



Australian Government

National Rental Affordability Scheme – technical discussion paper



Increasing the supply of affordable rental housing for Australians and their families.

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MINISTER'S FOREWORD

It is now tougher than ever for low and moderate income earners to find affordable rental housing for themselves or their families.

Vacancy rates are at critically low levels and rents are increasing fast.

New research by the National Centre for Social and Economic Modelling shows that 685,000 low and moderate income families are in rental stress.

Australians who in the past would have rented as a stepping stone to buying their own home are no longer able to afford even that.

For this reason, increasing the supply of affordable rental properties is now a major priority for the Australian Government.

The National Rental Affordability Scheme aims to leverage significant new institutional investment to increase the supply of affordable rental housing.

The Government will provide an annual incentive to institutional investors to build new homes and rent them to low and moderate income earners at 20 per cent below market rates.

This is not just another form of welfare housing – it will provide affordable private rental housing for low and moderate income Australians.

This Technical Paper outlines the main features of the Scheme and how it will operate.

We need your comments and suggestions on the paper to help get the design of the new Scheme right.

This will help the Government to deliver its aim of increasing the supply of affordable rental housing for Australians and their families.



Tanya Plibersek

Minister for Housing

MAKING COMMENTS

The Government is seeking submissions and comments by *31 May 2008* to assist in settling the administrative design features of the National Rental Affordability Scheme.

Comments can be forwarded to the following address:

Section Manager
National Rental Affordability Scheme
Department of Families, Housing, Community Services and Indigenous Affairs
PO Box 7576
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The Government will consider all submissions and comments and may adjust the administrative design prior to calling for Expressions of Interests in the Scheme.

Further copies of this paper can be obtained by writing to the address above or from the website, www.fahcsia.gov.au.

CONFIDENTIALITY

All submissions will be treated as public documents, unless the author of the submission clearly indicates the contrary by marking all or part of the submission as 'confidential'. Public submissions may be published in full on the website, including any personal information of authors and/or other third parties contained in the submission. If your submission contains the personal information of any third party individuals, please indicate on the cover of your submission if they have not consented to the publication of their information.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

GLOSSARY OF TERMS

Affordable Housing Portfolio	The total range of projects approved under the Scheme for a particular Provider.
Commonwealth contribution	A contribution by the Commonwealth Government to the National Rental Incentive.
FaHCSIA	The Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs.
Dwellings	Newly-constructed dwellings that have not yet been occupied on a residential basis or are being substantially rehabilitated. Refurbishment of existing rental dwellings will not be considered unless refurbishment leads to a net increase in the number of dwellings.
Financial institutions	This group may include banks, superannuation funds, credit unions, property trusts listed on the Australian Stock Exchange and unlisted funds management trusts.
National Rental Incentive	The Incentive paid to successful applicants under the Scheme, comprising a Commonwealth contribution and a State/Territory Government contribution.
Project	A single group of dwellings in a nominated location included as part of a Proposal for funding under the Scheme.
Proposal	An application for provision of Incentives under the Scheme. It may include one or more projects.
Provider	An entity that undertakes overall responsibility for compliance with the terms on which a Proposal is granted Incentives under the Scheme and is the signatory on the Agreement.
Non-Profit	An organisation that has charitable tax status.

Recipient

The organisation that receives payment of the rental incentive direct from the Commonwealth and State/Territory governments. In most cases this will be the property owner.

Tenancy Manager

The organisation that is responsible for managing the tenancy. This includes ensuring the eligibility of tenants and for obtaining an independent valuation of market rent for the dwelling.

1. OVERVIEW OF THE NATIONAL RENTAL AFFORDABILITY SCHEME

Governments, the business sector and community organisations recognise that housing affordability is now an issue of significant community concern. The growing cost of housing is having a serious impact on the ability of many Australians to meet their financial commitments.

Rental housing is becoming increasingly unaffordable. Increases in the Australian Bureau of Statistics (ABS) Rent Index for each of the last three quarters of 2007 are the highest since 1989 and vacancy rates in all capital cities have fallen well below the three per cent level which is widely used as a benchmark of fully-utilised supply.

New research by the National Centre for Social and Economic Modelling shows that 685,000 low and moderate income families are spending more than one third of their income on housing costs.

In recognition that an increasing number of Australians are experiencing housing stress, the Government, as one part of a comprehensive package, is establishing the National Rental Affordability Scheme (The Scheme).

The Scheme aims to address the shortage of rental housing and rapidly rising rents by facilitating the supply of lower-rent homes and offering an incentive to providers to rent the dwellings at below market rates for rent. It aims to facilitate large-scale investment by financial institutions and non-profit housing organisations in provision of this additional housing.

1.1 KEY FEATURES

The Scheme offers a National Rental Incentive ('the Incentive') to providers of new dwellings on the condition that they are rented to low and moderate income households at 20 per cent below-market rates.

The Incentive comprises a Commonwealth Government contribution in the form of a tax offset or grant, and a State or Territory Government contribution in the form of financial and/or other support. It will be provided annually for ten years on condition that throughout that period the dwelling is rented to eligible low and moderate income households for at least 20 per cent below market rates for each of the ten years. The usual eligibility rules for Commonwealth Rent Assistance will apply.

The dwellings will be managed by the Tenancy Manager in accordance with relevant State or Territory Government regulatory requirements. They will also be subject to specific reporting requirements in relation to tenancy selection and management, as well as to regular reporting for compliance purposes.

The Scheme is designed to pool significant resources from a range of participants including financial institutions, non-profit organisations and local government which, when combined with the incentives from the Scheme, will increase the supply of lower-rent housing. These resources could include loans; equity investments; capital grants by Commonwealth, State and Territory or local governments; donations by charities; free or discounted land by churches; or contributions by developers in accordance with planning requirements.

By requiring a reduction on market rent of 20 per cent, the Scheme will substantially improve affordability for tenants. This will be of benefit where, for example, households are currently paying as much as 50 per cent or more of their income on rent. It will also provide tenants with stronger security of tenure than is widely available to them in the current private rental market.

In some cases, it may be feasible and desirable to provide greater rent reductions than the minimum 20 per cent and/or to maintain the reductions for longer than the 10 year period that the Incentive will be provided.

1.2 OBJECTIVES AND IMPLEMENTATION

The Scheme is a significant supply-side response to deal directly with rental property shortages and rapidly rising rents. The Scheme aims to:

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

The Scheme will help create 50,000 affordable rental dwellings across Australia by 2012. If successful, and if demand remains strong, the Government will allocate an additional 50,000 incentives from 2012 onwards for a total of 100,000 incentives over the next decade.

The Scheme will be implemented in two phases:

- Establishment Phase
 - from July 2008 to June 2010 involving 11,000 allocations.
- Expansion Phase
 - from July 2010 to June 2012 involving 39,000 allocations
 - from 2012 onwards, an additional 50,000 allocations subject to demand.

2. STAKEHOLDERS

2.1 GOVERNMENT

The Commonwealth and State and Territory Governments are engaging with local government, the business and non-profit sectors to create more affordable housing through the Scheme. Each level of government will have the following roles and responsibilities.

2.1.1 Commonwealth

The Commonwealth Government will have responsibility for the overall management of the Scheme. This includes:

- setting the national policy parameters of the Scheme;
- allocation of the National Rental Incentive and associated compliance processes;
- approval of proposals following endorsement by relevant State or Territory Governments;
- the provision and administration of the Commonwealth contributions to the Incentive;
- assistance with facilitation of partnerships;
- complaint-handling and appeals mechanisms for applicants and providers in the Scheme; and
- national legislative requirements.

The Commonwealth Government may also contribute in other ways to the creation of more affordable housing. For example, there may be opportunities for linkages between the Scheme and other housing affordability initiatives.

2.1.2 State and Territory Governments

The principal role of State and Territory Governments will include:

- provision and administration of contributions to the Incentive;
- endorsement of proposals which relate to dwellings in their jurisdiction;
- assisting applicants to develop proposals or engage with the Scheme by providing guidance on State or Territory priorities and facilitating planning approvals;
- advising applicants of planning provisions ;
- assistance with determining the process for setting market rents and monitoring of market rents under the Scheme ;
- assistance with facilitation of partnerships;
- referring potential, eligible tenants to the Scheme; and
- tenancy management on a fee for service basis and the provider asks the State Housing Authority to perform that role (in locations where there may be no suitable alternative).

State and Territory Government may also contribute to the Scheme in other ways by:

- identifying land in advance that may be earmarked for affordable housing developments;
- providing cash or in-kind contributions above the minimum level specified as part of the Incentive;
- contributions to projects;
- acting as brokers between financial institutions, tenancy managers, developers, philanthropic donors; and
- supporting non-profit organisations participating in the Scheme.

2.2 PARTICIPANTS IN THE SCHEME

Financial institutions, developers, non-profit organisations and local councils have been identified as potential participants in building, owning, funding or managing housing under the Scheme. There could also be indirect roles for individual investors.

Projects under this Scheme will normally be managed by a combination of the above partners, with each playing different roles. The precise roles, including the lead role of any partnership or consortium, are likely to vary from project to project depending on local circumstances and relationships.

The Scheme offers a new way of funding and delivering affordable housing in Australia. The intention is to provide a stimulus for a market to be created. For this reason the Scheme will seek proposals from entities that include a range of different participants, structures and legal arrangements. FaHCSIA will contract a number of expert Partnership Facilitators to help bring potential interested participants together to consider possible involvement in the Scheme.

2.2.1 Financial Institutions

Financial institutions may wish to participate in the Scheme as equity investors, lenders, brokers of proposals and in other ways. This group is very large and diversified and may include banks, superannuation funds, credit unions, property trusts listed on the ASX and unlisted funds management trusts. Small institutions or funds may prefer to participate indirectly by investing in another entity which is participating directly in the Scheme.

Australian Prudential Regulation Authority (APRA) regulated superannuation funds, pooled superannuation trusts and life office statutory funds will be eligible to participate in the Scheme. APRA-regulated superannuation funds include public offer superannuation funds and non-public offer superannuation funds. As at December 2007, there were 635 entities, with \$962.5 billion under management.

The Scheme is not directly available to individual investors. They could become involved indirectly, however, by investing in entities that participate directly in the Scheme. This could, for example, involve investment through a superannuation fund or listed property trust.

2.2.2 Private Developers

Developers may wish to participate in the Scheme by retaining ownership, whether on their own or in partnership with other participants, of dwellings which they develop and provide under the Scheme. Alternatively, they may wish to develop dwellings for sale to commercial or non-profit entities that would access the Incentive which will be available under the Scheme, and when the properties become available at qualifying rents.

Developers may also become involved by making land available on which to build dwellings under the Scheme. This may arise, for example, where the planning approval for the project is granted on condition that it includes a specified proportion of affordable housing. It may also arise as a result of a commercial decision by a developer in the absence of associated planning conditions.

Requirements that development projects include a proportion of affordable housing are common in many other countries, including the United Kingdom and United States, and are becoming more common in Australia. The Scheme may assist developers to meet these requirements.

2.2.3 Non-Profit Organisations

Non-profit organisations will be encouraged to participate as they have a crucial role as tenancy managers. Some non-profit organisations might be part of a consortium, or lead the consortium, to deliver the incentives. The Scheme provides an opportunity for existing non-profit organisations to substantially increase their market share, diversify and expand their organisation.

Non-profit organisations may include large charities with service delivery experience in a related sector (such as the provision of aged care) as well as 'growth providers' in the community housing sector.

A number of non-profit housing organisations already manage substantial numbers of dwellings. Some also have a modest development capacity. In order to grow, some non-profit organisations will need to partner with other organisations, such as institutional investors, to enable them to build up a substantial Affordable Housing Portfolio.

Non-profit organisations could also play key roles as initiators of collaborative arrangements which also involve developers, financiers and governments in projects for delivery of dwellings under the Scheme. Some have already played this role in projects which have attracted substantial support from State and local governments.

Several State and Territory Governments have identified a number of non-profit organisations as 'growth providers' to which they will direct most of the financial and other support which they have promised to commit for provision of low-rent housing. These organisations are well placed for a lead role in the Scheme.

2.2.4 Local Governments

Local governments may be able to support projects by contributing land, providing planning expertise, expediting planning approvals or contributing infrastructure. The benefit for local government is the increased prospect of attracting and retaining key workers such as teachers, apprentices and child care workers in the local area.

3. NATURE OF THE INCENTIVES

This section discusses the delivery of the Commonwealth and State and Territory Government incentives to successful applicants (recipients) under the Scheme.

3.1 THE NATIONAL RENTAL INCENTIVE

The Scheme offers an annual National Rental Incentive for a period of ten years per dwelling. The key elements of the Incentive are:

- a Commonwealth contribution in the form of a refundable tax offset or grant of a specified value; and
- a State or Territory contribution in the form of direct financial support of a specified value or some other support of equivalent value.

At the commencement of the Scheme, the Commonwealth contribution will be to the value of \$6,000 per year and the State or Territory Incentive will be to the value of \$2,000 per year.

Dwellings will be regarded as new for this purpose if they are increasing the supply of lower-cost rental housing. Newly-constructed dwellings that have not yet been occupied on a residential basis or are being substantially rehabilitated, for example commercial developments such as motels being converted into residential housing will also be considered. Refurbishment of existing rental dwellings will not be considered sufficient, unless refurbishment leads to a net increase in the number of dwellings.

The Commonwealth contribution will be indexed thereafter in accordance with the rental component of the Consumer Price Index (with the base year of 2008-09).

Recipients will be eligible for the Incentive for a full ten years from the date it is first approved to be rented as a dwelling under the Scheme. The Incentive will be apportioned equal to the number of days the dwelling was both registered under the Scheme and made available for rent. Where approval occurs part way through a financial year, a partial entitlement will arise both in the first financial year and in the final financial year in which the ten year period finishes.

FaHCSIA will have the ability to withdraw or cancel registration of dwellings where all of the eligibility requirements for the incentive have not been met, and will adjust grants or refundable tax offsets to recipients.

3.2 COMMONWEALTH REFUNDABLE TAX OFFSET

All recipients of the Incentive, except non-profit organisations endorsed as a charity, will receive the Commonwealth contribution as a refundable tax offset. A tax offset reduces the amount of tax that a recipient is liable to pay for a financial year. The tax offset will be refundable, so that where the amount of offset available to the recipient exceeds the recipient's tax payable in the financial year, then a cash refund will be paid by the Australian Taxation Office (ATO). Cash refunds will be treated as non-assessable, non-exempt income for tax purposes.

A claim for the refundable tax offset will only be allowed for a portfolio of dwellings that is certified as complying with the Scheme for the particular income tax year. As part of this process, recipients will provide an annual statement of compliance to FaHCSIA by 30 April each year (which could be updated between 30 April and certification if circumstances change). The Minister for Housing or delegate will certify compliant recipients by mid June each year. This will enable the refundable tax offset to be claimed by taxpayers in submitting their annual tax return for the income tax year ending 30 June.

It is expected that more recipients will receive the Commonwealth contribution as a refundable tax offset, especially in the Expansion Phase that is seeking to attract larger-scale involvement by financial institutions.

3.3 COMMONWEALTH GRANTS

Non-profit organisations that are endorsed as charities by the ATO (and therefore exempt from the income tax system) will receive the Commonwealth contribution in the form of an annual cash grant.

The cash grant will be payable by FaHCSIA by 30 June each year provided that an annual statement of compliance has been provided to FaHCSIA at 30 April each year.

3.4 THE STATE AND TERRITORY CONTRIBUTIONS

State and Territory Governments have agreed to contribute to the National Rental Incentive through direct financial support of a specified amount per dwelling (initially \$2,000) or by some other support of equivalent value. The contribution will be paid or made available within three months after the end of the financial year for which it is being provided.

State and Territory Governments will be required to advise FaHCSIA of the contribution provided to each eligible recipient for each year.

Other forms of contributions will be allowable if they are associated with the construction or renting of the dwelling. Examples include:

- a discount on stamp duty, land taxes or infrastructure charges; or
- the provision of land at discount to market price.

If they wish to do so, State and Territory Governments may provide their contribution for later years in advance but they may not defer contributions. Contributions in advance must equal the minimum contribution in the year they are provided, not the minimum contribution that would have been required in the later year. For example, they may provide their entire 10 year contribution by providing land for the dwelling at a price which is the market value, discounted by 10 times the level of minimum contribution required in the first year.

State and Territory Governments may also choose to increase the value of their contribution, above the minimum of \$2,000 per annum.

3.5 CHANGING THE RECIPIENT OF THE INCENTIVES

Under the Scheme, recipients of the Incentive are generally required to hold each dwelling for 10 years. The recipient may choose to sell a dwelling under the Scheme, with the approval of the Commonwealth, within the 10 year period in these limited circumstances:

- A dwelling can be sold to anyone (including the tenant), provided an equivalent dwelling is offered as a substitute dwelling for the remaining part of the 10 year period, and that the substitute dwelling is of an equivalent type and in a similar location as the dwelling that was sold.
- A dwelling can be sold to another provider who is approved under the Scheme and undertakes to comply with the existing obligations under the Scheme.

Recipients who choose to sell dwellings in circumstances other than those outlined above may be liable to a penalty. In respect of the Commonwealth contribution, the penalty for non-compliance could be a fixed amount per dwelling or an amount equivalent to the amount of tax offset or Commonwealth grant paid. In exceptional circumstances a penalty may be waived (for example, if sale of a dwelling was required under the Commonwealth, State or Territory law).

Penalties in relation to State and Territory Incentives will be a matter for determination and recovery by them, following advice from the Commonwealth regarding non-compliance.

Where a recipient is acquired or merges with another entity, the new owner assumes all obligations under the Scheme and to existing tenants. In the event that a charitable organisation loses its charitable status, it must continue to meet all existing obligations under the Scheme and receive the Commonwealth contributions as tax offsets instead of grants.

Question 1 - The aim of this Scheme is to stimulate institutional investment in affordable rental housing. Do these provisions strike the right balance between flexibility for investors and achieving long term supply of affordable rental housing?

4. IMPLEMENTATION OF THE SCHEME

This section discusses how the Scheme will be implemented.

4.1 OUTLINE OF TIMETABLE

The Scheme will be implemented in two phases:

- Establishment Phase
 - from July 2008 to June 2010 involving 11,000 allocations.
- Expansion Phase
 - from July 2010 to June 2012 involving 39,000 allocations
 - from 2012 onwards involving an additional 50,000 new allocations, subject to market demand.

Applications for incentives under the Scheme will be sought through calls for Expression of Interest (EOI), with a number of calls for EOIs being issued during the two phases of the Scheme. In any call, multi-year proposals can be considered.

4.2 ESTABLISHMENT PHASE

The Establishment Phase aims to allocate incentives for 11,000 dwellings during the period from July 2008 until June 2010. It is anticipated that 3,500 of these dwellings would be allocations during 2008-09 and the remaining 7,500 dwellings in 2009-10.

In late June 2008, a first Call for Expression of Interest (EOI) will be sought for proposals that can deliver completed dwellings ready for occupancy before July 2010, with preference given to proposals that can deliver completed dwellings ready for occupancy before July 2009. Applicants can also choose to seek forward allocations for the period up to June 2012. A period of six weeks will be allowed for submission of proposals. It is anticipated that allocations will be made in August 2008.

A Second Call will be issued in August 2008 for proposals that can deliver completed dwellings ready for occupancy before July 2010. Applicants can also choose to seek forward allocations for the period up to June 2012. A period of 12 weeks will be allowed for submission of proposals. It is anticipated that allocations will be made in December 2008.

The balance of any incentives remaining from the proposed total of 11,000 during the Establishment Phase will be allocated in subsequent calls for EOIs for the Expansion Phase.

4.3 EXPANSION PHASE

The Expansion Phase will draw on earlier experience to develop the effectiveness of the Scheme in differing markets, providers and tenants. It will seek to attract larger-scale involvement by financial institutions and also promote synergies with other housing affordability initiatives.

The Expansion Phase will be initiated by issuing a Third Call for EOIs in December 2008 for proposals that can deliver dwellings ready for occupancy before July 2012. A period of 12 weeks will be allowed for submission of proposals. It is anticipated that allocations will be made in May 2009.

This early Call will facilitate planning, acquisition and construction prior to the commencement of the Expansion Phase in mid-2010. Further Calls in 2009 and 2010, will depend on the number of Incentives which remain unallocated.

Question 2 - Do these timelines provide the right amount of time for proposals to be developed?

5. ALLOCATION OF INCENTIVES

This section provides details about the process for allocating Incentives under the Scheme.

5.1 ELIGIBILITY REQUIREMENTS AND ASSESSMENT CRITERIA

In June 2008, the Commonwealth will issue National Eligibility Requirements, with which proposals for allocation of incentives must comply, and National Assessment Criteria, by which eligible proposals will be assessed. They may be supplemented by compatible State and Territory requirements and criteria.

The Commonwealth will issue Calls for Expressions of Interest seeking proposals for allocation of Incentives. A particular Call may include additional eligibility requirements and assessment criteria, in addition to those specified in the National Eligibility Requirements and National Assessment Criteria. For example, a Call may identify particular areas of housing need (for example, locations, types of dwellings, characteristics of tenants) that will be given a priority in that particular Call.

Calls may also indicate special interest in proposals with a total number of dwellings above a specified amount. For example, this could be 100 dwellings for the Establishment Phase and 300 dwellings in the Expansion Phase. Special interest could also be expressed in receiving proposals from providers that have already been allocated a substantial number of Incentives (say 1,000 or more) under the Scheme.

This approach could be accompanied by setting maximum 'limits' or minimum 'reserves' on the proportions of total allocations which will be made to proposals of particular types. For example, 10 per cent of all allocated Incentives for the Establishment Phase could be reserved for proposals involving no less than 30 dwellings, rising to 50 dwellings during the Expansion Phase.

5.2 CALLS FOR EXPRESSIONS OF INTEREST

Calls for EOIs will seek proposals from a wide range of applicants, including financial institutions, non-profit organisations, local governments and other sources. Proposals may be made by consortia or by other collaborative arrangements (involving, for example, a developer, a bank and a housing manager) for delivering and managing dwellings.

In response to the Call, applicants will be required to submit a proposal indicating the entity or entities that will be:

- recipients of the Commonwealth and State and Territory Incentives ('the recipients');
- responsible for tenancy and property management under the Scheme ('the tenancy managers'); and
- responsible for ensuring compliance with the requirements of the Scheme ('the providers').

Any particular entity could be designated in one or more of these roles. In some proposals, for example, participants could agree that the manager will also be the recipient, thereby assisting it to guarantee a rental yield to the lender. In other proposals, one participant could be nominated to receive the Commonwealth contribution and another participant the State or Territory contribution.

Calls will set out the National Eligibility Requirements, and any additional requirements, which must be addressed in EOIs.

The National Eligibility Requirements will include mandatory information that is expected of an application such as:

- whether the applicant is seeking the Incentive to be paid as a refundable tax offset or (if eligible) as a grant;
- dwelling completion times and estimated dates after which the dwellings will become available for rent;
- the numbers and types of dwellings suitable for eligible families, couples, or individuals;
- the proposed tenancy and property management arrangements;
- the financial viability of the proposal, including details of the financing arrangements; and
- the quality of dwellings and compliance with building codes.

The National Assessment Criteria will need to be addressed by each applicant. Assessment against these criteria will determine selection of eligible applicants. The criteria may include:

- the locations and sizes of dwellings;
- the profile of tenants, especially their income levels;
- ability to deliver the required completions times within the specified periods;
- design preferences that addresses accessibility and sustainability; and
- experience and financial viability of the providers, recipients and managers.

5.3 ASSESSMENT AND SELECTION PROCESS

All proposals will be directed to and registered by FaHCSIA in the first instance. Where a proposal relates to a single State or Territory, FaHCSIA will forward it to the relevant State or Territory Government for an assessment of its merits and for consideration of the government's possible contribution. Where it relates to more than a single State or Territory, FaHCSIA will refer it to all relevant Governments.

Where a proposal has been referred to a State or Territory Government, the Government will be required to consider whether the proposal is eligible for allocation of Incentives and whether it is willing to provide the requisite level of benefit. The Government will then advise FaHCSIA which proposals it is willing to support and indicate its preferences. Where proposals involve several Governments, preferences will be determined jointly by them through a process convened by FaHCSIA.

FaHCSIA will then assess the proposals which have the support of the relevant State or Territory Governments. They will do so in accordance with the General Eligibility Requirements and General Assessment Criteria and with any additional requirements or criteria specified in the relevant Call for EOIs.

Governments may seek further details for some proposals in the course of assessment before making their selections. This may include, for example, clarification or reconsideration of the arrangements between participants in the proposal or of the support which may be provided from other sources. They may invite other governments to participate in this stage of the process.

Approval of a proposal will constitute a binding commitment to provision of the dwellings for which the Incentives have been allocated. Approval will be subject to the dwellings being made available for rental within a specified period and managed thereafter in compliance with the Scheme. In most approvals, the specified period is likely to be either 12 or 24 months but shorter periods may be specified in some cases, especially during the Establishment Phase.

Appendix A summarises the critical dates for the Establishment Phase.

Question 3 - Will this process allow for expressions of interest to be made without excessive costs to business?

6. TENANTS

This section outlines the eligibility criteria for tenants, both at the start of tenancy and during the tenancy, including where circumstances change.

6.1 INITIAL ELIGIBILITY

The eligibility criteria will ensure the Scheme is open to families on low and moderate incomes, individuals who are looking to rent a property for the first time, singles in private or public rental accommodation, including people working or undertaking study or training. The income thresholds for eligibility will be modelled on:

- eligibility for Commonwealth Rent Assistance (CRA); or
- eligibility for the low income Health Care Card.

While the income limits for eligibility for CRA depend on the individual circumstances of each family or individual, it is possible to make some generalisations about the type of households who will be eligible. The following table provides approximate income limits for CRA and low income Health Care Card on which tenant eligibility could be based:

Income limits for continuing eligibility for the CRA are:	
Single age pensioner	\$39,000
Couple, no children, both age pensioners	\$65,000
Working family (FTB recipient) two children under 12 years old	\$67,000
Working family (FTB recipient) three children under 12	\$80,000
Income limits for continuing eligibility for the low income HCC are:	
Single	\$28,300
Couple, no children	\$47,000
Couple, 2 children	\$52,000

It is envisaged that with these income thresholds more than 900,000 individuals and families may be eligible to access the Scheme, providing a large pool of potential tenants for investors and ensuring projects comprise a suitable social mix of households.

Question 4 - The aim of this Scheme is to increase the supply of affordable rental housing to singles and families on low and moderate incomes. Do the current eligibility criteria sufficiently allow access for this group?

6.2 CONTINUING ELIGIBILITY

Tenancy managers will be required to assess initial and continuing eligibility of the tenant and to hold appropriate documentary evidence of those assessments. Continuing eligibility will be formally reviewed on an annual basis, within 14 days of the anniversary of commencement of the tenancy. Leases will require tenants to advise the tenancy manager if their income increases by more than 25 per cent.

Where a tenant advises that their income has increased by more than 25 per cent or an annual review indicates that their income for the preceding year exceeded the initial eligibility limit by more than 25 per cent, tenants will be given a reasonable adjustment period of 12 months before their eligibility ceases.

Tenancy managers will be required to submit annual reports to FaHCSIA verifying tenant eligibility and notifying changes in numbers, locations and tenancies managed by them under the Scheme.

6.3 LEASES

Managers will not be required to provide tenants with longer term leases and/or additional rights beyond those required by relevant landlord and tenant legislation. They may choose to do so where appropriate, and it would be seen as beneficial to the Scheme.

Tenants under the Scheme could be given the opportunity of entering into leases which support security of tenure. Owners and tenancy managers will also benefit from longer leases being offered, for example, through reduced vacancy rates and minimising costs associated with end of lease and re-tenanting (for example, costs associated with new bonds and tenancy agreements).

7. TENANCY MANAGERS

This section discusses the role of tenancy manager under the Scheme.

7.1 WHO CAN BE A TENANCY MANAGER?

It is not intended to be prescriptive about which bodies could be eligible tenancy managers for the Scheme. A tenancy manager can be:

- a non-profit housing provider;
- a private sector property manager; or
- a State or Territory Government on a fee for service basis where the provider asks the State Housing Authority to perform that role (in locations where there may be no suitable alternatives).

7.2 ROLE OF TENANCY MANAGER

Key roles for tenancy managers include:

- assessment of initial and ongoing tenant eligibility;
- determining market rents for dwellings and the rents charged to tenants;
- reporting annually to FaHCSIA and the recipients of the Incentive on compliance with eligibility, rent level requirements and regulatory requirements; and
- managing tenancies in accordance with applicable State or Territory regulatory requirements.

It is anticipated that, during the Establishment Phase, non-profit organisations will be well placed to deliver tenancy and property management under the Scheme. In recent years, a number of non-profit tenancy managers have developed affordable housing programs, in partnerships with the private sector, individual investors and/or governments. These organisations have developed a variety of business models for delivering and/or managing tenancies priced at below market rents.

Tenancy managers that have a track record of maintaining longer tenures will be viewed as highly desirable.

Question 5 - The aim of the Scheme is to improve housing outcomes for tenants. How should tenancy managers be regulated to ensure quality outcomes for tenants in the Scheme?

8. RENTS

This section outlines the process for setting rents under the Scheme.

8.1 SETTING RENT LEVELS

Rents for dwellings under the Scheme must be at least 20 per cent below the market rents for equivalent dwellings in the location. They may be set at lower levels if, for example, providers wish to achieve greater improvements in affordability and/or to obtain the tax concessions available to charities that require rents to be set below specified levels.

8.2 DETERMINING MARKET RENTS

Managers will be required to comply with a prescribed method for determining the market rate of rent.

An independent valuation of the market rent will be required for each dwelling when it becomes available for rental under the Scheme. It will be adjusted annually by further independent valuations or, for no more than three consecutive years, in accordance with a relevant index designated for the purpose.

Valuation of market rents must be based on the conditions in which dwellings will be rented. For example, dwellings that will be rented fully or partially furnished must be valued for market rate of rent when it is furnished. A written valuation from the valuer must be obtained and retained by the tenancy manager. Evidence of independent valuations and rental records must be available to FaHCSIA upon request. Market rents will not have to be re-valued when there is a change in a dwelling's tenants, owners or managers.

Valuations must be conducted by valuers who are registered in the relevant State or Territory and are subject to a Code of Conduct and professional practice standards of the Australian Property Institute. They must not own or have a commercial relationship with the registered owner or manager of the dwelling in question or a recipient of a Commonwealth or State benefit in relation to it.

Question 6 - The aim of the Scheme is to provide affordable rental accommodation at 20% below market rents. Do these provisions strike a balance between the need for administrative simplicity and the need to ensure benefits of the Scheme are passed on to tenants?

8.3 AUSTRALIAN TAXATION OFFICE RENT BENCHMARKS

Non-profit organisations with charitable status are able to treat supplies of residential accommodation as GST free if they rent the dwelling below 75 per cent of the market value of the supply or the cost of providing the accommodation. The Australian Taxation Office (ATO) publishes market rent benchmarks to assist charities to self-assess their eligibility for this concession.

These benchmarks are provided simply as examples of housing costs for capital cities to provide guidance to charities. They are not accurate or robust enough to be suitable for determining market rents under this Scheme.

APPENDIX A – CRITICAL DATES FOR THE ESTABLISHMENT PHASE

Establishment Phase	
Technical framework paper released	May 2008
Close of submissions on NRAS Technical paper	31 May 2008
Issue of National Eligibility Requirements and National Assessment Criteria	June 2008
First Call for Expressions of Interest for NRAS Incentives for the Establishment Phase	Late June 2008
Assessment of Proposals for Establishment Phase	August 2008
First allocation of NRAS Incentives in the Establishment Phase	August 2008
Second call for Expressions of Interest for NRAS Incentives for the Establishment Phase	August 2008
Second allocation of NRAS Incentives in the Establishment Phase	November 2008



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