



NRAS in New South Wales – fulfilling the potential

New South Wales has the highest rate of rental stress of any state or territory, and the situation in Sydney is even worse.¹ It is therefore vital that the National Rental Affordability Scheme (NRAS) operates to its maximum potential in New South Wales.

The scheme

NRAS was set up by the Commonwealth government to implement a Labor party promise during the 2007 federal election campaign. Basically it involves a subsidy for the development of affordable rental housing by private or nonprofit housing developers, or consortiums, in the form of a tax credit from the Commonwealth valued initially at \$6,000 a year, for 10 years, and a matching subsidy valued at \$2,000 (in cash or kind) from a state government for the same period.

Where the housing developer is a nonprofit developer, the Commonwealth subsidy takes the form of a grant (not tax credit). Because the subsidies are indexed, their overall value over the period would be around \$90,000. Clearly this is not the full cost of acquiring land and building a new dwelling (it would be about a third), so the subsidies are called *incentives*.

They are meant to attract other sources of financing into the development of affordable rental housing, such as the developer's own capital (equity) or borrowings from banks or investment from institutions. In this way the government's dollar is spread further.

The tenancy arrangements in NRAS-housing are different from traditional social housing in two ways. The income-eligibility for tenancies in the dwellings is more liberal than for traditional social housing, encompassing some moderate income earners too.² Secondly, rents are not set on the income-based formula typically used in social housing, but must be at least 20% below the market rent. Tenants of NRAS housing are eligible for Commonwealth rent assistance – subject to them meeting Centrelink eligibility criteria for income support payments.

The Commonwealth aimed to have 50,000 incentives distributed, following open competitive tenders over a 4-year period ending on 30 June 2012. The first 2 rounds were to total 11,000, the third round 14,000, and the fifth round 25,000.³ The Commonwealth also indicated it might extend the Scheme after the fourth round with another 50,000 incentives, if there were continuing strong market demand from investors and tenants.⁴

In the first 2 rounds 10,703 incentives were allocated nationally. It appears that 2,437 of these first two rounds (23% of the national total) went to NSW applicants.⁵ So far, some 770 of these dwellings have actually been delivered and tenanted.⁶ About two-thirds of the incentives from these rounds went to nonprofit providers who are committed to sustaining the supply of affordable housing beyond the 10-year minimum required by the scheme guidelines.

The third round ran from 1 September 2009 to 31 August 2010. The results from this round have not been fully announced, though 5,469 incentives have been offered to date (comprising 40% of what is nominally available from this round).⁷ No third round projects have been announced for NSW to date.

The fourth round is running from 14 June to 14 December 2010.

During the 2010 federal election campaign the Labor party promised to take \$150 million away from the Scheme to redirect it to another scheme (the new Building Better Regional Cities scheme).⁸ Prime Minister Gillard said the date for achievement of the Scheme's target of 50,000 dwellings would be pushed back from June 2012 to June 2014.⁹

The problem: limited state contributions

The states are required to contribute matching state contributions and any limit they place on the number of matching contributions limits the total number of incentives that are available in that state. For the first two rounds the NSW government said it would match up to 3,000 of the 11,000 incentives available in those rounds.¹⁰ This target of 27% of the total going was short of the share of the Australian population that New South Wales has (32%).¹¹ As it happened NSW applicants won 23% of the incentives from the first two rounds.

When round three was begun, the NSW government said it would contribute 910 basic incentives (being 7% of the 14,000 incentives available nationally under the original schedule).

When round four was begun, the NSW government said it would contribute 1,250 basic incentives (being 5% of the 25,000 incentives available nationally under the original schedule).¹² In addition the NSW government is offering subsidies in three forms other than the basic subsidy.

A solution

We believe that the New South Wales should aim to get at least 30% of the new housing developed under NRAS— that's 15,000 new dwellings initially, building up to 30,000 in the medium term. We acknowledge that New South Wales has provided additional capital funding for some NRAS projects developed by community housing providers, and is offering land in a limited number of development precincts in round 4. But the NSW Government is only promising a very limited number of base rate NRAS subsidies. Unless it allocates additional subsidies, New South Wales's share of the initial 50,000 NRAS dwellings could be less than 5,000. That's 10,000 less houses than our reasonable share, and 10,000 more NSW households finding it extremely

difficult to make ends meet.

Independently of the funding for social housing under the Nationbuilding Economic Stimulus Plan, NRAS is *the* growth fund for Australia's social housing and intermediate housing. Given the extent of housing stress and homelessness in this state, it is critical that NSW participation in the NRAS matches our proportion of the population.

We want the NSW government – whichever party wins the state election of March 2011 – to commit to the National Rental Affordability Scheme. Specifically we are seeking:

- a commitment that the Government will provide sufficient matching subsidies so that our state receives at least 30% of all future NRAS incentives, and
- a commitment to combine in-kind state contributions – such as free or discounted land, and planning contributions – with NRAS subsidies to make it easier to build and retain long term affordable rental housing in high-cost locations.

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Notes

¹ NSW Government, 'NSW State Plan: performance report – November 2010', p.12.

² The income eligibility limit for an initial allocation of a tenancy in a NRAS-subsidized dwelling is set by the NRAS Regulations. The levels are indexed on May 1 each year. The current limits are: first adult \$42,718, each additional adult \$16,339, each child \$14,168 and first sole parent \$44,931 (http://www.fahcsia.gov.au/sa/housing/progserv/affordability/nras/Pages/nras_info.aspx#nras_12).

³ Australian Government, *National Rental Affordability Scheme prospectus*, Canberra, 2008, pp.9-10.

⁴ *NRAS prospectus*, p.10.

⁵ Tanya Plibersek MP, 'First round offers for National Rental Affordability Scheme', media release, 5 December 2008; Minister for Housing, 'National Rental Affordability Scheme delivers more affordable housing', media release, 15 September 2009.

⁶ NSW Government, 'NSW State Plan: performance report – November 2010', p.12.

⁷ None of these 5,469 incentives are for developments in New South Wales.

⁸ Nick Lenaghan and Sophie Morris, 'Low-rent scheme raided for regions', *Australian Financial Review*, 20 July 2010, p.13.

⁹ Cited in Lenaghan and Morris, p.13.

¹⁰ Linda Burney MP, 'National Rental Affordability Scheme to help housing crisis', media release, 24 July 2008.

¹¹ Incentives are not allocated on the basis of a state's share of the Australian population, but on a merit base according to the project proposal. A target of around 30% for NSW applicants is simply something that NSW housing and welfare organizations might wish for, especially because this state's capital and coastal zones are areas characterized by housing stress.

¹² Each of these is valued at \$2,285 and would attract a \$6,855 subsidy from the Commonwealth (as a tax credit or cash grant) for 10 years. The subsidies started in 2008 at \$2,000 (state) and \$6,000 (Commonwealth), but have been indexed. This subsidy is branded 'NSW NRAS B'.