was none. It did stimulate the economy. It did save a number of developers. It did increase housing supply in a period in which there was a huge downturn at that time. It was very successful just for that alone—it gave people jobs in construction. It did increase the supply of housing. What are we up to—35,000 or something approvals right now? That is housing that probably would never have been delivered without that program. And there are people who are very grateful for the opportunity to be able to rent a home, have a home, at 75 per cent of market rent, where they would not have been able to afford one otherwise. Hopefully those people are also saving to buy their own homes, because that is the outcome that we also wanted out of that. I think it was very successful.²²

20.15 Ms Palumbo argued that NRAS was a desperately-needed subsidy to provide social housing. It provided innovative ways for the community housing sector to form partnerships and to achieve genuine results that added value to the government's investment.²³ As chair of the Community Housing Council of South Australia, Ms Palumbo gave the example of a building that was close to completion:

That building cost \$15 million, with 52 apartments. The government's contribution was 60 per cent, and Common Ground's contribution has been 40 per cent. So, of the 52 apartments, 20 of those have come from private funding. Fifteen of those are because of NRAS—with NRAS, we have been able to finance 15 of those units—and five of them have come from the corporate sector. So there are an extra 20 units going to homeless people that have come purely from NRAS and corporate support, which then adds value to the government's additional investment of 60 per cent of that

19 *Proof Committee Hansard*, 10 November 2014, p. 10.

20 *Submission 152*, p. 9.

21 *Proof Committee Hansard*, 9 September 2014, p. 43.

22 *Proof Committee Hansard*, 10 September 2014, p. 31.

23 *Proof Committee Hansard*, 28 July 2014, p. 39.

building. That is a simple example of bringing together as many incentives as you can, to be innovative about products to meet demand.²⁴

20.16 She noted, however, that NRAS should not replace government investment in affordable housing, which would always be needed.²⁵

20.17 Mr Myers, National Affordable Housing Consortium, told the committee that NRAS had delivered 2,800 dwellings in Queensland in the last five years, all with private investment and well above the average of delivery on a per capita basis. He explained:

We borrow other people's capital and make the affordable housing equation work...I can tell you right now that, because we operate under that system, 26 per cent of people in NRAS housing in our portfolio are on a disability support pension...A third of those people were also on the public housing waiting list. So we can demonstrate that this is the gap in the market that we keep saying needs much more sophisticated filling so that people can move into products that are more suited to their income and household needs.²⁶

20.18 The committee has referred to the Penny Lane Key Worker housing apartments. The City of Perth noted that the viability of its investment in this development 'was underpinned by the receipt of NRAS funding'.²⁷

Delivering diversity of housing

20.19 NRAS has been able to support the building of affordable housing for a range of Australians from essential service workers on low to moderate incomes to people on a pension. Dr Burgmann, NSW Federation of Housing Associations, stated that New South Wales had a lot of the NRAS projects approved for community housing and included a small amount of capital funding from the state government as well:

So it was part of a package that [was] allowed to deliver social housing as well as affordable housing, and perhaps some for sale. Curiously, though, the NRAS part is what allows there to be some housing developed for the very low income. The projects that are entirely around key workers or perhaps a mix of properties for sale and some retained for affordable housing are the ones that might still be able to attract direct private investment with some of the larger community housing providers in the absence of NRAS.²⁸

24 *Proof Committee Hansard*, 28 July 2014, p. 39.

25 *Proof Committee Hansard*, 28 July 2014, p. 39.

26 *Proof Committee Hansard*, 10 September 2014, p. 54.

27 *Submission 43*, pp. 1–2.

28 *Proof Committee Hansard*, 10 November 2014, p. 14.

20.20 Dr Burgmann argued that NRAS allowed the housing industry to meet that broader suite of needs.²⁹ Along similar lines, the Community Housing Council of South Australia noted that community housing providers had 'used the NRAS to develop mixed models of housing that promote social inclusion and community benefit'.³⁰

Facility for tenants to improve

20.21 The committee has discussed how people occupying social housing are discouraged from gaining employment or working extra hours in case they lose their eligibility for such housing and are forced into the more expensive and less secure private rental market. Ms Croce explained that if a tenant in one of their community houses remained above the income threshold for a period of time then they were required to vacate. She explained that community housing providers try to find such tenants another property within their portfolio, so they are not totally being moved out of the community-housing organisation. Thus, because of the diversity of housing provided through NRAS, this scheme offered the potential to encourage mobility from social housing to affordable private rental properties, even home ownership. Ms Croce elaborated:

The idea at the beginning of NRAS was that we would have a big enough portfolio so that when somebody became income ineligible you could move the incentive to another location for somebody who was eligible, so the person would not have to leave their property.³¹

20.22 Ms Croce acknowledged that this broad objective had not eventuated because the industry had not had the time to accumulate that kind of stock or have the flexibility, in the way it was administered, to do that.³² In this regard, it should be noted, as Ms Coleman observed, that it was:

...pretty rough to critique something which went out into the market on the assumption of attracting private investment right at the time that the private investment market pretty much collapsed with the global financial crisis.³³

20.23 Mr Somerville, NRAS Providers Ltd, also drew attention to the fact that the scheme was introduced in the middle of the Global Financial Crisis (GFC) at a time when the banks were very hesitant and valuers were very negative. In his view:

It took some time to overcome that inertia. Certainly, there has been criticism of the design and the management of the scheme, but the actual

29 *Proof Committee Hansard*, 10 November 2014, p. 14.

30 *Submission 99*, p. 1.

31 *Proof Committee Hansard*, 10 November 2014, p. 15.

32 *Proof Committee Hansard*, 10 November 2014, p. 15.

33 *Proof Committee Hansard*, 30 July 2014, p. 57. See also Ms Milne, *Proof Committee Hansard*, 10 September 2014, p. 21.

delivery of over 20,000—at the last published records, and we are guessing in the high 20,000s now—we believe is successful.³⁴

20.24 He concluded that 'the tenancy demographics from that are very, very strong, straight out of the textbook'.³⁵

Building partnerships and attracting private investment

20.25 The Community Housing Federation of Australia suggested that one of the benefits of NRAS had been the partnerships it had facilitated across the not-for-profit, for-profit, development, and financial sectors.³⁶ Ms Croce from the Federation noted that many NRAS projects were joint ventures with different developers and mixed tenure. She stated that they were able to build sustainable communities with some private sales, some NRAS and some social housing.³⁷ According to Ms Croce, NRAS brought direct private investment into the affordable housing arena and significantly increased the community housing providers' engagement with financial institutions—it brought them into the arena. In her words, financial institutions saw 'our capacity to be able to manage and build affordable housing'.³⁸

20.26 Mr Somerville, who represented NRAS providers, indicated that they were all very much aware of the highly publicised failings of the NRAS scheme. As an association they were very strong supporters of the scheme, convinced that, as a supply stimulus, NRAS had been 'incredibly effective':

It has created a mechanism which has enabled a combination of private equity, the private sector, community-housing providers and the government to work in collaboration. We believe that the delivery of NRAS under that [model] was successful, given that it had a substantial amount of inertia to overcome in its initial stages.³⁹

20.27 At a regional level, Ms Kerrie Young, a non-executive director of Horizon Housing, also spoke of the effective partnerships that developed between community housing providers and developers. She cited the comments contained in a report based on stakeholder consultation and feedback indicating that two-thirds of the respondents felt that the supply of affordable housing on the Gold Coast was improving due to the work of the not-for-profit groups and NRAS. Giving evidence in Brisbane, she explained:

The increase in supply of affordable housing on the Gold Coast was actually promoted by the non-for-profit groups, particularly Horizon

34 *Proof Committee Hansard*, 10 September 2014, p. 52.

35 *Proof Committee Hansard*, 10 September 2014, p. 52.

36 *Submission 171*, pp. 2, 5–7 and 14.

37 *Proof Committee Hansard*, 10 November 2014, p. 14.

38 *Proof Committee Hansard*, 10 November 2014, p. 10.

39 *Proof Committee Hansard*, 10 September 2014, p. 52.

Housing, which is located on the Gold Coast. They made sure that they partnered with private developers while that stock was being delivered, and they got approvals on behalf of developers. So the awareness down there I think was probably quite good, given that the partnerships that were created by the not-for-profit community housing organisations. Also the Gold Coast City Council is a shareholder of Horizon Housing, so they were partners also.⁴⁰

20.28 Ms Young observed that Horizon Housing was a very early adopter of NRAS in Queensland, with over 200 approvals during the early rounds which increased to 1,400 approvals being managed by the organisation. She noted that 'a lot of people who were on unemployment benefits and disability pensions were occupying the NRAS housing'.⁴¹

NRAS and the states

20.29 Ms Young noted that while NRAS was a federal government overarching structure, each state was responsible for administering the scheme in its jurisdiction and as a consequence, each state had a different experience.⁴² As an example, Queensland supported and adopted the scheme 'very strongly at the outset'.⁴³

Queensland

20.30 According to representatives from the Queensland Department of Housing and Public Works, NRAS had been 'particularly successful and well targeted' in that state.⁴⁴ Mr Somerville, NRAS Providers Ltd, agreed with this assessment. In his view, the Queensland Government had a much higher level of control, with far more rigid requirements through the application and management processes. Mr Somerville noted that the state government also embraced the scheme and contrasted Queensland's keen acceptance of it with the more tentative approach taken by some other states.⁴⁵ He explained that a number of the other states said, 'Let's just see how it goes and then test it out'.⁴⁶ According to Mr Somerville:

South Australia, for example, said, 'We're limited with the amount of money we've got so we'll only take seven per cent.' I think Western Australia said, 'We're 10 per cent of the population so we'll take 10 per cent.' Victoria said, 'We're not sure.' They held back in some of the earlier

40 *Proof Committee Hansard*, 10 September 2014, p. 31.

41 *Proof Committee Hansard*, 10 September 2014, pp. 28–29.

42 *Proof Committee Hansard*, 10 September 2014, p. 29.

43 Mr David Somerville, *Proof Committee Hansard*, 10 September 2014, p. 54.

44 *Proof Committee Hansard*, 10 September 2014, p. 42.

45 *Proof Committee Hansard*, 10 September 2014, p. 54.

46 *Proof Committee Hansard*, 10 September 2014, p. 54.

rounds. They did not participate in the shovel-ready at all. Queensland said, 'We'll take all the surplus.'⁴⁷

20.31 In summary, Mr Somerville noted:

When the floods [in Queensland] occurred they [Queensland Government] said, 'We'll have another 5,000 NRAS.' So they had the additional numbers, the additional resources, and it was much more tightly managed.⁴⁸

20.32 Mr Walker, Department of Housing and Public Works, Queensland, was of the view that NRAS in Queensland had been particularly successful and well targeted. He informed the committee that:

As at the end of August 2014, Queensland had 10,503 approved NRAS incentives and had delivered 8,483 NRAS dwellings. Some 10,180 households have benefited from NRAS tenancy since commencing in 2008 and of these over 76 per cent were on incomes of less than \$50,000 per annum and 37 per cent earned less than \$30,000 per annum. Twenty-eight per cent of those NRAS clients had been listed on the housing register here in Queensland for social housing, with over 50 per cent with high or very high housing need.⁴⁹

20.33 According to Mr Walker, as well as income limits set by the Australian Government, Queensland established additional eligibility criteria for NRAS tenants to ensure the new supply of affordable housing was well targeted. In Queensland, NRAS tenants must meet residency requirements, not own residential property and be under liquid asset limits. Queensland has a single register of applicants for NRAS properties and fair and accessible processes for eligible households to register as prospective NRAS tenants. Furthermore, Mr Walker explained that most applications were submitted through efficient online forms; and its NRAS tenancy management had the flexibility to determine which applicant was offered an NRAS property.⁵⁰

20.34 Mr Walker stated that, as a result of these additional measures, Queensland avoided situations that were occurring in some other jurisdictions where taxpayer subsidised NRAS properties were being occupied by international students.⁵¹

South Australia

20.35 The Community Housing Council of South Australia stated that in South Australia, the NRAS program had meant 'significant growth in both affordable and

47 *Proof Committee Hansard*, 10 September 2014, p. 55.

48 *Proof Committee Hansard*, 10 September 2014, p. 54.

49 *Proof Committee Hansard*, 10 September 2014, p. 42.

50 *Proof Committee Hansard*, 10 September 2014, p. 42.

51 *Proof Committee Hansard*, 10 September 2014, p. 42.

high needs dwellings, which would not have been possible without the NRAS subsidy'.⁵²

20.36 Despite the strong support for NRAS, a number of witnesses drew attention to weaknesses that have undermined its performance.

Efficiency in delivery

20.37 According to NRAS Providers Ltd, both the government and providers acknowledged there was room to improve efficiency in delivering NRAS dwellings. It referred to the need for better alignment of government assessment and market delivery.⁵³ JELD-WEN indicated that some NRAS incentives had been allocated to tenderers that did not have sites for the commencement of rental housing. In its view, it was implausible that NRAS incentives could be approved without tenderers submitting proposed developments on actual sites.⁵⁴

20.38 The Central Highlands Local Area Service Network maintained that the challenge for NRAS was to ensure that proper controls were instigated and monitored according to the scheme's intended purpose. Reflecting on the implementation of the scheme, the Network suggested that strict eligibility should have been implemented when assessing the proposed tenants for NRAS housing.⁵⁵ It suggested that had NRAS kept to its intended purpose the scheme could have delivered much needed affordable housing.⁵⁶

Accountability

20.39 Ms Findlater Smith, National Council of Women of Australia, referred to the apparent lack of accountability, where in some cases little was known about what the NRAS money was actually being spent on. She questioned the accountability of schemes where:

...the Commonwealth hands over the money and does not say, as with any good governance, 'What have you done with it? Show us where you spent it and we'll see if it is worthwhile giving you the next lot.'⁵⁷

20.40 JELD-WEN also criticised NRAS for poor accountability. It referred to 'a glaring need for a report card on the cost-effectiveness of and outcomes achieved from Commonwealth housing and related expenditure', including NRAS and NAHA.⁵⁸

52 *Submission 99*, p. 1.

53 *Submission 31*, p. 7.

54 *Submission 54*, pp. 4–5.

55 *Submission 55*, p. 1.

56 *Submission 55*, p. 1.

57 *Proof Committee Hansard*, 30 July 2014, p. 57.

58 *Submission 54*, p. 4.

Ms Young agreed that more accountability was required—having someone with development experience actually monitoring what is going on with the development projects.⁵⁹ In Mr Cant's view, grants, such as NRAS, must be made conditional on new supply.⁶⁰

Bureaucracy

20.41 The Property Council of Australia made a number of observations about NRAS including that some participants had been concerned about repetitious and costly tendering processes in rounds 1–3. It noted further that applications for new developments were often delayed by unnecessary bureaucracy, undermining Australia's competitiveness and impeding housing affordability. Other issues identified by the Property Council were concerned with there being no formalised timeframes for tendering rounds and no set approval timeframes.⁶¹

20.42 Ms Young, who personally put some NRAS proposals together on behalf of developers and community organisations, also referred to the red tape involved. Indeed, she found 'masses of paperwork' to complete.⁶² Grace Mutual Limited referred to delays in processing applications and unclear, complex and poorly drafted regulations and law that 'hurt the program'.⁶³

20.43 From the Queensland government's perspective, Mr Walker pointed to the need for 'greater role clarity of funding and administrative simplicity between state and Commonwealth governments, particularly around housing assistance'. He also argued for better targeting, equity and subsidies received by low- to-middle-income earners to improve access to affordable housing.⁶⁴

20.44 Anglicare WA indicated that NRAS remained overly complex and program requirements created barriers to access for vulnerable people.⁶⁵

Effective targeting

20.45 In its submission, the Property Council stated that the fundamental problem with a single national NRAS incentive was that it applied a 'one-size-fits-all' approach across national property markets and building types. It argued that policy goals such

59 *Proof Committee Hansard*, 10 September 2014, p. 30.

60 *Proof Committee Hansard*, 10 September 2014, p. 61.

61 *Submission 212*, pp. 5, 8.

62 *Proof Committee Hansard*, 10 September 2014, p. 30.

63 *Submission 1*, p. 1.

64 *Proof Committee Hansard*, 10 September 2014, p. 43.

65 *Submission 161*, p. 9.

as increasing affordable housing in specific locales or supplying more apartments were made more difficult because of this model.⁶⁶

20.46 The Women's Housing Company suggested that the government could maximise the benefits of NRAS for disadvantaged Australians with better targeting of the program. It stated:

Greater consideration should be given to the geographic location of the NRAS incentives granted to ensure those regions with the poorest housing affordability and suitability for disadvantaged groups receive more incentives. For example, in Western Sydney it is very difficult to rent appropriate housing for single women as the housing stock is predominantly 3-bedroom.⁶⁷

20.47 Mr O'Brien, Tenants Union of Victoria, also wanted to emphasise the importance of the allocation process of housing supply. He argued there was a spatial dimension to the problem with NRAS in that there was a need to find ways to inject affordable supply into less affordable markets. He explained that one of NRAS' shortcomings stemmed from it being geared around market rents—80 per cent of the market rent. In his view, this approach was less useful in high-value suburbs:

If you want to deliver affordable rents in high-value suburbs, you need a deeper subsidy, so you probably need a different kind of supply model to have affordable rents in those better amenity suburbs.⁶⁸

20.48 Mrs Julie Morris, National Council of Women of Australia, suggested that if the Commonwealth were going to tie NRAS to dollars and outcomes, the scheme needed to be targeted geographically to where constituents who need affordable housing are located, particularly in cities. This specific targeting would mean, for example, that older members of the community living close to the city would not have to disrupt their lives to move out to suburbs on the fringes.⁶⁹ In her view, the Commonwealth should be setting such targets.⁷⁰

Rural areas

20.49 Professor Fiona Haslam McKenzie, Curtin University, noted that NRAS did not have 'a substantial profile in rural, regional and remote areas of Western Australia' and more generally had only a marginal effect on affordable housing in those communities.⁷¹ Noting that the scheme was 'premised on a level of demand and therefore scale derived from economic efficiency', she indicated that some small,

66 *Submission 212*, p. 5.

67 *Submission 52*, p. 3.

68 *Proof Committee Hansard*, 9 September 2014, p. 44.

69 *Proof Committee Hansard*, 30 July 2014, p. 57.

70 *Proof Committee Hansard*, 30 July 2014, p. 57.

71 *Submission 41*, p. 6.

remote communities could never achieve the required degree of scale to ensure viability at the local level.⁷²

20.50 In Professor Haslam McKenzie's view, if programs such as NAHA and NRAS were to have any bearing in rural, regional and remote communities, the structure of programs would have to change significantly. She suggested that local agencies do not have the capacity to coordinate or manage the processes for these schemes.⁷³

Attracting investment

20.51 In their submission, Dr Julie Lawson and Professor Mike Berry recognised that while NRAS was a very important new tool for attracting investment, it was yet to generate 'suitable levels of interest from long-term institutional investors in the wake of the GFC and ongoing uncertainty of policy support'.⁷⁴

20.52 Mr Kerry Doss noted the Brisbane City Council's struggle to get take-up of NRAS schemes. He explained that generally developers or other potential partners were more interested in the ability to achieve better profit margins, which outstripped the incentive the Council was able to offer. According to Mr Doss, there were other disincentives:

We were putting in place a rental guarantee system, and I know that, to get finance for those projects, there were limits on the periods for which those rental guarantees could operate, and they had to be kept under 10 years; otherwise, the banks did not really want to provide finance to those sites. The other thing was that to go and monitor that those units had been let at the required rate below market value was difficult—and the ongoing monitoring of that.⁷⁵

20.53 Ms Young referred to the development industry not understanding what was involved with NRAS, so, in her view, better education was needed. She noted that the federal government's tax incentive and the cash payment from the state were acceptable to the private investors who bought those homes and put them into the scheme.⁷⁶

Specific concerns—international students and trading incentives

20.54 Aside from the criticism relating to accountability, red tape, better targeting and flexibility with a one-size-fits-all approach, some witnesses were concerned about two specific matters—NRAS funding accommodation for students from overseas and

72 *Submission 41*, pp. 6–7.

73 *Submission 41*, pp. 6–7.

74 *Submission 24*, p. 9.

75 *Proof Committee Hansard*, 10 September 2014, p. 6.

76 *Proof Committee Hansard*, 10 September 2014, p. 29.

the trading of incentives. Indeed, the Department of Social Services cited these as two particular areas where the implementation of NRAS had given rise for concern.⁷⁷

University students—international students

20.55 The Tenants Union of Victoria noted that NRAS had played an important role in bringing private finance to increase the amount of affordable housing in Australia. But it also referred to recent negative media coverage reporting allegations that NRAS had been 'rorted to provide accommodation for wealthy international students, and that foreign investors, brokers and small time investors' were exploiting NRAS tax breaks.⁷⁸

20.56 In this regard, Ms Hand, Department of Social Services, informed the committee that on average in the past year, 58 per cent of student accommodation allocated under NRAS went to foreign students.⁷⁹ She stated that the department was trying to ensure that, where relevant, preference would be given to 'Australian students in need, particularly those from low- to moderate-income families'.⁸⁰ Her colleague, Mr Bryan Palmer, understood that international students occupied a high percentage of Monash University's NRAS accommodation.⁸¹

20.57 According to Ms Hand, at the time of the scheme's design there was no specific discussion or wording in the legislation around foreign students.⁸² Clarifying this statement further, she explained that the current legislation and regulations did not preclude students from overseas. She suggested that a review of NRAS would be looking at ways to tighten up this area of the scheme as part of its aim to enhance NRAS.⁸³

20.58 Mr Somerville stated quite clearly that he and all the members of NRAS Providers were 'pretty devastated when the universities got entitlements because it just seemed to be counter to the intention of the scheme'.⁸⁴ Mr Liam Foley, Urban Development Institute of Australia, conceded that the allocation of NRAS to housing overseas students was an example of where the scheme had not operated to its best but was not 'representative of the scheme in its entirety'.⁸⁵

77 *Proof Committee Hansard*, 30 July 2014, p. 3.

78 *Submission 119*, p. 10.

79 *Proof Committee Hansard*, 30 July 2014, p. 4.

80 *Proof Committee Hansard*, 30 July 2014, p. 4.

81 *Proof Committee Hansard*, 30 July 2014, pp. 5, 6–7. See also Mr Liam Foley, Urban Development Institute of Australia (National), *Proof Committee Hansard*, 30 July 2014, p. 69.

82 *Proof Committee Hansard*, 30 July 2014, p. 5.

83 *Proof Committee Hansard*, 30 July 2014, p. 6.

84 *Proof Committee Hansard*, 10 September 2014, p. 55.

85 *Proof Committee Hansard*, 30 July 2014, p. 69.

20.59 Mr Yates, COTA, observed that universities using NRAS to expand student accommodation was probably not part of the scheme's original intention. He suggested that COTA was keen for NRAS to be tightened up in terms of its focus 'to support community, church and charitable organisations and so on'. The Council would have had 'no difficulty with a tightening of the eligibility criteria for NRAS tenants'.⁸⁶

20.60 Not all witnesses opposed the use of NRAS to house international students. Mr Pisarski thought the situation 'a little bizarre' that Australia wants to encourage foreign students to come to the country, take up opportunities in Australian universities and contribute to the economy but then exclude them from affordable housing. In his view, this was particularly relevant given that most Australian cities have a major overcrowding problem in foreign student housing. It seemed to him that there ought to be 'the possibility of doing a proportion of student housing and foreign student housing within those propositions'.⁸⁷

20.61 Professor Earl was concerned about the level of understanding around the issue of NRAS being used to provide accommodation for students from overseas. He stated:

To put a blanket over this and say all investment into university housing is for international students is to draw a long bow. It obviously did happen, but I think there could be some safeguards for those kinds of students who are travelling from regional Australia to the cities for educational purposes.⁸⁸

20.62 Indeed, the University of Sydney drew attention to the 'acute shortage of affordable housing within 3km of the University's main campus, resulting in high levels of rental stress...'⁸⁹ The National Union of Students raised the need for more stringent means testing to ensure that on-campus housing subsidised under NRAS went to students in need.⁹⁰

Trading incentives

20.63 In early 2013, the media reported on concerns about the transfer of NRAS incentives whereby the holders of unused incentives were trading them for between \$10,000 and \$30,000.⁹¹ In March 2014, the then Minister for Social Services

86 *Proof Committee Hansard*, 28 July 2014, p. 27.

87 *Proof Committee Hansard*, 10 September 2014, p. 38.

88 *Proof Committee Hansard*, 10 September 2014, p. 57.

89 *Submission 62*, executive summary.

90 *Submission 82*, p. 7.

91 See, for example, *Australian Financial Review* 'Affordable rents review', 9 March 2013.

announced that the government would 'crackdown' on this practice of trading in NRAS entitlements.⁹²

20.64 In July 2014, Mr Palmer, Department of Social Services, informed the committee that the problem with the trading of incentives involved excessive fees in such a trade. He noted, however, that, at that time, the department had no visibility on such transactions or any direct evidence. Nonetheless, according to Mr Palmer, the department did have 'an awful lot of anecdotal evidence of the practice of excessive fees being charged during the transfer of an incentive'. Mr Palmer explained that in some cases the person entitled to hold the incentive transferred it to another person for a fee. That person would then bring their property into the scheme as a replacement for the original incentive. In endeavouring to explain the practice of trading incentives, Mr Palmer understood that the process sounded complicated.⁹³

20.65 Apart from this concern with the integrity of the scheme, he also noted that the overall goal of increasing the housing supply could be undermined:

If you think about how houses are brought into the NRA scheme, there is a tremendous benefit if we manage to bring houses into the NRA scheme in a way that adds to the overall supply of housing in the entire market. If as a result of the scheme a house is built that would not otherwise have been built there is a tremendous benefit. We expand the housing market and we bring a low-income house to the market. If a house that is brought into the scheme does not do that, if it is something we spot purchase from a supply already occurring or if it would have been built anyway then it does not add to the overall supply of the market. So in a sense we are not helping overall market affordability while we are bringing into the scheme a house that provides an additional 20 per cent reduction on market rents and a house that is available for someone who is low-income.⁹⁴

20.66 In other words, according to Mr Palmer, the intention to build houses that would otherwise have not be built had not 'always worked out'.⁹⁵

20.67 A number of submitters outlined their understanding of the trading of incentives. For example, Ms Young, Regional Development Australia, Gold Coast, explained that projects that did not eventuate—that did not obtain bank funding to be constructed—still had approvals attached to them. So people who had obtained an approval for a particular project then put their hand up to say they could not fund the

92 See, for example, *The Australian*, 'Unlike Labor, one state closed rental loophole', 13 March 2014 and Transcript, The Hon. Kevin Andrews MP, Minister for Social Services, Bush Telegraph, ABC National, 20 May 2014, <http://www.formerministers.dss.gov.au/15285/bush-telegraph-abc-radio-national-20-may-2014/> (accessed 5 January 2015).

93 *Proof Committee Hansard*, 30 July 2014, p. 8.

94 *Proof Committee Hansard*, 30 July 2014, p. 9.

95 *Proof Committee Hansard*, 30 July 2014, p. 11.

build—it was not going to eventuate—and then sold the approval to another developer. She agreed with the proposition that, in effect, the entitlement to an NRAS incentive was being treated as a commodity, which was never the intention.⁹⁶ Ms Young suggested that, from the delivery side of things, more control was needed over the people who were participating and selling NRAS approved homes.⁹⁷ She indicated that greater central control could be the answer rather than management by the states as well as having performance indicators earlier in the process rather than letting developments run.⁹⁸

20.68 Other submitters closely involved in the operation of NRAS and based on their knowledge of the industry, also informed the committee of the practice of trading incentives. In Mr Somerville's view, there was a need to understand why this trading had happened, that is what had initiated the practice. He explained:

That occurred because in round 4 of NRAS there was a massive delay in the allocation of entitlements after the applications closed; it was nine months. That was not the fault of bureaucrats; that was a hung parliament, a change of government, changes of ministers and a protracted announcement. So through that nine month period of time—assuming you made an application in the earlier months when it was first opened—the allocation was 12 months down the track. Within that period of time, developers sold their stock, and a huge proportion of those that were applied for under that model were simply not able to be delivered.

The department said, 'We will allow substitutions to be made,' which was fair and reasonable at that point in time. But that unwittingly created a massive amount of change requests. Again, it took an extraordinary amount of time for the bureaucrats to assess the change requests that came in for all of that round 4 stock. That then went for another four months. So you could have easily had an application for a property which was undeliverable, and then, by the time the assessment was made again, it was undeliverable again. Those delays created a negative opportunity for people to profit from that.⁹⁹

20.69 Mr Somerville was aware of some examples where such fee-making activity had taken place, citing Melbourne in particular where, at that time, there were a number of large-scale developments. He explained that these developments:

...were being engaged in the city, for which the market was pretty dead, so those developers found it opportune to be able to transfer an NRAS entitlement onto those and make them NRAS dwellings.¹⁰⁰

96 *Proof Committee Hansard*, 10 September 2014, p. 30.

97 *Proof Committee Hansard*, 10 September 2014, p. 29.

98 *Proof Committee Hansard*, 10 September 2014, p. 29.

99 *Proof Committee Hansard*, 10 September 2014, p. 55.

100 *Proof Committee Hansard*, 10 September 2014, p. 55.

20.70 At that point, Mr Somerville did not know how many incentives had changed hands, because, in his words:

...fundamentally that market did not work for NRAS. Putting an NRAS entitlement onto a one-bedroom Docklands apartment which is going to rent for \$600 a week does not work for NRAS. So they were never going to actually make it work. I think there is a lot more noise around it than substance.¹⁰¹

20.71 From Mr Myers' perspective, the trading that had been reported in the media was not an accurate reflection. He explained:

We have sat down with the department and gone through this line by line, because it is small-scale but it is damaging, so we want it out of the way. We have made proposals on it. If we are an approved participant, we cannot just give the incentive to somebody else. However, if [for example] we have gone in for a deal with Mirvac on this development, and, by the time the approval comes through, that development or stage is sold out and there is not another stage, and if we go to another developer in a neighbouring area, AVJennings, then what is a reasonable administrative fee for doing all the work on that and having to do redo it all over on this—the same approved participant?¹⁰²

20.72 Mr Myers agreed that certain requirements could be included in regulations, including fee disclosure and the obligation to notify the department of any change. Indeed, as Mr Somerville noted, change requests under NRAS now required a statement of the fee model to be submitted with any change request.¹⁰³

20.73 Mr Pisarski told the committee that trading of incentives was not supposed to happen, though in his opinion, the fact that it did demonstrated that NRAS incentives were a valued commodity. He attributed the problem to 'the small portfolio or the small allocation processes that had happened and a range of other issues'.¹⁰⁴ He did not see the emergence of this practice of trading incentives as a reason to end the scheme. Indeed, he did not necessarily see it as a problem, if it meant that the affordable housing gets put on the ground in a more timely fashion.¹⁰⁵ In his view, the problem could be addressed easily and even disallowed if NRAS were to continue.¹⁰⁶ Most importantly, according to Ms Croce, the problems with the trade in incentives were 'administrative and seemingly fixable'.¹⁰⁷

101 *Proof Committee Hansard*, 10 September 2014, p. 55.

102 *Proof Committee Hansard*, 10 September 2014, p. 56.

103 *Proof Committee Hansard*, 10 September 2014, p. 56.

104 *Proof Committee Hansard*, 10 September 2014, p. 38.

105 *Proof Committee Hansard*, 10 September 2014, p. 39.

106 *Proof Committee Hansard*, 10 September 2014, p. 38.

107 *Proof Committee Hansard*, 10 November 2014, p. 15.

Conclusion

20.74 Evidence indicated clearly that a range of individuals and organisations strongly supported NRAS. When mounting a case for its continuation, they could identify its achievements, citing in particular NRAS' positive contribution as a supply-side intervention and its success in increasing the stock of affordable housing. NRAS also promoted constructive partnerships between not-for-profit and private sector investors and developers, and added value to the government's investment. It delivered social housing as well as affordable housing in mixed developments overcoming problems created by having social housing in concentrated pockets. NRAS was looking to develop properties with the flexibility that allowed people to improve their circumstances without jeopardising their tenancy.

20.75 Undoubtedly, NRAS has experienced some difficulties with its implementation, which are attributable to:

- teething troubles, including administrative practices associated with too much paperwork, delays in processing applications and slow response to emerging signs of problems;
- understaffing, inexperience and high turnover within the department administering the scheme;
- design inadequacies including a one size-fits-all approach which failed to take account of, or appreciate, the housing circumstances of particular areas with an identified need for affordable housing such as high value suburbs and regional, rural and remote areas;
- lack of clarity around the targeting of incentives and eligibility, which allowed significant allocation of incentives to overseas students;
- disclosure measures, which allowed the trading of incentives with excessive fees to persist and ultimately to damage the perceived integrity of the scheme; and
- external factors, notably the global financial crisis which created challenges in attracting private investment.

20.76 These design and administrative shortcomings have overshadowed NRAS' success but, while they point to the need for refinement, they in no way warrant its discontinuation.

20.77 The Department acknowledged that there were design flaws in the scheme.¹⁰⁸ In the following chapter the committee examines the government's response to the reports of deficiencies in NRAS.

