national shelter

SUBMISSION TO THE SENATE STANDING COMMITTEE ON ECONOMICS

INQUIRY INTO AFFORDABLE HOUSING

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Introduction

National Shelter welcomes the opportunity to make this submission. The affordability of housing is one of the cornerstone issues underpinning the welfare of Australia's families and households.

National Shelter is the peak non-government organisation representing the interests of low-income housing consumers, and has been in operation since 1976. It comprises representatives of Shelter bodies in all states and territories, and also includes national bodies Homelessness Australia, the Community Housing Federation of Australia and the National Association of Tenant Organisations. National Shelter cooperates closely with other national organisations such as the Australian Council of Social Service, and is a member of the National Affordable Housing Summit Group, the Community Organisations Housing Alliance and the campaign group Australians for Affordable Housing.

National Shelter advocates the development of a national housing policy based around the following principles:

- Housing is affordable. People on low and moderate incomes should not have to pay more than 30% of their income on housing costs.
- Housing is adequate. Everybody is entitled to housing that meets acceptable community standards of decency and their own needs.
- Housing is secure. People should not live under threat of loss of home and shelter. A secure base enables people to form constructive relationships, grow families and seek employment and community engagement.
- Housing is accessible. People should be informed about available housing options and access to these should be free from discrimination. Most housing should be built to Universal Design principles.
- Housing is in the right place. It should be located close to services and support networks, to job opportunities, to transport networks and to social and leisure activities.
- Housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs.

We respectfully present this submission for your consideration. It is based on our 2012 policy platform, *Meeting Australia's Housing Challenges* developed over a number of years in consultation with our members across the country, as well as more recent consultations we've conducted around the National Affordable Housing Agreement and a preliminary study of the transfer of public housing assets to community housing organisations. We present this submission in two parts. The first, titled *Australia's Housing Challenges,* presents an overview of our analysis of the current Australian housing system. The second responds specifically to the Terms of Reference for this inquiry.

Australia's Housing Challenges

Australia faces a number of housing challenges, which could be summarised as follows.

HOUSING IS UNAFFORDABLE FOR ORDINARY AUSTRALIANS

The long-term trend is for housing prices to rise faster than incomes. This has led to housing becoming increasingly unaffordable for Australian households, particularly younger people who are trying to enter the housing market.

Figure 1: House Prices and Incomes, 1960-2010[1]

This long-term affordability problem goes hand in hand with a problem of supply, as documented by the National Housing Supply Council. In 2012 the Council estimated a shortfall of approximately 228,000 dwellings, with this shortfall projected to increase to 369,000 in 2016-17 if nothing changes in our housing market.[2] However for low income renters the situation is worse, with a shortfall of 539,000 rental properties affordable <u>and available</u> to low income renters.[3]

AUSTRALIA'S PRIVATE RENTAL MARKET DOES NOT MEET THE NEEDS OF A LARGE PROPORTION OF ITS TENANTS

With the price of home ownership so high, many Australians will spend long periods, even their whole lives, as tenants in the private rental market. However, the rental market is not currently set up to meet the needs of long term tenants. Its investors are mainly small household investors, and their attachment to the rental market is marginal. This means they are unable to

provide any level of security to their tenants, and the regulation of the industry is based around short-term tenancies and short notice periods for eviction, even where there is no breach of tenancy conditions.

In addition, the private rental market is not affordable for many households. In 2009-10, approximately 513,000 lower income renters (in the lowest 40% of the income scale) were paying over 30% of their income in rent - this represents almost half of all lower income renters. 211,000 of these households were paying over 50% of their income in rent.[4]

AUSTRALIA'S SOCIAL HOUSING SYSTEM IS OVERBURDENED

Despite population growth and decreasing housing affordability, Australia's supply of social housing (housing owned by governments or not-for-profit organisations and rented at affordable rents to low income households) remained static in the decade to 2010, with funding for new housing struggling to keep pace with the disposal of stock that reached the end of its useful life.

In the face of strong demand for public housing, most housing authorities have tightened eligibility criteria and culled their waiting lists, as well as changing allocation processes so that only the most disadvantaged get housed. Nonetheless, waiting lists for social housing remain long.

The Social Housing Initiative from 2009-12 provided a much-needed boost to the supply of social housing. However, there is no long-term funding strategy for social housing in Australia and "business as usual" will see a steady, ongoing decline in the stock of social housing as State and Territory Housing Departments are forced to sell housing to meet operational and maintenance costs.

For example, in June 2012 the Queensland Department of Housing and Public Works estimated it had an underlying deficit of $54m in 2011-12, projected to increase to $140m by 2015-16. This underlying deficit is largely the result of the need to subsidise the rents of the low income tenants who make up the vast majority of social housing tenants - in Queensland the average rental subsidy per tenant was over $7,000 in 2009-10.[5] In 2013 the NSW Auditor-General found an even more difficult situation for the NSW public housing system, with an expected operating deficit of $490m in 2012-13 and an extra $100m needing to spent on top of this to maintain housing at an appropriate standard. The extremely low incomes of the majority of NSW public housing tenants meant that the expected rental income for the NSW public housing portfolio was on 42% of its market rental value.[6]

This data points to a social housing system that is not sustainable in its current form, and urgent reform is needed to put this system back on a sustainable footing.

TOO MANY AUSTRALIANS ARE HOMELESS OR IN INADEQUATE HOUSING

One result of these pressures is that many Australians continue to be homeless. Over 105,000 were counted as homeless on census night in 2011, up from just over 89,000 in 2006.[7] This figure probably underestimates the number of people affected by homelessness by a large margin - the Australian Institute of

Health and Welfare reports that 244,000 people sought help from specialist homelessness services in 2012-13.[8]

Despite recent injections of funds to improve homelessness services, these services are still struggling to meet the needs. On an average day in 2009-10, over half the people who asked for crisis accommodation were not able to be accommodated, with an average of over 350 people per day turned away.

MEETING THE CHALLENGES

Australians face a wide variety of individual housing circumstances and each of these requires a different kind of response. For most Australians, the current market provides a reasonable quality of housing at a price they can afford. However, the substantial minority in housing stress need some form of support. The type of support will vary according to their particular circumstances. This is illustrated in Figure 2 below.

Figure 2 - Matching Assistance to Need[9]

Meeting Australia's housing challenges requires a concerted effort on a number of fronts, including taxation, social security, housing assistance, homelessness and urban planning. This complex set of policies is represented in Figure 3.

Figure 3 - Meeting the Challenges

In response to your inquiry's Terms of Reference, we present a number of proposed policy solutions in the sections that follow.

Response to Terms of Reference

The following section of the submission responds to your terms of reference in detail. We only refer specifically to those Terms of Reference which are relevant to our areas of interest or expertise, leaving other questions to those who are best qualified to comment.

A. THE ROLE OF ALL LEVELS OF GOVERNMENT IN FACILITATING AFFORDABLE HOME OWNERSHIP AND AFFORDABLE PRIVATE RENTAL

I. THE EFFECT OF POLICIES DESIGNED TO ENCOURAGE HOME OWNERSHIP AND RESIDENTIAL PROPERTY INVESTMENT

II. THE TAXES AND LEVIES IMPOSED BY THE COMMONWEALTH, STATE, TERRITORY AND LOCAL GOVERNMENTS

Australian Governments have historically provided a number of forms of assistance to owner occupiers and investors. These include direct subsidies such as the First Home Owners Grant, and range of tax advantages such as the exemption of the family home and partial exemption of rental housing from Capital Gains Tax and the ability of private rental investors to negatively gear their property investments by claiming losses as reductions against other taxable income.

National Shelter's view, backed by a number of experts in the field including Saul Eslake in his submission to this inquiry, is that while these measures may assist households in the short term, their long term effect is to inflate house prices, pushing home purchase and private rental further out of reach of low and moderate income Australians. The following are our specific recommendations on two key areas.

SUPPORT FOR HOME OWNERSHIP

There is a small but important segment of the population for whom the best housing assistance option is to provide a modest level of assistance towards accessing home ownership. This market segment is made up of households on moderate incomes who have the prospect of increasing their income over time and who are struggling to overcome the barriers to initial access to the home ownership market. Shelter supports programs which specifically target this segment of the market with support for home ownership.

Over the years Commonwealth, state and territory governments have provided a range of direct grants to home owners. The Commonwealth Government has provided various forms of assistance to first home purchasers on and off since 1964, with the with the most recent being the First Home Owners Boost introduced by the Howard Government in 2000 in the context of the introduction of the GST[10]. Current Commonwealth practice is to provide subsidies for first home buyers through payments into designated First Home Saver Accounts over a period of five years designed to encourage savings by aspiring home buyers.

State governments have historically also provided cash grants to first home buyers, Until recently these took the form of up-front cash grants provided to any first home purchaser irrespective of income. In recent years, however, the Queensland, New South Wales, Tasmanian and Victorian Governments have all modified their schemes to apply exclusively to newly constructed housing in an attempt to stimulate building activity.

These schemes are currently not means tested, although some states and territories limit grants to the purchase of dwellings below a certain value which varies between jurisdictions. Their key policy objectives appear to be more about stimulating the construction industry and maintaining house values than about assisting people on low incomes. National Shelter's view is that the substantial resources that go into this scheme could be much better targeted at assisting low and moderate income home purchasers.

National Shelter recommends:

- that COAG conduct a comprehensive review of the value and effectiveness of the various grant programs for first home owners, within the framework of the National Affordable Housing Agreement
- that the First Home Owners Grant be recast as a program to assist low and moderate income home purchasers with their up-front costs, and that it be means tested and opened to households who may not be first home purchasers
- that the National Affordable Housing Agreement support the continued development of shared equity programs and other alternative home loan mechanisms
- that the National Affordable Housing Agreement continue to support the development and operation of mortgage relief programs for households at risk of losing their home
- that the Australian Government support implementation of alternative tenure models such as Community Land Trusts and land-leasing options.

TAX REFORM

Governments in Australia provide a range of tax advantages for owner-occupied housing, including exemption from Capital Gains Tax, exemption from State Land Tax, and exemption from pension asset tests. While it could be argued that these advantages assist moderate income households to access home ownership, it seems more likely (as argued by a number of submissions to this Inquiry) that their effect over the long term has been to inflate house prices and encourage over investment in owner-occupied housing at the expense of other investments. Further complicating the taxation picture for Australian housing is the range of local government planning and infrastructure charges that are levied on new housing development. Because these are paid by land developers on a "user-pays" basis for each lot developed, rather than from general tax or rates revenue, they have the overall effect of placing extra costs on newly developed housing in contrast to established dwellings. Planning law can further affect this picture by having different rules for different categories of development. For instance, in Queensland planning law infrastructure charges

are capped for developers in greenfield areas but not in brownfield sites, creating an incentive to develop on the edge of the city where infrastructure, transport and facilities are often poorer than in existing areas.

Of particular concern to Shelter is the current set of taxation arrangements for investment in private rental housing. Private rental investors are able to deduct losses on their rental investments from their other income, reducing their overall tax burden in any one year. At the same time, since 1999 rental investments have received a 50% discount on Capital Gains Tax. The result of these two measures is that rental investment has been almost totally driven by speculative investment seeking capital gains in the long term. Patrick Soos has demonstrated that aggregate annual returns on rental investment plunged sharply between 2002-03 and 2007-08, from less than $2b to over $9b. While the level of loss has declined since then, this highlights that rental investment is largely driven by speculation, forcing house prices upwards and negatively affecting both moderate income home buyers and lower income renters.[11]

It is arguable that in a market where supply is limited it is inflationary to provide incentives to both investors and potential owners to compete for the same limited supply. This would certainly help to explain the affect we can see in the long term trend for house prices to increase faster than incomes. This effectively blocks access to the market for those on low and moderate incomes while providing financial benefits to those who have sufficient financial capacity to enter the market. Adjusting the CGT exemptions and deductibility levels for investors would allow a greater number of potential owners to acquire a foothold they are currently unable to achieve, and better targeting the subsidies could help this further.

The Henry Review released its report, *Australia's Future Tax System*[12], in May 2010. The report contained 16 housing and land-related recommendations covering the tax treatment of owner occupied and rented housing, land tax, planning processes and infrastructure charging, stamp duty, housing payments through the income support system, and funding for social housing. While most of its recommendations were not taken up by the government of the day, it provides a comprehensive package designed to rectify some of the entrenched problems in the way housing assets are taxed, and these are worth revisiting. In particular we would suggest the Inquiry re-examine the following options:

- a broad 40% savings income deduction as a replacement for the various current tax arrangements related to rental income, capital gains and interest
- the replacement of State Government stamp duty with a broader-based land tax regime, with rates calculated based on the value of the land per m^2 rather than the current cumulative value, and integrated with local government rates. This approach has already been recognised by the ACT Government which has begun a transition from stamp duty to land tax.
- further examination of a tax on bequests
- a review of infrastructure charging arrangements in the urban planning system

An alternative approach to this problem has recently been outlined by the Australian Council for Social Service (ACOSS). [13] This canvasses the option of "quarantining" negative gearing in "passive" investments that yield capital gain to the operation of that investment - that is to say, losses from operating rental housing could be offset against income from that housing, but not against the investor's other income. This measure could be introduced immediately on all rental investments, or alternatively could be progressively introduced by applying it to new rental investments made after the date of the change, minimizing the potential impact on existing investments .

III. THE EFFECT OF POLICIES DESIGNED TO INCREASE HOUSING SUPPLY

It is National Shelter's view that the provision of demand-side incentives, such as Commonwealth Rent Assistance or broad-scale subsidies such as the First Home Owners Grant, are ineffective in generating extra supply and instead tend to result in house price inflation as households are able to pay more for the existing stock of housing. This is borne out by the finding of the National Housing Supply Council that there is a persistent and ongoing undersupply of housing in the Australian market, particularly at the affordable end of the market.

The private rental market continues to be the main provider of housing for low income households. Research suggests that the decreasing affordability of home purchase and the tightening of eligibility for social housing programs mean that many households will spend extended periods in private rental. However, the market is still very much geared around short-term housing, with tenants on short-term leases and owners primarily small investors who rely on negative gearing and capital growth to make the housing a viable investment.

If private rental is to be a viable long-term tenure for households, there is a need for substantial reform in a number of areas. Of primary importance is encouraging changes to the patterns of investment in the private rental sector, shifting away from small investors towards institutional investors and structures that develop long-term rental investment. The creation of the National Rental Affordability Scheme (NRAS) has begun to develop this sector. Further work is required on tax and funding issues to further transform rental investment.

National Shelter recommends:

- that the Australian Government continue to explore the 40% savings income deduction recommended by the Henry Review as an alternative to (among other things) negative gearing of rental income
- that the Australian Government support the creation of vehicles such as unit investment trusts (in which investors can invest in the overall fund instead of in individual properties) and Affordable Housing Bonds for attracting and managing institutional investment in rental housing
- that the Australian Government continue to monitor the supply and quality of housing at the bottom end of the rental market to provide an evidence base for future policy interventions.

Along with a shift in patterns of investment in rental housing, it is important that tenants be given the kind of legal protections that are appropriate for a long-term housing option. These protections need to be appropriate to the long-term, often life-long, nature of a large part of the rental market. Shelter recognizes that tenancy law is primarily a state and territory responsibility, and that at the national level the main focus will be on coordinating legislation and developing best practice models.

National Shelter recommends:

- that the Australian, state and territory governments work together to develop best practice standards for tenancy legislation
- that these standards be geared towards developing a framework for longer-term leases as opposed to the current focus on short-term tenancies
- that these best practice standards include
    - improved coverage of marginal forms of housing such as boarding houses and caravan parks
    - better protection against eviction, including removal of "without grounds" evictions (with careful codification of appropriate grounds) and consideration of extended notice periods
    - ongoing regulation of residential tenancy databases
    - minimum standards of safety and habitability
    - mitigation of excessive rent increases.

IV. THE OPERATION, EFFECT AND FUTURE OF THE NATIONAL RENTAL AFFORDABILITY SCHEME

We are of the view that the National Rental Affordability Scheme (NRAS) has been highly successful in generating new housing supply. The June 2013 NRAS Performance Report indicates that up to that point a total of over 14,000 incentives had been either allocated (indicating that the housing had been built and was occupied by tenants) and a further 24,000 reserved (that is, the housing is under development and earmarked for this purpose).[14] The Department of Social Services reports that at the time of writing approximately 19,000 dwellings had been completed under this program. The program is well targeted to low and moderate income households, ensuring that expanded rental supply meets the needs of those who are otherwise likely to suffer from housing stress in the private rental market.

The larger number of incentives reserved than those allocated indicates that after a slow start the take-up of incentives has begun to pick up pace. The rapid pace at which reserved incentives have been translated into completed properties since June 2013 is further evidence of this increasing pace. There are two main reasons for this. The first is that the scheme was launched in the aftermath of the Global Financial Crisis, and this meant investors initially

struggled to finance developments. The second is that as a new investment option, it took some time for investors to investigate and assess the opportunity and become comfortable with operating in this way.

Within the context of our strong overall support for this scheme, we do believe that there is room to modify some of the operations of the scheme. It is currently structured as a single subsidy per dwelling, and this subsidy is an identical dollar amount irrespective of the type of housing provided or its location. As a result it has been more successful in creating smaller types of housing. As at June 2013 57% of incentives allocated or reserved were for apartments or studios and a further 22% for townhouses, and 70% of incentives were for dwellings of two bedrooms or less[15], since these provide a greater return under the scheme. It also means the scheme has limited effectiveness in high value markets where the subsidy does not cover the financial shortfall. A further issue for high value markets is that rent set at 80% of market may not be affordable to those within the income limit for the program. For example, in Darwin as at June 2013 the median rent for a two bedroom unit was $465 per week and for a house it was $655 per week. A dwelling rented out at 80% of these medians is only just affordable to people in households at the top end of the income eligibility scale.[16]

While it is unreasonable to expect a single program to meet the needs of all households everywhere, we believe that there is scope to review the application of the program to provide greater flexibility for operation in different markets and to encourage the provision of diverse housing types.

It is our view that it is important that this momentum is maintained by continuing to provide investment incentives beyond the initial 50,000 provided for under NRAS. It is our view that the program could be significantly improved by some key reforms, including:

- relabeling the scheme the National Affordable Rental Housing Supply Incentive, to make its purpose clearer to prospective investors
- committing to a steady pipeline of 5,000-10,000 incentives per year over the next five years
- handling the administration of the scheme through one body which includes both Commonwealth and State officials to reduce delays and processing timeframes
- reviewing eligibility criteria and allocation processes to ensure housing is allocated to low and moderate income renters
- varying income eligibility by region to take account of the significant differences between regional housing markets
- reviewing the way funding is allocated in the scheme to encourage people to operate in different markets and provide a variety of types of housing.

V. THE REGULATORY STRUCTURES GOVERNING THE ROLES OF FINANCIAL INSTITUTIONS AND SUPERANNUATION FUNDS IN THE HOME LENDING AND PROPERTY SECTORS

National Shelter recognizes that the development of housing involves a number of complex systems of regulation operated by different spheres of government. These include:

- Commonwealth regulation of the banking and financial sector
- State regulation of building standards (using the National Building Code) and establishment of overall planning legislation.
- Local government establishment of planning schemes and administration of the development approval and infrastructure charging regimes.

Any national policy approach to creating more affordable housing needs to take account of the roles of these spheres of government and ensure as far as possible that they work in concert. This issue is discussed further under item o.

VI. THE OPERATION AND EFFECTIVENESS OF RENT AND HOUSING ASSISTANCE PROGRAMS

Given that many low income households do not have access to affordable housing, financial assistance through the income support system is the only way they can cope with housing costs. However, over recent years the rate of payment has failed to keep pace with rent increases. The Harmer Pension Review found that because the rate of Commonwealth Rent Assistance (CRA) is indexed to overall inflation, not to increases in rents, pensioners are on average $9 to $10 per week worse off over the period from 2000 to 2009[17]. In addition, many low income households are not eligible for CRA because it is only available to people on some categories of Centrelink payment.

It is important to note that rent assistance can only be effective in the context of adequate supply of rental housing, both in the private rental market and in the social housing sector. The provision of rent assistance will not in itself promote adequate supply, although it does provide an important subsidy to community housing organisations which in certain conditions can make the difference between viability and non-viability of social housing projects. The recommendations here need to be seen alongside recommendations about changing private rental investment, and more specifically about rent and subsidy arrangements in social housing. That said, along with other measures rent assistance can provide an important plank in the financial viability of community housing providers and any changes to CRA will need to be evaluated for their impact on this sector.

National Shelter recommends:

- that the Australian Government increase the maximum rate of Commonwealth Rent Assistance by 30% (approximately $15 per week for those receiving maximum allowance)

- that this amount be indexed to the rental component of CPI from 30 June 2014 onwards
- that eligibility be extended to all people who meet income test requirements, irrespective of their source of income.

B. THE IMPACTS, INCLUDING SOCIAL IMPLICATIONS, OF PUBLIC AND SOCIAL HOUSING POLICIES ON HOUSING AFFORDABILITY AND THE ROLE OF ALL LEVELS OF GOVERNMENT IN PROVIDING PUBLIC AND SOCIAL HOUSING

A quality social housing system, in which governments and not-for-profit organisations own housing and rent it at affordable rents to low and moderate income households, remains vital to a fully functioning housing market. For many households it represents their only option for secure, affordable housing. After years of stagnation in which housing authorities struggled to maintain their level of service in the face of inadequate funding and increasing need, the Social Housing Initiative saw a substantial one-off injection of funds between 2009 and 2012. This initiative resulted in almost 20,000 extra social housing dwellings as well as upgrades to approximately 80,000 existing dwellings.

However, as summarised on Page 3 of this submission, ongoing funding commitments are far from sufficient to maintain a viable social housing system that can cope with the level of demand. This Senate Inquiry provides the opportunity to review the long term viability and sustainability of the National Affordable Housing Agreement and it's attendant sub-agreements. The following sections provide some recommendations about how this could be done.

INCREASED SUPPLY

The first challenge is to deliver a sustained increase in the supply of social and affordable rental housing over the coming decade. This housing needs to be provided through a mix of programs including the continuation of the NRAS program, and the continued expansion of social housing at the rate achieved as a result of the Nation Building Social Housing Initiative.

National Shelter recommends:

- that the Australian, state and territory governments commit to the delivery of an extra 200,000 social and affordable housing dwellings by 2024, at an approximate annual cost to the Australian Government of $2.5b per year above existing commitments, assuming a 25% contribution by the states and territories[18]
- that this growth funding be distributed to states and territories on a per capita basis.

SUSTAINABLE FUNDING

The reorientation of social housing towards housing higher-need households has placed increasing financial pressure on the system, as outlined on Page 3 of this submission. This has meant that for the past decade or more, the capital funds provided to build new housing have been offset by the sale of older housing to subsidise maintenance of the remaining stock, leaving a static or declining

supply. If social housing is to continue to house Australia's highest-need households at affordable rents, governments need to recognize that rental income will not cover the operating expenses of social housing operators, and identify an ongoing subsidy stream to meet the revenue shortfall in the system.

National Shelter recommends:

- that revised social housing funding arrangements include an operational subsidy for existing social housing managed by state and territory governments, equivalent to the maximum rate of Commonwealth Rent Assistance payable for households in comparable private dwellings
- that this operational subsidy be provided on a "per dwelling" basis for existing social housing, to avoid penalizing states and territories which have a history of more generous social housing funding.

IMPROVED RENT POLICIES

Social housing managers, both in the government and community sectors, rely on rental income to meet their operational costs. At the same time, rent policies are designed to ensure ongoing affordability for tenants, with most social housing charging rent based on the household's income. This provides a guarantee of affordability for low income tenants, especially where their income reduces over time. However, if not carefully managed it can place strains on the financial viability of providers, and this strain has increased in recent years with a shift in allocations towards higher need tenants. This is a matter which will require careful thought in the coming years.

There is also an anomaly in the current system, under which tenants of community housing providers are eligible for Commonwealth Rent Assistance while tenants of State-managed social housing are not. This effectively means that community housing providers have access to higher rent revenue without any loss of affordability for tenants. This situation helps to underpin the financial viability of community housing providers. However, as State and Territory governments shift more of their housing into the community sector, the Commonwealth will face increasing exposure to CRA payments for social housing tenants.

National Shelter recommends:

- that income-based rents continue to be used for the lowest income tenants to ensure affordability
- that providers be given opportunities to diversify their housing and tenant base as outlined under Section (m) of this submission, as a way of improving sustainability
- that community housing tenants continue to have access to Commonwealth Rent Assistance as a way of increasing their capacity to contribute to the cost of their housing
- that the Productivity Commission be asked to examine the long term effectiveness of the current ways of subsidising rents, including Commonwealth Rent Assistance, income based and market based rents,

and to recommend the most effective way to ensure affordability for tenants within a sustainable system.

IMPROVED ALLOCATION PROCESSES

The 2009 National Affordable Housing Agreement included a commitment by states and territories to work towards common housing registers and allocation policies. A number of states and territories have made considerable progress in implementing these mechanisms. They typically involve a single state- or territory- wide register of housing need, accessed by all social housing providers. They vary, however, in the degree to which allocation processes are centralised. They also vary in their scope - for instance, the Queensland system includes a category of tenants eligible for affordable rental programs such as NRAS as well as for applicants for more highly subsidised social housing, while other states limit their registers to social housing applicants. Shelter remains supportive of the development of common registers, while aware that such schemes have a number of implementation issues and need to be carefully evaluated and improved over time.

A further issue related to allocation is the progressive tightening of eligibility criteria and the move towards needs-based allocation which has taken place in all States and territories in recent years. These moves are motivated by a strong awareness of the need to house those at risk of homelessness. However, these moves come at the cost of declining financial viability of social housing providers, both State and community, as outlined on Page 3 above, and to which our recommendations on Page 11 and 12 respond.

National Shelter recommends:

- that state and territory governments continue to work towards the creation of common housing registers and the effective use of these for various social and affordable housing programs
- that social and affordable housing providers allocate from these registers but retain control of their own allocation processes within a set of overall guidelines
- that allocation of social housing be based on housing need, but that this does not necessarily mean that the highest need households will always be housed first, as providers need to match tenants with the available housing and the neighbourhoods in which it is located
- that to be properly effective, such mechanisms need to operate in an environment of increasing supply and attention to the mix of income levels needed to sustain a viable social housing system.

C. THE IMPACT OF COMMONWEALTH, STATE AND TERRITORY GOVERNMENT POLICIES AND PROGRAMS ON HOMELESSNESS

Since 2009, Australian, state and territory governments have been working with homelessness services to implement the National Partnership Agreement on Homelessness. This has seen significant new funds put into innovative service models and prevention and early intervention services, as well as the beginnings of some reorientation of the homelessness service system in some states and territories. Existing homelessness services have also continued their considerable contribution to combatting homelessness.

National Shelter is strongly supportive of the continuation of the initiatives outlined in the Australian Government's White Paper on Homelessness, The Road Home and its commitment to a target of halving the number of people experiencing homelessness by 2020. Achieving these targets will require the kind of significant expansion of social and affordable housing supply outlined earlier in this submission. It will also require the continued provision of support services for those who need them to sustain their housing, and continued work to build on the success of the reforms initiated since 2009.

National Shelter recommends:

- that the Australian, state and territory governments commit to the continuation of the National Partnership Agreement beyond the current extension to June 2014
- that expanded provision of secure, affordable and appropriate housing be seen as a cornerstone of the response to homelessness
- that provision and allocation of this housing be linked to appropriate support services which address the wide range of issues which can be associated with homelessness, including domestic violence, child abuse and neglect, mental illness and drug and alcohol addiction
- that services continue to focus on prevention and early intervention and continue to develop a range of appropriate support models to best meet the needs of people experiencing homelessness
- that effective homelessness services be supported through adequate and planned indexation.

Many high need households end up in marginal forms of housing such as caravan parks and boarding houses. While some households choose these forms of housing for lifestyle or locational reasons, many live in them because they have no choice. Such households are often only one step from primary homelessness (i.e. rough sleeping or dependence on crisis housing). Housing in this segment of the market can often be substandard, and protection for tenants can either be non-existent or, in states and territories where it does exist, can be weak or poorly enforced. Addressing the needs of households in this sector is an important element of combating homelessness.

National Shelter recommends:

- that Australian, state and territory governments continue to work together to improve regulation of this sector, including tenancy protection and effective regulation of physical and management standards
- that governments increase funding to services which provide support and advocacy for tenants in marginal forms of housing
- that governments continue to develop social housing alternatives to these forms of housing which can provide better physical conditions and greater security than private sector provision
- that the Australian Government support the collection, analysis and publication of data on supply of and demand for these forms of housing.

For more detailed recommendations on responses to homelessness we would refer you to the submission from Homelessness Australia, the representative body from homelessness organisations in Australia and a member of National Shelter.

D. THE CONTRIBUTION OF HOME OWNERSHIP TO RETIREMENT INCOMES

National Shelter recognizes that home ownership has historically played an important role in providing security to older Australians, with home ownership ensuring they have minimal housing costs in their retirement and providing them with an appreciating asset against which they can trade to meet changed housing and care requirements in later life.

However, declining rates of home ownership amongst younger households are likely to significantly change this picture over coming decades as increasing numbers of retirees will have spent their whole housing careers in the private rental market. Older renters are particularly vulnerable in the private market as their incomes tend not to increase in line with rent increases, and as their level of disability increases with age they have limited access to housing which can meet their changed needs. Any planning for future housing supply will need to take account of the needs of this growing segment of the population.

E. THE IMPLICATIONS FOR OTHER RELATED CHANGES TO COMMONWEALTH GOVERNMENT POLICIES AND PROGRAMS, INCLUDING TAXATION POLICY, AGED CARE, DISABILITY SERVICES, INDIGENOUS AFFAIRS AND FOR STATE AND TERRITORY GOVERNMENTS

National Shelter has a strong interest in seeing better housing outcomes for Aboriginal and Torres Strait Islander peoples.

Aboriginal and Torres Strait Islander peoples continue to experience higher levels of housing disadvantage than other Australians, including more homelessness, more overcrowding, lower levels of home ownership and higher levels of housing stress. It is important that governments remain focused on solving these problems in remote communities and in urban and regional Australia. In 2010 and 2011 National Shelter sponsored two Aboriginal and

Torres Strait Islander Housing round tables, bringing together people involved in Aboriginal and Torres Strait Islander housing from around the country. While not a formally representative group, these meetings have provided a national perspective on Aboriginal and Torres Strait Islander housing issues, from which the following recommendations are drawn.

National Shelter recommends:

- that within the overall growth funding recommended above, funds be allocated to provide an extra 20,000 Aboriginal and Torres Strait Islander social housing dwellings by 2024
- that Aboriginal and Torres Strait Islander community housing providers be supported with funding and capacity development to play a significant role in developing and managing this additional housing
- that funds for identified urgent maintenance be released without delay to enable the upgrade of substandard Aboriginal and Torres Strait Islander social housing (SOMIH)
- that Australian, state and territory governments engage in good faith with Aboriginal communities and their representatives over both the implementation of Aboriginal community controlled housing, and improvements to mainstream social housing to improve access for Aboriginal and Torres Strait islander households
- that Australian, state and territory governments work with Aboriginal and Torres Strait Islander representatives to develop and implement programs to support access to private rental and home ownership for Aboriginal households.

F. THE NEED TO DEVELOP IMPROVED OVERVIEW AND ACCOUNTABILITY MECHANISMS IN RELATION TO COMMONWEALTH GRANTS AND FUNDING TO THE STATES AND TERRITORIES IN ORDER TO ENSURE THAT PUBLIC FUNDING DELIVERS OUTCOMES CONSISTENT WITH COMMONWEALTH OBJECTIVES

National Shelter is strongly aware of the need for accountability by all levels of government for the spending of public funds. In our view, accountability mechanisms around housing need to include accurate and publicly available data on the following.

- The overall supply of social and affordable housing, including an accounting for new developments, acquisitions, disposals and transfers between parts of the social housing system.
- Financial accountability, including an accounting for the use of Commonwealth funds, the provision of matched State funds and the use and leverage of existing assets.
- Data on key elements of housing service provision including allocations, subsidy levels, tenancy sustainment and departures from the system

- Data on associated forms of housing assistance such as rent and bond subsidies and advice and referral services.

- Reports on progress and achievement in other areas relevant to housing such as planning reform, tax reform and use of surplus land.

G. PLANNING AND POLICIES THAT WILL ENSURE THAT WOMEN, PARTICULARLY VULNERABLE WOMEN, HAVE ACCESS TO SECURE, APPROPRIATE, AFFORDABLE AND ADAPTABLE ACCOMMODATION

National Shelter is strongly aware that lack of housing alternatives is one of the factors which can lead to women staying in dangerous or abusive relationships. Australia's women's refuge network has provided high quality support to women escaping domestic and family violence for many decades, but these services are heavily overloaded and it is important there also be mainstream housing options which allow women to move quickly and safely into secure, appropriate housing. It is important that these also be linked to the availability of appropriate support services and legal remedies to protect women from further violence and assist in their recovery from the trauma. National Shelter is also in favour of the creation of a national priority system in social housing which allows women escaping domestic and family violence to transfer from one state to another where this is necessary for their safety.

K. THE IMPACTS OF IMPROVING SUSTAINABILITY (INCLUDING ENERGY EFFICIENCY) OF NEW AND EXISTING HOUSING STOCK ON IMPROVING HOUSING AFFORDABILITY

National Shelter's main interest in this, as in all housing policy issues, is around meeting the needs of low income households, the vast majority of whom live either in private or social rental housing.

There are clear financial and social benefits for tenants in having access to environmentally sustainable housing. Well designed housing can reduce energy costs for occupants by reducing heating and cooling costs, and features such as solar electricity can further reduce these in the long term. These issues are very important to low income households as energy costs are a key (and rising) element of their household budget.

However, the current financial arrangements in rental housing present some clear challenges to achieving this. Energy-efficient features present an up-front cost to the owner/purchaser of the home, while saving cost in subsequent years. However in rental housing these up-front costs are borne by the owner (be they a private individual or a social landlord) while the benefits accrue to tenants. This creates little incentive for owners to implement such measures, while the short-term nature of leases in the private sector (and increasingly in the social sector) mean that tenants have little incentive to make the alterations for themselves even if they had the means to do so.

The solution to this problem is not immediately apparent but this is an issue that warrants further research and analysis.

L. THE ROLE OF INNOVATIVE AND RESPONSIBLE FUNDING MECHANISMS USED IN OTHER COUNTRIES, INCLUDING THE UNITED KINGDOM, UNITED STATES OF AMERICA, FRANCE, CANADA, AUSTRIA AND THE NETHERLANDS, THAT PROVIDE A STABLE AND COST EFFECTIVE WAY OF FUNDING AFFORDABLE RENTAL AND SOCIAL HOUSING, SUCH AS AFFORDABLE HOUSING SUPPLY BONDS AND AN AFFORDABLE HOUSING FINANCE CORPORATION

In late 2012 and early 2013 National Shelter, with financial support from the Commonwealth Government, held round tables on affordable housing and the National Affordable Housing Agreement in the capital cities of each State and Territory. Invitations to attend were extended to a wide range of housing and homelessness stakeholders including, community housing organisations, specialist and generalist homelessness services, Indigenous housing and homelessness organisations, peak bodies (housing, homelessness and community sector), relevant academics, consumer representatives, as well as representatives from departments representing the portfolios of affordable and social housing and homelessness and central agencies like treasuries and Premier's departments. In total approximately 150 participants attended.

Participants agreed that one of the challenging aspects of future funding for affordable housing is making affordable housing attractive to large scale institutional investors. Some participants spoke of the restrictions that are currently in place which inhibit certain types of institutional investing, namely different tax treatments for individuals and institutions.

There was broad support across the roundtables for the introduction of an ‘affordable housing supply bond’ to attract the significant investment potential of superannuation and equity funds. A number of options were discussed including a ‘housing supply bond’, an ‘infrastructure bond’ an expanded and revised NRAS. Common to all these options was an acceptance of the need to attract substantial investment into affordable housing to alleviate the current lack of supply of affordable housing.

A number of matters would need to be addressed to attract greater institutional investment in affordable housing:

1. Certainty from government, particularly the need for bi-partisan or multi party support.
2. Scale of investment including government backed opportunities to enable institutions to invest $500m per annum using a portfolio approach.[19]
3. Reduction of financial risk for institutions; this may require the Commonwealth to underwrite a component of debt, if not all.
4. Ability for liquidity of investment.
5. Government equity and government credit enhancement to assist with consistent and predictable yields as a yield gap does exist.

6. Revising NRAS to improve its workability including for scale investors, fix aspects of its tax treatment and provide ongoing funding certainty to ensure a pipeline of supply.
7. Development of an investment scheme that does not require investors to fund property development.
8. Recognition that the requirements of institutional investors differ from banks. For example, banks prefer strata development but institutions prefer lower risk management arrangements such as multi-unit residential that are all rental.

While there is support for attracting private investment into affordable housing, participants agreed that this should not replace government funding. Private investment into affordable housing should be used to accelerate affordable housing outcomes. Government funding, through a subsidy, will still be required for social housing. Additionally, the introduction of private investment mechanisms such as supply bonds, would also supplement and provide alternatives to existing private rental investment measures, such as negative gearing or capital gains tax.

We note with interest that Dr Julie Lawson and Professor Mike Berry from RMIT have provided a detailed analysis of the background and some of the options in this regard and commend their submission to you.

M. THE ROLE AND CONTRIBUTION OF THE COMMUNITY HOUSING SECTOR IN DELIVERING SOCIAL AND AFFORDABLE RENTING HOUSING

The growth of the community housing sector has been a key feature of the Australian social housing landscape over the past 30 years, with the sector growing from a handful of small-scale local providers in the mid 1980s to a diverse sector including a number of large national organisations, many medium scale regionally based providers and the continued operation of many small scale organisations. This development has been underpinned by a range of funding and regulatory mechanisms, and the regulation of the sector is currently in the process of being made nationally consistent under the National Regulatory Scheme for Community Housing.

Many non-government providers are diversifying their stock of housing, managing some housing under conditions similar to public housing with income-related rents and needs-based allocation, but also taking up housing under the National Rental Affordability Scheme and state and territory affordable housing programs, often rented at a proportion of market rent and available to people on low to moderate incomes. Many have also made use of mixed tenure developments with some dwellings in developments sold to the market. This approach allows for more financially sustainable operations, and for more socially sustainable communities with a mix of residents. This diversity of approach needs to be encouraged in future program arrangements through flexibility in financing and management, allowing housing to be shifted between

programs provided overall targets for different types of tenants are met and maintained.

Through the Social Housing Initiative, the Commonwealth, states and territories have agreed to the objective of transferring a substantial proportion of the existing stock of social housing to community housing providers. Some States and Territories have committed to more ambitious goals - for instance the Queensland Government is proposing to transfer 90% of its public housing stock to community housing providers by 2020. These transfers may foster diversity of provision, improve financial sustainability and create opportunities to leverage private finance for the development of new social and affordable housing.

Shelter strongly supports this direction in the context of a coordinated growth strategy, as outlined under section b above. However, we also recognise that it presents significant policy challenges to public housing authorities and that it needs to be carefully planned to ensure that this growth can in fact take place and that it results in providers that are sustainable and have capacity to grow. In large part this growth is dependent on Commonwealth policies around taxation and eligibility for Commonwealth Rent Assistance and it is important that these policies continue to support the growth and sustainability of social housing.

We also recognise that transfers of stock from public housing to community housing can have significant impacts on tenants. These impacts need to be managed carefully in partnership with tenants and their representatives to ensure tenants have good information about what is happening, have genuine choice in the process and do not end up worse off as a result of stock transfers.

National Shelter recommends:

- that the Commonwealth, states and territories continue with the implementation of the national regulatory framework for community housing
- that this regulatory framework be administered independently of the government departments managing public housing, and be applied to state and territory housing departments as well as to community housing organisations
- that this regulatory framework include provision for public accountability and independent review and appeal processes for all social housing tenants
- that the Commonwealth, states and territories continue to work towards the flexible delivery of affordable rental housing to maximise both financial and social sustainability.
- that the National Affordable Housing Agreement reaffirm the commitment to transfer a substantial proportion of social housing stock to community housing organisations to facilitate growth
- that these transfers include some transfer of title, not merely of management, to ensure that properties can be used to leverage investment in new housing

- that these transfers take place in the context of a clear overall growth strategy for the social housing sector
- that Commonwealth policies on the tax treatment of social and affordable housing and the eligibility of social housing tenants for Commonwealth Rent Assistance continue to support this growth strategy
- that the national regulatory framework be implemented as a method of managing the risks associated with such transfers
- that untenanted stock be prioritised in the transfer process to minimise disruption to sitting tenants
- that where it is proposed to transfer tenanted housing, the process of transfer involve close consultation with the tenants including a genuine choice for tenants as to whether their tenancy is transferred or not
- that such consultation include the provision of clear, accessible information to tenants about the proposed transfer and their options
- that the rights of tenants, including their security of tenure, security of rent levels, other tenancy conditions and access to complaints and redress mechanisms be preserved in any transfer process
- that where transfers are associated with urban renewal projects, that these be part of an overall community development approach to such renewal, with strong community involvement in decisions about stock reconfiguration and changed management arrangements.

N. THE NEED TO INCREASE THE SUPPLY OF ACCESSIBLE AND ADAPTABLE HOUSING, AND HOUSING THAT IS CULTURALLY APPROPRIATE

The introduction of the National Disability Insurance Scheme has created a lot of interest among housing organisations. Its objective of providing the opportunity for greater independence for people with disabilities and allowing them control over their own care and support resonates strongly with housing providers.

One of the keys to the success of this scheme is the availability of housing options. Disability organisations have long campaigned for the creation of more housing designed on universal design principles (that is, housing that is accessible to people with disabilities from the moment of first occupation) and failing that of housing that is built to adaptable housing standards - that is, housing that can be easily modified to accommodate a person with a disability. Adaptability is a particularly key aspect of housing design in the context of an ageing population as people are more likely to acquire disabilities as they age and adaptable housing makes it easier for people to “age in place”.

However, take-up of these design principles has been slow in the development industry. Despite the extra cost associated with these features being relatively modest, developers are often unwilling to bear this cost, and are hesitant to take on new designs or processes which are untested in the market.

This points to a potential weak link in the implementation of the NDIS. The program does not directly fund housing and expects people with disabilities to find housing through existing market or social housing arrangements. However, such housing is in short supply across all sectors, and people with disabilities can find themselves "stuck" either in inappropriate housing, or in institutions or arrangements where their options for independence are highly restricted.

At this point it is early days in the roll-out of the NDIS but it will be important to evaluate carefully the housing dimensions of this system and ensure there is a mechanism for people to find housing that meets their needs.

O. THE IMPACT OF NOT HAVING A LONG-TERM, NATIONAL AFFORDABLE HOUSING PLAN

Responsibility for housing policy is currently divided amongst a number of different ministries and departments at the national level. This position is mirrored at State/Territory government level, and local governments also play significant roles in the housing system. The distribution of responsibilities amongst levels of government looks something like this, with some variations between States and Territories.

	Commonwealth	**State/Territory**	**Local**
Tax and finance	Major taxation responsibility including income tax and GST.	Responsible for some taxes including land tax and stamp duty	Property rates
Housing assistance	Direct delivery of Commonwealth Rent Assistance and First Home Owners Grant. Funding of social housing.	Responsible for funding and direct delivery of social housing, and home lending schemes aimed at low to moderate income households.	Some local governments are direct social housing providers for example in Queensland approximately 50% provide social housing, predominantly for older people.
Planning and land development	Minimal role.	Responsible for planning legislation, policies and regional planning processes.	Responsible for local planning schemes and development control.
Regulation	Regulate the financial system via	Responsible for a range of housing-related	Responsible for some forms of

	Commonwealth	**State/Territory**	**Local**
	the Reserve Bank, and responsible for companies legislation.	legislation including tenancy law, regulation of the Real Estate industry and regulation of associations.	regulation such as licensing boarding houses and caravan parks.
Human service delivery	Jointly fund a range of programs in homelessness, disability, health and aged care.	Fund and administer the majority of human services programs, as well as directly providing many services.	Some local governments are direct providers in areas such as aged care, disability and youth support.

This fragmentation of policy and effort leads to a good deal of confusion and discord in attempts to address housing issues, as different levels of government, and different parts of the same government, often have different objectives and pull in different directions. Shelter has long called for the development of a genuine national housing policy to guide and inform these diverse strands of implementation.

It is impossible for all these areas of responsibility to be located in the one agency or Department, but it is important that they be well coordinated.

National Shelter recommends:

- that the Australian Government appoint a single Minister for Housing, Homelessness and Urban Development with responsibility to coordinate housing-related policy decisions across agencies
- that the Council of Australian Governments (COAG) embed the National Affordable Housing Agreement as a permanent part of its decision-making, and expand it to include all forms of housing assistance, including funding for social housing, funding for affordable rental housing, rent assistance, programs to support home ownership and homelessness programs.

ENDNOTES

[1] Taken from Dr Judith Yates, *Housing Affordability - Who Is the Most Affected?*, adapted from *Australia's Housing Affordability Crisis*, in The Australian Economic Review, vol. 41, no. 2, pp. 200-14, 2008. Figures from Productivity Commission (2004) to 2003, updated by ABS Cat no. 6416.0 to 2009

[2] National Housing Supply Council, *Housing Supply and Affordability - Key Indicators*, 2012, p22-27

[3] Ibid, p47. The figure of 539,000 is arrived at as follows. In 2009-10 there were 857,000 renter households in the bottom 40% of the income distribution, and 1,256,000 dwellings rented at an affordable price for these households. However, 937,000 of these dwellings were rented by households in higher income groups, leaving only 319,000 available for rent by low income households - a shortfall of 539,000.

[4] Ibid, p43

[5] Queensland figures taken from Queensland Department of Housing and Public Works, *Social Housing: Factors affecting sustainable delivery in Queensland,* June 2012, pp4-5

[6] NSW Figures taken from NSW Auditor-General's Report, *Performance Audit: Making Better Use of Public Housing,* July 2013, pp18-21

[7] Australian Bureau of Statistics, *Estimating Homelessness 2011,* p5

[8] Australian Institute of Health and Welfare, *Specialist Hoemlessness Services 2012-13,* pvii

[9] Adapted from a diagram in *Delivering places where people live and achieving meaningful customer choice,* presentation by David Cowans, Group Chief Executive, People for Places UK at the International Social Housing Summit 2010

[10] Saul Eslake, "Billions in handouts but nothing gained", *Sydney Morning Herald,* 16 March 2011, accessed at http://www.smh.com.au/business/billions-in-handouts-but-nothing-gained-20110315-1bvvs.html

[11] P Soos, *The history of Australian property values,* 2013, http://www.macrobusiness.com.au/2013/02/the-history-of-australian-property-values/

[12] *Australia's Future Tax System,* Report to the Treasurer, December 2009 (released May 2010), sourced from http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

[13] Australian Council of Social Service, *National Housing Policy and Advocacy Roundtable Briefing paper: Housing taxation,* Prepared by Jacqui Phillips, Joel Pringle and Peter Davidson, February 2014

[14] Australian Government, *National Rental Affordability Scheme Monthly Performance Report, June 2013,* p3

[15] Ibid, pp5,7

[16] The upper income limit for a couple or a sole parent with one child, households that would be able to occupy a two bedroom dwelling, is just over $63,000 per week or $1,220 per week. 80% of Darwin's median unit rent is $372 per week, slightly above 30% of this income.

[17] Commonwealth of Australia, *Pension Review Report,* Dr Jeffrey Harmer, Department of Families, Community Services and Indigenous Affairs, February 2009, p 52

[18] This calculation is based on 70,000 new dwellings provided under NRAS with a total subsidy of $100,000 per dwelling, and 130,000 social housing dwellings at an average cost of $350,000 per dwelling. The total cost of this provision over ten years is approximately $52b of which the Australian Government would be responsible for just under $40b or $4b per year. Approximately $1.5b is currently committed each year in various programs.

[19] A "portfolio approach" is an approach which identifies, within the development of affordable housing schemes using government subsidy, minimum targets for a range of housing types be included across a portfolio of housing. e.g. levels of housing rented at income based rents, discounted market rents, range of household incomes, range of bedroom types, locations and affordability benchmarks. Developers would be free to determine how they achieved these objectives across their portfolio, providing flexibility to ensure provider viability.