

National Housing and Homelessness Agreement Bill



Submission to:

Senate Economics Legislation Committee

Treasury Laws Amendment (National Housing and Homelessness Agreement) Bill 2017

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Summary

The National Housing and Homelessness Agreement Bill presents the Australian government with an opportunity to re-engage more effectively with national housing policy and in particular address the acute need for secure affordable housing amongst vulnerable households. To make the most of this opportunity, the Australian government should pursue best international practice, in tune with emerging official priorities in comparator countries such as Canada ([National Housing Strategy](#), 2017), and resume a more responsible and strategic role.

This submission draws on Australian and international research undertaken over many years as listed in the references, which has been supported by the Australian Housing and Urban Research Institute and the Centre for Urban Research, RMIT University.

This submission makes the following 20 key points, to inform the Senate on the necessary reforms to the proposed National Housing and Homelessness Agreement Bill:

1. Commonwealth leadership matters and can play a highly effective role in bringing all jurisdictions on board to address housing needs and promote economic stability. The NHHA should commit to a National Housing Strategy.
2. Australian housing policy requires long term cross-jurisdiction and cross-party commitment, the NHHA can provide a mechanism for constructive dialogue and mutual accountability towards such a Strategy.
3. Mechanisms for informing, co-ordinating and resourcing a National Housing Strategy can be outlined in the NHHA.
4. The NHHA should specify the Commonwealth's obligation to co-ordinate a National Housing Strategy, in tandem with state based efforts, drawing on an evidence base, stakeholder consultation and adequate resources to achieve commitment to specific reforms and supply outcomes within its control (evidence base, capital investment, tax reform).
5. In recent years successive Commonwealth governments have devolved responsibilities and withdrawn resources for affordable housing, leading to the deterioration and decline of public housing assets. More responsible levels of resourcing from the Commonwealth now necessitate a return to long-term and adequate levels of capital investment, as in comparator countries ([Lawson, Legacy, Parkinson, 2017](#)).
6. Strategic levels and locations of social housing construction can play a productive role in maintaining economic growth, labour market stability and promoting innovation in place making and sustainable building. This role is especially pertinent now as Australia enters a period of decline in residential construction ([BIS Oxford Economics, 2017](#)).
7. There is a substantial backlog in the need for social housing in Australia following 30 years of public disinvestment. While need continues to grow, residential markets are unlikely to respond without clear and long term government commitment. Such a commitment would enable the construction industry and patient investors to play a more effective role and achieve the greatest social benefits. The NHHA presents an

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opportunity to outline such a commitment known as the 'funding feasibility gap' (Hamilton, 2016 for Commonwealth of Australia).

8. AHURI research has undertaken an assessment of the backlog in need, newly arising need and the cost of procurement over the next 20 years that could inform the basis of targets under a national housing strategy. Ideally such a role would be undertaken by the governments via the National Housing Supply Authority.
9. CRA for private tenants, although important in reducing housing stress, cannot solve problems of supply, access and allocation. A 'bricks and mortar' supply side solution is necessary, requiring the joint effort of all jurisdictions, not for profit landlords and patient capital from superannuation and insurance funds.
10. Unlike the private rental sector, social housing allocates affordable opportunities more fairly and securely to households in need, especially to those not well served by the private rental sector. Not for profit and public housing providers need to be regulated to ensure they carry out this role and the potential for limited profit housing association legislation should be actively explored.
11. Social housing can be used to achieve multiple social, economic and environmental policy goals, beyond social welfare including employment generation, sensitive urban redevelopment, sustainable building standards and even renewable energy generation.
12. There should be balanced access to sources of public funding between public (state housing authorities) and not for profit housing associations, with both beholden to defined community service obligations and regulated under limited profit housing law, as proposed above, which exists in other countries where multi provider social housing systems operate successfully.
13. Efforts to build more efficient and effective tools to channel private investment should be supported, while recognising that mission orientated public co-investment remains crucial to ensure housing accommodates those most vulnerable.
14. The Commonwealth should establish and resource an expert National Housing Supply Authority to annually report to the Australian Parliament on housing conditions, costs and supply using agreed and robust standards of measurement (ISA, 2017).
15. The National Housing and Supply Authority can also support more detailed needs based state and local planning.
16. With the decline in public investment, the Commonwealth has made important strides towards more cost efficient the role of private investment in social housing, via the National Housing Finance Investment Corporation providing long term turn-key finance, which could also be supported by an expanded role for the Clean Energy Finance Corporation in the provision of development finance for green community housing ([Commonwealth of Australia, 2017](#)).
17. The Commonwealth, State and Territory governments should progress initiatives aimed at closing the funding feasibility gap, including examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock as recommended by the Affordable Housing Working Group in 2017 (Recommendation 1, [Commonwealth of Australia, 2017](#)) (Hamilton, 2016)

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18. Public housing should be empowered to broaden its tenant base beyond emergency and highest needs clients, to embrace a broader range of tenants and shift its role from welfare silo to broader based community builder together with not for profit providers, providing a refuge, oasis and stepping stone for residents offering a continuum of housing pathways.
19. A more transparent and resourced approach to asset maintenance and replacement is required to improve services to residents, achieve decent housing standards and prevent the deterioration and forced sales of stock ([Lawson et al, 2016](#)).
20. International research informs principles and best practice for commissioning social housing which Australia can draw on and adapt (Lawson in SGS, 2017).

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Introduction

The National Housing and Homelessness Agreement Bill presents the Australian government with an opportunity to re-engage more effectively with national housing policy and in particular address the acute need for secure affordable housing amongst vulnerable households. To make the most of this opportunity, the Australian government should pursue best international practice, in tune with emerging official priorities in comparator countries such as Canada (National Housing Strategy, 2017), and resume a more responsible and strategic role.

The proposed Bill, known as the Treasury Laws Amendment ([NHHA](#)), outlines a target based framework for bi-lateral agreements but offers no overarching strategy or assured resources to achieve outcomes. This is a high stakes approach. The losers could be Australia's most vulnerable households.

A question of targets and the consequences of missing them

As proposed conditional housing and homeless assistance payments will be tied to the achievement of targets to be later specified in state housing strategies, such as the level of housing stress and homelessness.

National guidance and commitment is required but not given.

The housing market is not a closed system. Australia has relatively free housing market open to many influences, where diverse often unanticipated factors will inevitably influence housing outcomes. Only some are within the exclusive domain of states' influence. Other influential factors are well beyond their reach and rest in either the Commonwealth's domain or increasingly outside Australian shores.

There is always the risk that States will fail to meet broad based performance targets in open housing systems. Yet as proposed, the consequences of State incapacity to correct the failures of an open market are punitive.

The proposed withdrawal of direct public investment in housing and homelessness assistance would have the greatest impact on the most vulnerable Australian households. Similarly, there are no effective mechanisms for ensuring the Commonwealth plays its role, where it can most ably, in affecting housing outcomes through direct public investment and tax reform.

In an earlier announcement (May 2017 Budget) the Treasurer announced specific targets with regards to outcomes in key priority areas including:

- aggregate supply targets, including targets for social and affordable housing;
- residential land planning and zoning reforms;
- inclusionary zoning arrangements (land use planning intervention requiring or incentivising affordable housing including dedicated first home buyer stock);
- renewal of public housing stock and transfer of public housing to community housing providers; and

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- homelessness services

Several of these priorities are indeed within the realm of state responsibilities and should be pursued. However, in this version of the Bill there are no specific targets or strategic framework to set expectations or directions for this effort.

A strategy requires not only an evidence base but also a well-reasoned understanding of *what generates the problem* to be addressed and an *approach that can effectively address this problem*.

Clear targets must stem from an overarching strategic plan developed through co-operation with stakeholders. Committed, responsible and appropriate leadership is required by the Commonwealth to affect change. Re-establishing a National Housing and Affordability Supply Council would greatly assist.

Long term commitment to direct co-investment in the social housing system and reform of the tax system would encourage state governments to commit to increase their own direct co-investment, reform of their planning systems and improve tenant landlord relations under their ambit.

With commitment and leadership, strategic efforts can be laid out and suitable targets set. This will involve all levels of government with matching budgetary resources and reporting arrangements to achieve them.

The NHHA bill should include commitment to a national housing strategy, evidence base to inform needs, areas for strategic action and targets and be sufficiently resourced to achieve proposed reforms and supply outcomes.

Commonwealth leadership matters and can play a highly effective role in bringing all jurisdictions on board to address need and promote economic stability

Australia's federation employs a highly centralised tax collection system, which re-allocates payments, loans and specific purpose federal grants to the states and territories. These transfers ensure that a range of essential infrastructure and services are provided to improve the social well-being and opportunities and economic advancement in a sustainable way across different regions and over generations.

All jurisdictions, including the Commonwealth, play an important role in funding and delivering essential services that state's alone cannot afford. The Commonwealth, being the only jurisdiction with revenue raising powers of a suitable scale and scope contributes the largest share to this investment.

As part of this process, since the early 1990s the Council of Australian Governments (COAG) co-ordinated the funding and purpose of shared programs, including health, education and social housing based on principles of equity, effectiveness and efficiency (ROGs, 2017).

However, with regards to social housing in particular, Commonwealth investment has declined substantially over the thirty years resulting in a backlog of need, deteriorating public housing and growing housing stress.

Australian Housing policy requires long term cross jurisdiction and cross-party commitment

In Australia, governments assuming responsibility for housing policy have sought to negotiate coordination mechanisms, secure resources and develop strategic coalitions to affect housing outcomes. Housing policy is often falls through the cracks of federal state relations.

The Commonwealth, through the NHHA bill, can provide a stable and long term foundation for all stakeholders to move forward with confidence and commitment. Partial, conditional and punitive support undermines strategic, constructive and solid commitment vital for housing outcomes and must be avoided.

Due to the vertical fiscal imbalance of Australia's federal system, which has centralised revenue raising powers in the Commonwealth since WWII, State and Territory governments rely on transfer of funding to deliver many vital services, especially for capital intensive services such as public housing. In recent decades the Commonwealth has withdrawn its tied capital investment with obvious consequences in terms of the deteriorating quality and declining quantity of social housing in Australia – now one of narrowest and smallest in the OECD.

While it is true that there is no specific head of power under the Constitution in relation to housing, recognition of this vertical fiscal imbalance since WWII once ensured the Commonwealth has played a more generous and constructive role, providing tied and untied funds for capital investment in public and ensuring social housing outcomes. It is time the Commonwealth re-engaged with supply side interventions more akin to its fiscal capacity.

The lessons of history

Increases in social housing stock in Australia have, historically, been the result of direct investment by all levels of governments – but the Commonwealth in particular has steered the scale and nature of this effort for over 70 years.

Indeed, since WWII, the Commonwealth has been the major player in funding social housing and remained so until 2008 under the Commonwealth State Housing Agreement (CSHA) (Groenhardt and Burke, 2014).

During WWII, varied and inadequate State efforts were significantly bolstered when the Commonwealth Housing Commission provided rental housing at historic cost rents to returning soldiers and working households.

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From the 1970s, eligibility for public housing became increasingly means tested and the rent regime was also switched from historic cost rents to market rents. Differences in rents and operating costs were filled with operating subsidies.

Commonwealth funds either came with conditions (tied) or there was considerable flexibility in their use (untied). By the 1980s, CSHA permitted untied grants to be used to promote low-income home ownership or affordable rental programs and various tied commonwealth grants ensured state delivered programs for mortgage rate relief, community housing and crisis accommodation (amongst others).

The tying of Commonwealth funds began to loosen in the 1990s and matching requirements with state governments were also reduced. At the same time, public borrowing limits drastically reduced the capacity of state governments to borrow from the Loans Council to make up the shortfalls in their rent accounts. From the Commonwealth, there was also increased attention given to the efficiency of SHAs, who were expected to provide an annual efficiency dividend (1%) by the mid-1990s.

Since 1992, the mechanism to debate funding and obligations has been the Commonwealth of Australian Governments (COAG), including state, territory and local governments.

It is in this forum during the 2000s, that most SHAs argued that they were under increasing financial stress. Falling rental income; limited borrowing capacity, the backlog and rising cost of maintenance and refurbishment of ageing stock, as well as the need for major adjustments to take account of demographic and social changes were all pressing issues for SHAs (Donald 2001).

The expiring 2003 CSHA was replaced in 2009 with the National Affordable Housing Agreement (NAHA): a more complex and fragmented document partially covering a range of different partnership agreements for social housing, homelessness, reform directions etc. There were also several major mechanisms outside the NAHA, such as NRAS, Homefund and tax reform and currently the National Disability Insurance Scheme (NDIS) (Gronda and Costello 2011).

After a very brief period of intensive policy activism with the National Rental Affordability Scheme providing incentives and cash payments for below market rent housing via community housing providers, but the problem of unsustainable operating deficits for public housing was not resolved.

The potential for co-ordinating efforts across state and federal jurisdictions began to diminish in 2012 with the COAG subsuming housing matters under the Transport and Infrastructure Council. This was also when the last housing focused report was presented and officially published online to COAG.

While Australian housing policy has oscillated between periods of centralisation and state led activism, since 2014 a breakdown in constructive COAG reform and rapid process of Commonwealth withdrawal from housing policy has been taking place with the cessation of NRAS, abolition of the National Supply Council, dismantling of inter-jurisdictional fora for housing policy, long term cuts to spending on social welfare and a decentralist drift promoted by the Review of Federation.

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In 2013, the Abbott Government reduced the number of Ministerial Conferences and currently there are no formal Housing Ministers Conferences. Of course, Ministers do meet in special circumstances but not as a regular or ongoing decision making forum. Allied cross-jurisdictional forums, such as the Housing Ministers Advisory Committee, have either met partially, intermittently or not at all. Other interjurisdictional forums for research and policy development, such as the Policy Research Working Group, at the administrative level have ceased to exist. New ones have formed however, such as the Housing and Homelessness Chief Executives Network (HHCEN).

By 2015, the capacity to co-ordinate housing policy across the nation had weakened substantially as a consequence. Co-ordination also became more centralised but less transparent, as housing policy moved more closely towards Treasuries under the Council on Federal Financial Relations.

However, there remains implicit support amongst HHCEN for a more active COAG reform process and in December 2015 the role of COAG was once again re-asserted, perhaps circumventing the Federation Review.

Most recently, policy leadership has come from Commonwealth Treasury's Social Policy Division, which became more actively engaged with social housing finance under Treasurer Morrison, former Minister for Social Services. The Affordable Working Group, with representation from several states, has produced several Issues paper focusing channelling investment towards affordable and social housing, including tailored investment instruments and special purpose financial intermediaries (Australian Government 2016, 2017).

However there is potential for a turn around. The Commonwealth, via Treasury, has recently returned to affordable housing policy with a focus on channelling more cost effective private investment to community housing providers. In 2017 the Commonwealth committed to establish the National Housing Finance Investment Corporation with the backing of Commonwealth government guarantee (Assistance Treasurer, December 2, 2017) which has been welcomed by both the housing sector and super funds.

However, private debt is not enough and real growth will require direct capital investment in social housing. This effort has been frustrated by the relegation of housing policy to more narrow welfare departments such as DSS and individualised approach to welfare advocated by the Productivity Commission (2015). Their field of view, has narrowed policy attention to demand side approaches, while the allocation of supply, a matter for broader social and economic development policy, has been left unaddressed.

In summary, the highly centralised, unbalanced allocation of powers and responsibilities and conflict over funding of housing programs has undermined sustained efforts in affordable housing supply policy in Australia. In the past the Commonwealth has played a vital role in co-funding housing supply programs, but the level and share of this funding has diminished.

Long term agreements over funding levels and their purpose would ensure considerable assistance outcomes. Amendments to the NHHA bill could achieve this goal.

How do other federal-state nations manage affordable housing supply?

Australia is through and through a federation. The proposed NHHA Bill it is redefining the Commonwealth's relationship with state and territory governments over housing assistance policy and delivery with regards to conditional co-funding.

It could achieve much more than this. It could commit to a more long term, co-operative approach providing a responsible level of resources to achieve national housing strategy.

International research on other federal states and housing assistance provides a timely and useful reflection when considering what this Bill can and more importantly *should* deliver.

AHURI research (Lawson, Legacy and Parkinson, 2016) examined how four federated governments: the United States, Canada, Germany and Austria managed the transformation of their social housing systems, including the policy mechanisms and funding and delivery arrangements.

The findings provide valuable insights for the design of Australia's own national efforts in this realm and could re-invigorate efforts towards a more responsible national housing strategy in partnership with state and territory jurisdictions.

Overall, our research has found:

- 1** The allocation of national level resources and the associated establishment of institutions (such as COAG specialist committee on housing policy, National Housing Finance Investment Corporation), including dedicated funds for capital investment, legislated models of provision and their regulation (such as Limited Profit Housing Association and use of subsidies Law), play a very influential role steering the scale and nature of social housing development. Their long-term stability is also crucial in attracting private investment on a scale that is required to address needs.
- 2** Deteriorating quality and supply of public housing assets has been a long-term trend in the US, Canadian and German cases, and is clearly an outcome of declining public investment from federal transfers, short-term operating agreements and increased targeting to very low income and high needs households.
- 3** Federal governments, such as Germany and Canada, are undergoing a process of devolution, decentralising responsibilities for social housing to lower tiers of government without making dedicated transfers for their operational and capital needs and this is having negative and unintended consequences on supply and affordability outcomes. Canada has recently reversed this process with a new National Housing Strategy.
- 4** Despite the rhetoric of localism and subsidiarity, the comprehensiveness of public housing provision has been severely challenged by devolution. When long established tied federal transfers are loosened, the majority of federal regions divert resources away from housing programs, to other pressing areas such as roads, health and education (e.g. Canada, Germany and Austria). Dedicating resources for housing supply outcomes is vital.
- 5** Much progress has been made in the US and Austria towards channelling private investment and tax credits towards the not-for-profit and private sector, but this has tended to

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bypass public housing organisations and access often requires privatisation. It is notable that Finland enables and guarantees investment in both public housing and not for profit companies. Also in the UK, the local government borrowing cap has been lifted for social housing investments, including Council housing for the first time since the Thatcher era.

6 Active asset management requires both fine grained attentiveness to building occupancy and the application of cost standards across the stock. Sustainable asset management requires adequate build up and expenditure of funds maintaining, refurbishing and eventually replacing public housing, to ensure that assets remain appropriate and in good quality for the long term (Austria, US). Australian public and not for profit housing could learn much from their international experience.

7 To make up for shortfalls in public investment, some providers have designed better structures to package and lever their housing assets and revenue streams and raise private investment in order to reduce reliance on public funds. Though this tends to result in less affordable rents (US, Austria, Canada). Finland has maintained strategic capital investment grants and interest subsidies to ensure vulnerable groups can be well housed.

8 A national level legislative framework outlining the business model for not-for-profit housing provision, establishing cost rent setting rules and delineating conditions for the use of direct and indirect subsidies consolidates good business practices, ensures contestability and transparency in the allocation and use of subsidies, promotes efficiency and facilitates private investment to grow supply (Austria). In Finland, this framework applies to both public and private not for profit housing associations.

Australian Housing Assistance and Supply Policy - a way forward

There are specific approaches and initiatives exposed by our international research of federated systems that can inform responses to the numerous challenges facing Australian social housing. These challenges include a lack of funds, fragmentation and marginalisation of public housing policy, as well as rising operating costs, maintenance backlog and narrowing revenue base (Hall and Berry 2004; 2009; Jacobs, Atkinson et al. 2010; Pawson, Milligan et al. 2013).

Constructive co-ordination of national housing policy

Given the complexities of federated governance settings and involvement of multiple public and private social housing providers, Australian housing policy requires strong and stable intergovernmental and stakeholder commitment in order to play an important and ongoing role as part of a multi-provider affordable housing industry.

Towards this goal, new forms of governance need to be embraced and supported, building on Australia's past experience with the National Supply Council and the Housing Summit and learning from Germany's efforts in forming and institutionalising a role for a National Alliance of all relevant stakeholders responsible for implementing affordable housing policy goals and targets, which emulates successful multi-stakeholder approaches from active city governments there (Hamburg).

Long-term mechanisms for adequate funding

Alongside adequate and committed governance, provision of social housing necessarily entails a *stable mechanism for transferring and dedicating public resources* complemented by robust instruments and intermediaries to channel *private investment, such as the proposed National Housing Finance and Investment Corporation with guarantee*. This dual and integrated funding approach is exemplified by the Austrian Federal Government where national transfers on a per capita basis support regionally designed programs reflecting local needs to co-finance revolving loan programs. The US system of distributing federal tax credits to state governments and ability to issue tax exempt bonds for the competitive and needs based allocation of funding can also inspire similar approaches here. Social housing systems require not only *long-term* agreement over the transfer of public and private funds but also well designed policy tools to ensure their efficient and effective allocation and application to the management, maintenance and (re)development of social housing stock by both the public and increasingly the private and NFP sector. In this regard, Australia could learn from the US' Harvard Cost Study (2003) and HUD Area Median Rent indexes. The HUD sets standards and benchmarks informing subsidy and rent levels as well as Austria's legally defined cost capped, cost rent regime which requires projects to cover financing costs, encourages a wide range of affordable housing outcomes and requires the dedication of funds for ongoing maintenance and new supply. A feasible rent setting and assistance regime covering these costs and promoting affordability needs to be put in place and routinely refined as market conditions and needs change.

Balanced access to sources of funding

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The research findings reveal that public housing authorities (in addition to NPOs and private landlords) have varying access to financial resources and this access largely determines their market role and position in a multi-provider system. Access to public grants and loans, demand assistance, tax credits, tax exempt bonds and commercial loans and their regulation differs by type of landlord and this can undermine a healthy balance and competitive drive within social housing systems. To date, Australian PHAs have stood outside the ambit of not only private finance initiatives but also proposed regulatory systems. An evaluation of current and ideal access to funding by CHOs, private investors and public housing providers is warranted.

Efficient and effective tools to channel private investment

The research also suggests that tax incentives and financial intermediaries can be very effective in boosting the supply of new affordable rental housing provided by regulated not for profit organisations, as illustrated in the US and Austria. In the United States, declining public funds have been greatly supplemented by Low-income Housing Tax Credits, more than doubling affordable housing output. Furthermore, project based demand assistance now attracts private investment towards US public housing and this process is having a major impact on public housing leadership, strategy and development. In Austria, specialist financial intermediaries and tax incentives on retail housing bonds, provide well targeted long-term lower cost private finance that supports a growing limited profit sector providing affordable rental and ownership housing.

Drawing on these initiatives, considerable work has been completed by AHURI adapting these instruments and intermediaries to suit Australian conditions (Lawson, Berry et al. 2014; Lawson, Milligan and Yates 2012) and there is cross party support to move forward from this basis (Commonwealth Senate ERC 2015: Recommendation 40) and support the establishment of the proposed National Housing Finance Investment Corporation (bond aggregator).

Integrated and sophisticated local planning

Internationally, local government can be seen playing a role in preparing responsive housing strategies and local charters, actively engaged on boards of public housing authorities and facilitating partnerships with local service providers as in US cities and counties, many German municipalities and example par excellence in Vienna, Austria. Closest to tenants, local governments can also play a key role in allocating housing assistance and monitoring social contracts with landlords as in Berlin and Munich. In strong property and labour markets, carefully designed land banking strategies and planning instruments make a positive difference to pure 'free' market outcomes. City governments have played a direct role in land banking, enabling equity funding and also direct provision in Vienna, Berlin, Munich, San Diego, Portland and Toronto and demonstrated the value of inclusionary zoning in Munich, Vancouver and San Diego. In Australia, there is a need for much closer integration of social and affordable housing policy with metropolitan and local government roles and responsibilities and the implementation of more sophisticated planning tools.

From bureaucratic silo to community ally

In order to *reduce bureaucratic isolation* and integrate social housing more effectively into the broader social housing market, lessons can be drawn from the US, where many formerly bureaucratic agencies of HUD are now operating as community allies alongside a growing

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NPO sector (which primarily provides affordable but not deeply social housing). Portland's HomeForward is one of the more successfully transformed Public Housing Authorities: pursuing a partnership approach, working closely with local governance and linking with support services.

There has been critique of Australian public housing authorities not only for their capacity to address waiting lists but also for their monopoly position in the social housing market. Hence, the growth and regulation of the CH sector has been seen as a legitimate focus for policy development. However, the role of SHAs as community partners has been overly discounted and should be more closely examined.

Like the US and Canada, Australian public housing's financial predicament stems from a narrowing revenue base from increased targeting coupled with rising operating costs, amidst stagnant social benefits and insufficient rent rebates. Some have argued that broadening of the tenant income profile could partly ameliorate this problem, but this could also reduce access to scarce housing resources by the very poor. It is a complex problem.

A comprehensive Australian model for public housing redevelopment and allocation of new supply is lacking. Lessons can be learnt from the extensive mixed tenure redevelopment of US public housing under the HOPE VI program and the recent RAD program which illustrate different approaches and provide valuable lessons in how financing can determine redevelopment outcomes.

Anticipating maintenance and funding it

Related to structural deficits, Australian SHAs also face a growing backlog in maintenance. This also afflicts public housing authorities in the US, Canada and Germany. A cost competitive assessment of maintenance works can form part of property data base system and inform capital investment plans, as is now the case with the Toronto Community Housing Corporation. More structural legislated solutions can be found in Austria's LPHA model, which requires set aside funds for maintenance and their gradual accumulation via specific rent contributions.

Innovation linking demand assistance to capital investment

The limited ability to expand Australian public housing has also led to calls for a substantial equity injection and or unencumbered transfer of public dwellings to NPO in Australia with the potential to level CRA. Inspiration can be derived from the US, where the RAD program enables pooled rent assistance payments to lever private investment on a project by project basis. In Austria, new social housing is not public but largely provided by LPH Associations on a cost rent basis that automatically covers financing costs. Rent levels vary according to the share of public subsidy and tenant equity injected into the total financing package. More detailed research is required to compare US and Australian approaches to rent setting, pooling assistance and raising finance.

New funding models and cultural change

Unlike Australia, the reform of public housing authorities in the US and Canada has been accelerated by new funding models, which demand more active and locally attentive asset management strategies. Greater reliance on private funding has not only motivated efforts to reduce tenancy turnover but also exploit high rent and land value locations through

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redevelopment. It has also promoted the shift from rent geared to income models to cost rents reliant on demand assistance for affordability.

Overall, this process of transformation in the US has generated a substantial cultural change in public housing management, redefining their mission away from the poorest to an expanding tenant profile, reducing social stigma through marketing and partnership and strengthening skills in asset management and finance to ensure financial continuity, renovate stock and permit the expansion of affordable housing supply in a few cases.

Adequate levels of capital investment in social housing

While recent emphasis in housing policy has been on raising cost effective debt for affordable housing via the National Housing Finance Investment Corporation to community housing providers, as can be seen this is graph below, **it is the level of Commonwealth funding that most directly influences the level of social housing provided by the largest providers being State Housing Authorities.**

Commonwealth funding has sharply declined since 1996. It briefly returned to early 1980s levels in 2010 with the introduction of NRAS providing tax incentives and or up front cash grants for below market rate housing for a period of 10 years. However, the outcomes of this investment only generated housing stock that is temporarily affordable and available to low income households. Unlike public housing, NRAS stock is not permanently available on a rent geared to income basis and will revert to market based allocation when incentives cease from 2020. The NRAS program has since been abolished. Ongoing funding for capital investment in affordable housing was not replaced. Hence, in the context of continuing sales of public housing, the growth of social housing has come to a standstill and in relation to rising population and need, is actually declining. Australia now has a lower market share of social housing than almost all other OECD countries.

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Figure 1: Commonwealth expenditure on housing, 1981–2011, constant 2011 dollars (Groenhart and Burke, 2014)

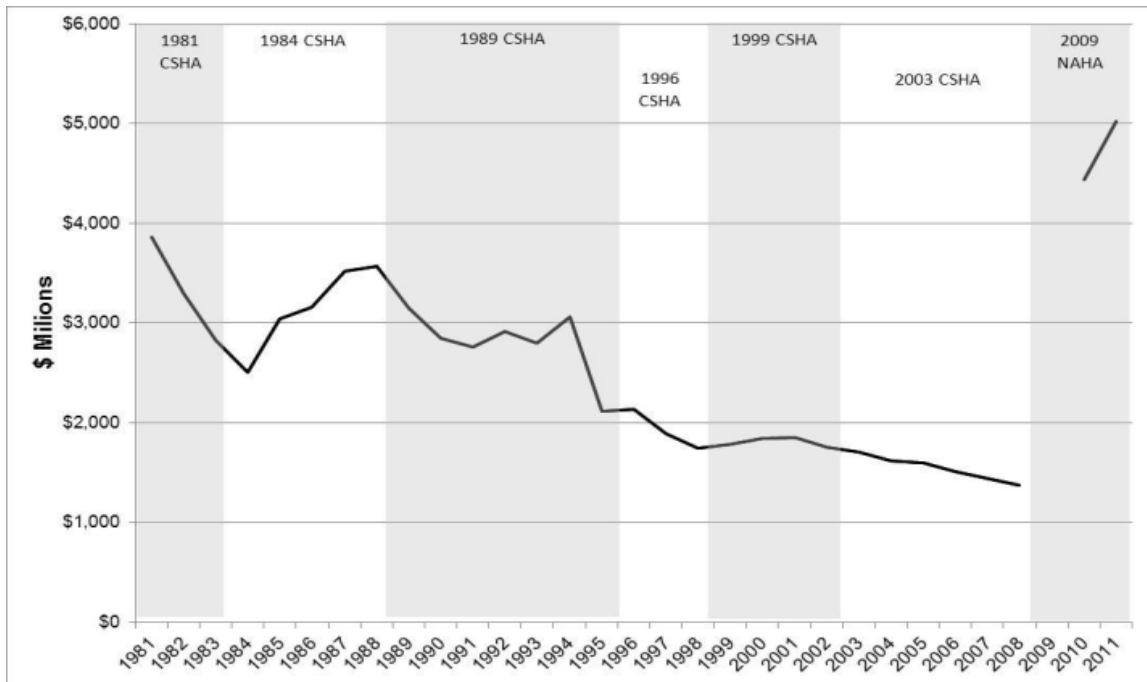


Figure 2: Public sector dwelling commencements, annual, Australia, 1970–2011 (Groenhart and Burke, 2014).

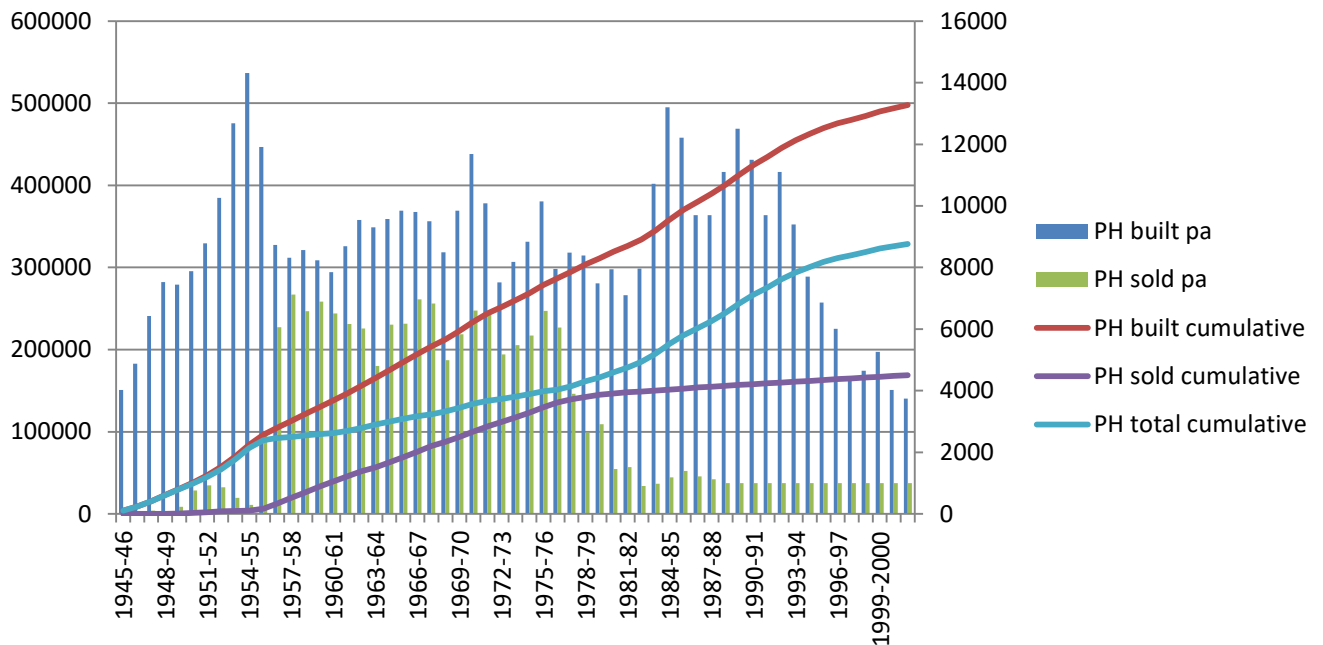


Source: ABS 2011, *Dwelling Unit Commencements, Australia, Preliminary*, Australian Bureau of Statistics, Canberra

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As can be seen above, in 2011 terms, Commonwealth expenditure on public housing was almost \$4 billion in the early 1980s when production of public housing peaked at over 18,000 units.

**Australian Commonwealth co-funded public housing
 built and sold annually and cumulative total 1945-2001**



However, during the 1970s and 1980s there were also very high rates of dwellings sold (see figure above) which eroded stock even further (Troy, 2012). Since then funding has dropped to just over \$1 billion by 2008 to produce a mere 4,000 units and today much less.

While there was a brief spike in Commonwealth expenditure to provide much needed economic stimulus post the GFC via National Rental Affordability Scheme 2010-2014, this effort was not sustained or replaced with an alternative stream of capital investment. Thus public investment in affordable and social housing has resumed its downward trend.

The estimate of 1,000 public housing units sold each is based on past trends. However, in the context of mixed tenure public housing renewal currently underway, this loss may be even greater (Troy, 2012 extended by Martin, 2017 for Lawson et al, forthcoming).

Official figures suggest around 3,000 non-private new dwellings were produced annually (ABS Cat8752, Table 33) but sales of public housing stock have continued apace. Given the high level of redevelopment and replacement of existing estates in the name of asset recycling in NSW, Victoria and SA, net growth is more likely to be half this figure. The Productivity Commission figures (Table 18A.3) show between 2013-2016 annual growth in social housing plummeted to less than 1,500 homes per year (Martin, 2017). This certainly does not address the backlog of need, growing need in an adverse market or even match population growth.

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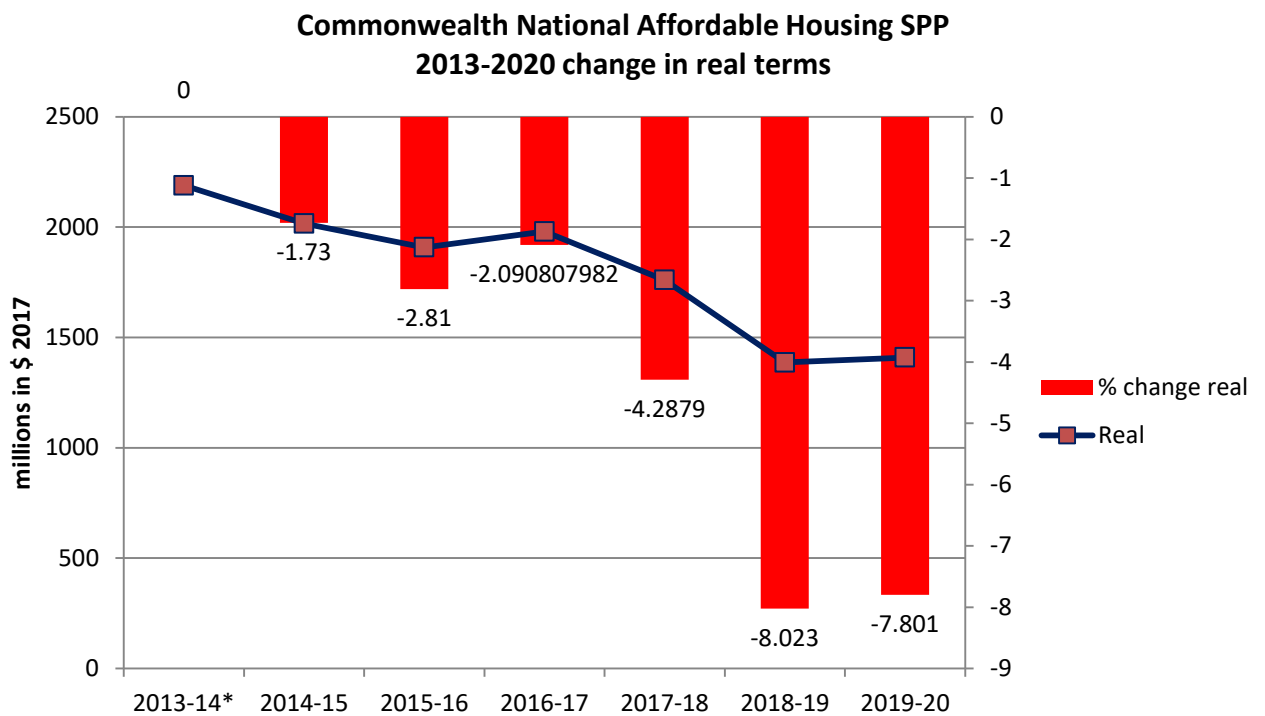
If social housing construction levels over the period subsequent to 1996 had matched those of the 1980s, the total supply would be almost 200,000 higher (Jacobs et al, 2010).

Consequently, today there are simply not enough low-rent dwellings available and accessible to low income households. The future looks much the same as there is next to no new growth planned for public and social housing.

Between 2014 and 2017, in nominal terms expenditure on the National Affordable Housing Special Purpose Payment (SPP) appears to have increased very slightly, but in *real terms* its value has declined by almost 8%, as shown below. Underinvestment has fuelled the substantial backlog in unmet housing need, led to deteriorating public housing stock and further sales.

Both State housing authorities and community housing providers have been unable to arrest the decline in social housing address newly arising need stemming from worsening affordability and population growth over the recent period. Growth via community housing with the transfer of poorly maintained public housing stock, leaves then next to no capacity to generate surplus funds for new development.

Figure 3 Change in Commonwealth Payments 2013-2020



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Table1: Payments to support state affordable housing services

Commonwealth budget item (nominal \$ millions)							
Budget year	2013-14*	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
National Affordable Housing SPP	1,282.7	1,305.8	1,324.1	1,342.6	1,324.1	1,383.2	1,405.3
National Partnership payments							
Building Better Regional Cities	48.7	-	-	-	-		
First Home Owners Boost	0.4	-	-0.3	-	-		
Homelessness Remote Indigenous Housing	154.9	115.0	115.0	115.0	-		
Stronger Futures in the Northern Territory Housing	541.1	485.6	388.3	428.5	345.7	-	
Nominal Total	2,079.00*	1,962.20	1,883.0	1,935.70	1,759.30	1,386.70	1,408.90
Real (2017) Term Total	2,189.0	2,016.00	1,908.0	1,979.92	1,760.21	1,386.70	1,408.90
% change 2017 terms	0.00	-1.73	-2.81	-2.09	-4.28	-8.02	-7.80

*Includes payment to local governments of \$48.7million for Building Better Regional Cities

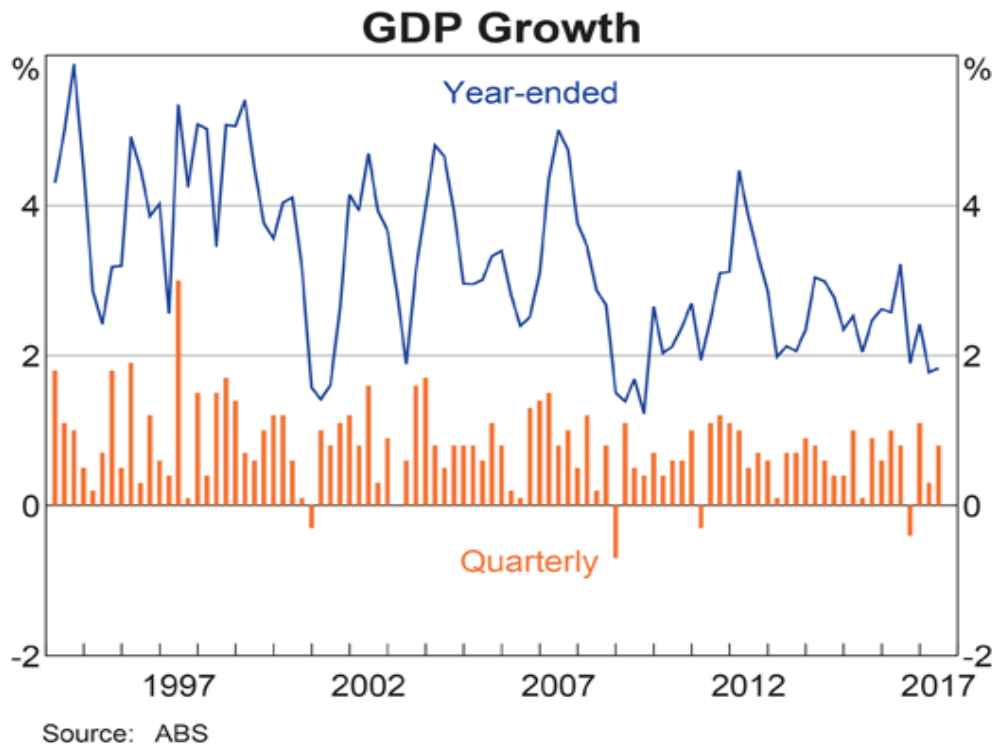
Economic growth and social housing construction

During this period, Australian economic growth has been modest with GDP growth recorded, underpinned largely by private spending and fuelled by varying levels of consumer confidence, both of which have waned in 2017.

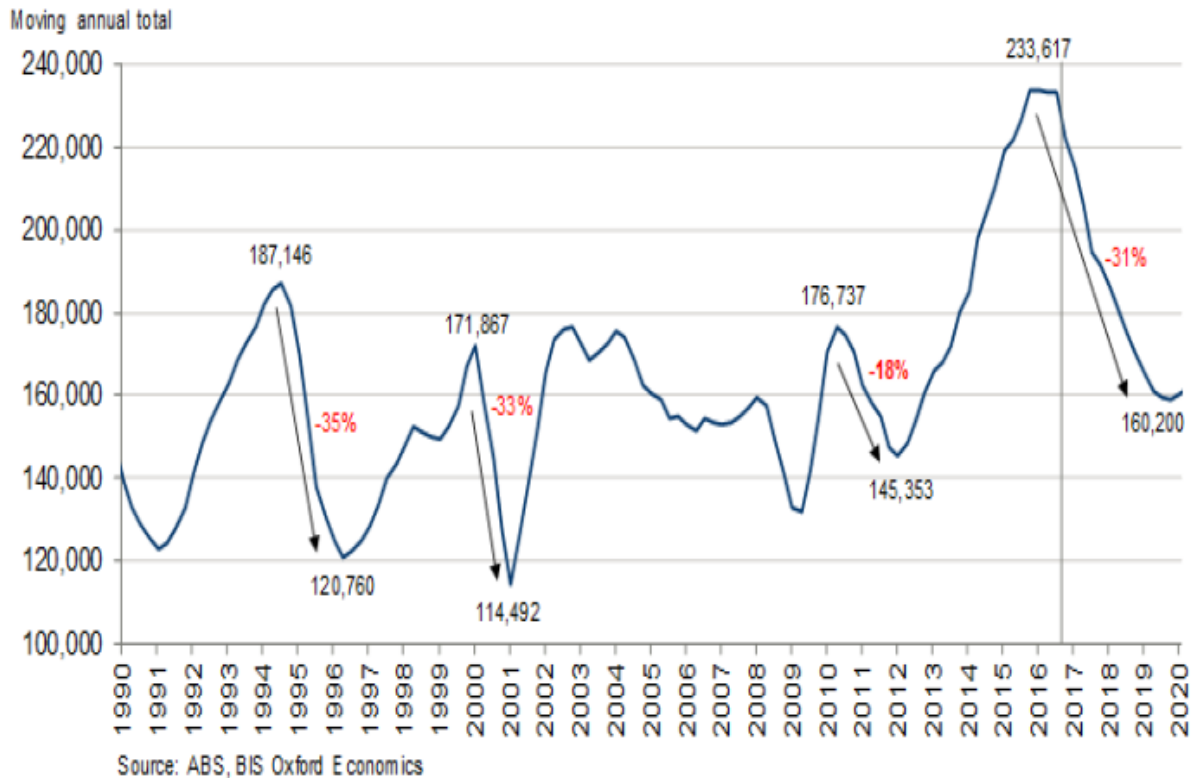
In the real economy renovating and building homes contributes in a significant and important to economic growth and stability. However both private and publicly commissioned residential construction has been declining of late and is expected to drop sharply in the coming years. There is also an oversupply of apartments in several capital cities, making them less saleable. Developers of new residential dwellings are likely to delay projects in the coming years.

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A steep decline in residential construction will clearly have direct consequences for the demand for raw materials, such as cement, steel and wood as well as human capital in the construction sector. Of course a decline in residential construction has flow on effects across many related secondary industries, such as retail and services. An excess supply of construction workers will generate unemployment in this sector. Amongst Australia's indebted households, this will increase the risk of mortgage default.



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Over the past few years the Australian Commonwealth government has not chosen to play an active role in promoting economic stability through direct public investment in infrastructure, such as public housing.

Instead, the current government has relied on the less direct route of Public Private Partnerships. This has also included the pursuit of private investment in community housing provision. However, debt financing has its limits and equity investment requires excessive returns in congruent with not for profit housing models. Debt has been limited, short term and costly for not for profit providers. More cost efficient private investment, via the National Housing Finance Investment Corporation is very welcome and can provide longer term turn-key funding. This could be further supported by the Clean Energy Finance Corporation in the provision of development finance for green residential developments.

However, without the clear and long term commitment of mission driven public co-investment, such strategies, even with the NHFIC and CEFC, will not be produce sufficient dwellings to address the need.

To boost housing outcomes the Commonwealth government could choose to provide the necessary co- investment for social housing construction and at the same time bolster the flagging economy and promote labour market stability in the residential construction sector.

To achieve this aim, Commonwealth leadership in the form of a national affordable housing growth strategy is required.

With such a strategy Australia would join the growing number of countries stepping up to the plate, including Canada, New Zealand, the UK, France, Finland and Austria, as well as South Korea and China.

Importance of housing to economic stability sees the return of supply side strategies

Since the GFC, central government agencies are becoming increasingly aware of the importance of healthy housing markets to stable economic growth, labour markets and consumer confidence.

International organisations have warned countries, such as Australia, of the negative implications that demand only approaches, excessive housing indebtedness and over inflated housing markets have on the stability of the financial systems.

There are distinctive structural factors in housing markets such as limited land supply, land hoarding, sluggish investment in housing and shortages of labour that limit the elasticity of supply to meet expressed demand. This suggests the need for different policies over time and space and by different jurisdictions.

For many years, Maclennan (2005) has argued for a more comprehensive and modern set of housing policies, which appreciate more fully the nature of housing markets and their outcomes, and their relationship with the wider economy. His review of developments in the UK, Australia, Canada and New Zealand lends support to the view that the shift towards demand strategies from the 1980s, from subsidised dwellings to means tested individual housing allowances, was prompted by ideas emanating from central government agencies, which are now changing (UK Treasury, 2017, Canada National Housing Strategy, 2017, AHWG, 2017).

International evidence suggests that balanced efforts in both the supply and demand side are necessary for a well-functioning and social housing system. To ensure adequate, appropriate and accessible housing, good policy will involve both supply and demand side strategies and should be measured by specific local targets (Yates and Whitehead, 1998).

For social housing to grow and address the back log of need and newly arising need over time, an assured stream of capital investment in renovation and new supply is vital in the social housing sector, alongside sufficient levels of rent assistance and pro-active planning and land banking policies.

In Maclennan's critical assessment (2005) the demand assistance doctrine in Australia led to policy and administrative changes in the 2000s that diminished access to decent housing supply as a policy priority and stalled policy and professional development in the housing policy field. This doctrine shifted emphasis from traditional supply programs towards social security payments and distributional welfare (ibid.:10) and entrenched housing supply in the narrow "welfare corner". Today this outdated view remains in current proposals by the Productivity Commission (2016).

Amidst rising housing costs, costly demand side assistance policies have been unable to address mounting affordability and environmental sustainability problems effectively. Subsidised housing simply requires subsidy and without, governments will not deliver affordability and access in high cost markets.

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Thus, consistent with Yates, Whitehead and MacLennan, there is a need for a balanced conception of housing policy that appreciates the need for markets to be better informed, efficient and flexible and this includes direct capital investment in social housing:

“...subsidised loans and grants may be efficient in overcoming inherent market failures where housing produces positive external effects (better health, nice neighbourhoods, etc.) and that income related assistance is appropriate where there are no market failures but market incomes do not support the socially desired minimal housing standard.” (ibid.: 11)

In the past, social housing investment played a stabilizing role on construction and labour markets, as countercyclical shock absorber. Such a role is foregone with demand side approaches

Unlike Australia, countries such as Austria, France and Finland continued to exercise direct influence on new supply using a range of policy levers, engaging not only direct public investment but also cost effective private investment in social and affordable housing (Lawson et al, 2010, Amman, 2016, Shaeffer, 2015, ARA, 2017).

A number of countries, including Ireland, New Zealand and, most recently, the UK (Hammond, Autumn Statement 2017) and Canada (National Housing Strategy, 2017), are returning to supply orientated side strategies to reinvigorate flagging residential construction sector and improve housing affordability and access through elevated national housing strategies.

For example, the enhanced approach to housing supply in the UK will involve

- Increasing capital investment in affordable and social housing for areas of greatest need to £9 (AU\$15.7) billion
- Allowing not for profit providers *and* also Councils to compete for central grant funds
- Lifting public borrowing caps on local governments, which once led investment in Council housing
- Strengthening planning powers to intervene in land markets and favour appropriate affordable housing development
- Contributing towards regional and small site plans to facilitate and improve housing outcomes produced
- Providing guarantees to support builders access finance
- Co-funding five new ‘garden towns’
- Expanding the Housing Infrastructure Fund
- Loans for estate regeneration (UK Treasury, Hammond, Autumn Statement, 2017).

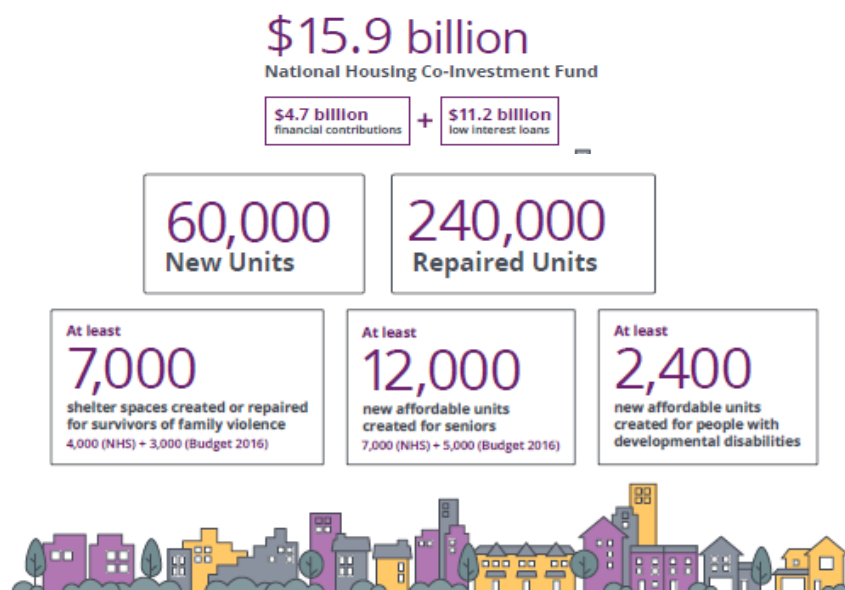
While in Canada, national leadership has returned to housing policy in the form of a 10 year, CA\$40 billion National Housing Strategy, after years of fragmented and bi-lateral agreements. This strategy recognises the fiscal strength and responsibility of the central government and promotes core principles of justice, social inclusion and adaptation to climate change. Co-operative approach to leadership has implied that responsibility and partnership is implicit in Canada’s approach.

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Initiatives in the area of social housing include a CA\$15.9-billion federally managed National Housing Co-Investment Fund. This will create up to 60,000 new units of housing and repair up to 240,000 units of existing affordable and community housing. Partnerships with and investments from the provinces and territories, municipalities, non-profits and co-operatives, and the private sector, will focus on new construction and the preservation and renewal of the existing affordable housing supply. The Fund will also support more shelter spaces for survivors of family violence, transitional and supportive housing, new and renewed affordable and community housing, and ways of making homeownership more affordable.

The housing strategy has multiple goals, beyond social policy, to include support Canada's climate change goals, improving accessibility of housing for people with disabilities by promoting universal design and visit-ability. The Fund will also align with public investment in job creation, skills training, transit, early learning, health care, and cultural and recreational infrastructure.

Contributions from other partners could include provincial, territorial and municipal lands, inclusionary zoning provisions, accelerated municipal approval processes, waiving of development charges and fees, tax rebates, and other government loans (National Housing Strategy, 2017).



Australia’s need for social housing

There is now a very sizeable number of households who are unable to afford either market rents or the costs of purchasing a home in major capital cities - where jobs and other opportunities are concentrated. This represents a major decline in the life opportunities afforded to households and over time will also present a major burden to social assistance budgets as people age (Wood, Cidgem, Ong, 2017).

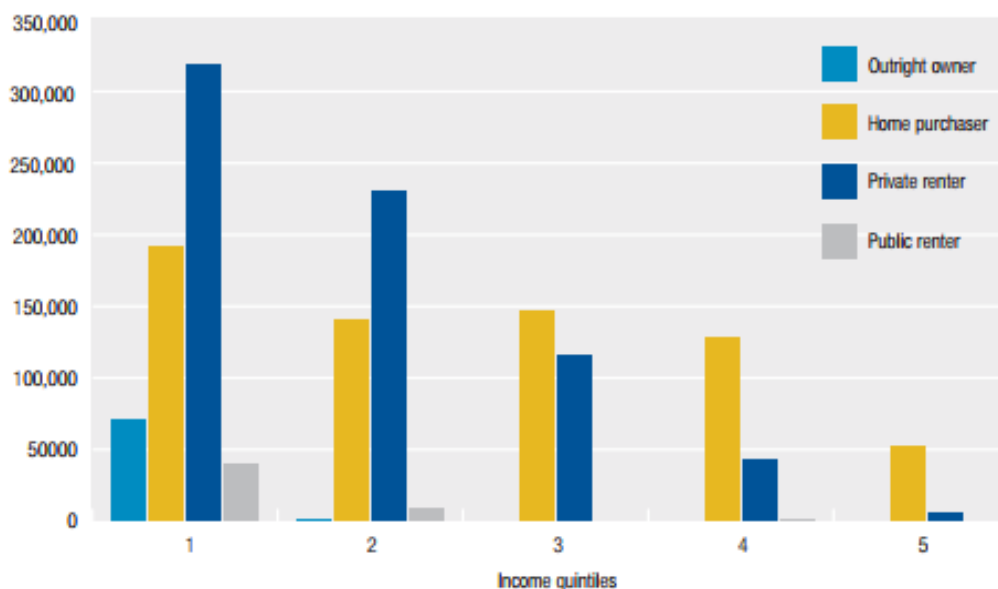
As shown in the recent CEDA (2017) report, the number of households paying more than 30% of income on housing is now very significant. Most of these households are very low and low income households in low paid work or on fixed incomes, and most often residing in the more precarious and short term private rental market.

For many of these households the problem is *access and security*. The supply of affordable private rental housing which is both available and accessible to lower income households has declined steadily over the past 25 years, with an estimated shortfall of close to 300,000 rental dwellings in 2011 for households in the lowest income quintile and well over 100,000 for those in the second income quintile.

As shown below, housing stress is strongly concentrated in the private rental sector amongst low and very low income households. Poor households on fixed incomes are particularly vulnerable to discrimination by landlords and displacement in the qui by more wealthy households.

Thus, it is not just a matter of supply but rather the *allocation* of this supply.

NUMBER OF HOUSEHOLDS PAYING ≥30 PER CENT OF INCOME ON HOUSING



Source: ABS Survey of Income and Housing, 2013–14, results derived from ABS Basic CURF data.

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Social housing allocates opportunities for security and affordability more fairly

Social housing, with its eligibility criteria, allocations and rent policy, distributes housing opportunities in a fundamentally different way to the private rental market.

Social housing is provided by public state housing authorities and increasingly regulated not for profit landlords, who have a mission to deliver specific community service obligations including:

- Allocation of housing according to need, especially that not met by market
- Rent setting to maximise social return not commercial return
- Management of waiting list to ensure fair access given to eligible households
- Rent assistance an important part of the revenue stream
- Maximise social outcomes through good tenant management and neighbour relations
- Negotiate arrears problems and seek alternatives to eviction
- Conduct client surveys to improve tenant services
- Provide data for budgeting, strategic planning and policy development
- Implement tenant participation and support programs
- Liaise with external services – education, employment, health and justice to support tenants and improve estates
- Oversees construction of new dwellings

Social housing can be used to achieve multiple social, economic and environmental policy goals

Social housing can be justified in multiple policy to address complementary social, economic and sustainable development objectives:

- Social housing, with non-market allocation, addresses clear and unmet need for housing and ensures it is accessible and available for low income households as a refuge, oasis and stepping stone;
- Social housing substantially reduces the probability of homelessness and is a cost effective means to prevent homelessness rather than deal with its consequences (health costs, absolute poverty, crime)
- Social housing provides a tangible and substantial contribution towards expanding housing supply, when the private market is unable or unwilling;
- Social housing that is both affordable and secure, generates lasting benefits to family functioning, child education and development, individual health and economic and social participation; when alternative tenures, such as insecure private rental housing does not;
- Social housing can strengthen economic competitiveness through improved access to the rental market by low income households, enabling a more flexible and productive workforce;
- Social housing can enhance national cohesion and social inclusion, sharing the benefits of secure affordable housing more fairly across the community and assisting those not served adequately by existing market and government processes.

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- Social housing combats social exclusion and minimises the rising costs of spatial segregation and homelessness
- Social housing construction and its renovation can provide an important economic stimulus and job creation in times and in areas where it is needed
- Improved supply of social housing can address deficiencies of past housing administrations, and reduce causes of residualisation afflicting housing markets generating tenure polarisation, spatial segregation and poor neighbourhoods

The level of need and cost of procurement

Informing any national housing strategy must be an evidence base establishing the level and nature of housing need present in all jurisdictions: national, regional and local.

Such a role would be most effectively resourced and co-ordinated at the Commonwealth level to inform state and local government based supply strategies and targets.

This role could be clearly outlined in an amendment to the National Housing and Homelessness Agreement Bill.

The AHURI Research Inquiry examining the role of Social Housing as Infrastructure has developed a simple approach to establishing the need for social housing that borrows appropriate elements from existing models and uses readily available data (Lawson, Pawson, van den Nouwelant et al, forthcoming).

These need and cost estimates are still being refined and all assumptions and methodology will be published in Lawson, van den Nouwelant, Pawson (forthcoming) *An Investment Pathway for Social Housing as Infrastructure*, Final Report, AHURI.

In summary the needs assessment model aims to:

- encompass a 20-year projection period – 2016-2036
- incorporate both ‘current need’ (i.e. as at the start of the projection period) and ‘newly arising need’ (i.e. need that will arise during the projection period)
- recognise a distinction between ‘met need’ (existing social housing) and ‘unmet need’ – distinguishing between ‘manifest need’ (homeless persons) and ‘evident need’ (low income tenants in rental stress)
- generate housing need estimates at state/territory level, differentiating between metro and non-metro areas.

Preliminary results (Table 2 following) suggest that there is now a considerable level of need for social housing amongst 445,000 households who are very low income, in extreme housing stress and paying more than 50% of income in rent and or homeless.

Our ongoing research aims to inform targets for new social housing investment, as required by the NHHB bill, and will be disaggregated by state and territory and local level.

Based on our preliminary results (Table 2) , if all those in severe need were accommodated in social housing by not for profit housing associations, the annual cost of a program to meet newly arising need only (17,030 per year) – would be \$4.550 billion, requiring public investment to be shared over jurisdictions and cost effective private investment.

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Since these figures represent the sum of the procurement costs calculated at the SA4 level they fully factor in the hugely varying construction and land costs across the country, as well as the varying dwelling types that would be appropriate in each local circumstance.

It is important to emphasize that the procurement cost figures cited above do not represent the 'cost to government' that would be associated with a social housing procurement program of the required scale.

The Affordable Housing Working Group (AHWG) estimate that rental income could support debt equating to 40% of such costs. This debt can be pooled and raised most cost effectively via guaranteed bonds to be issued via NHFIC.

On this basis, only 60% of our estimated program procurement costs would be a direct 'cost to government' needing to be met through some form of capital grant or other subsidy (Lawson, Pawson, van den Nouwelant, forthcoming).

Of course, the size of this gap would vary according to the nature of the project including the complexity of needs being addressed, and influenced by differing land and construction costs and potential rent revenue and other sales receipts.

Responsibility for funding this gap can be shared, as has been the case for more than 70 years of public housing investment, according to need and capacity across all jurisdictions. Capital investment programs, co-funded by Commonwealth and State contributions could be tailored to steer required local housing outcomes by competitively offering conditional grants, interest rate subsidies on approved loans, guarantees on rent revenue, dedicated planning contributions from fees and stamp duty, as well as equity in the form land and favourable land leases.

Such investment would not only provide much needed secure homes and related economic stimulus, but also provide a pipeline of quality infrastructure investment for patient capital (super funds and insurance companies) to invest in (ISA, 2017) and allow debt to be raised off the public balance sheet.

Again an excellent example of how this is done on a smaller scale can be found in Finland, with good results.

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Table 2 Preliminary need and cost estimates to 2037

. Assumptions and methodology in Lawson, van den Nouwelant, Pawson (forthcoming) *An Investment Pathway for Social Housing as Infrastructure*, Final Report, AHURI. *procurement costs based on 2017 figures for differen land & housing markets

Summary of needs and costs	Meeting backlog of unmet need by 2037			Meeting newly arising needs to 2037		
	Unmet need	Average annual dwelling construction	Average annual cost*	Estimated future need to 2036	Average annual dwelling construction	Average annual cost* (2017 \$millions)
Greater Sydney	83,197	4,160	\$1,349.8M	71,471	3,574	\$1,144.9M
Rest of NSW	51,526	2,576	\$601.3M	18,005	900	\$212.2M
Greater Melbourne	87,651	4,383	\$1,415.3M	63,955	3,198	\$1,018.0M
Rest of Vic.	25,948	1,297	\$209.2M	10,374	519	\$83.3M
Greater Brisbane	46,216	2,311	\$557.4M	43,299	2,165	\$525.6M
Rest of Qld	55,901	2,795	\$593.2M	39,178	1,959	\$409.2M
Greater Perth	30,210	1,510	\$400.8M	47,115	2,356	\$626.5M
Rest of WA	8,039	402	\$78.2M	10,289	514	\$101.7M
Greater Adelaide	27,656	1,383	\$290.7M	18,319	916	\$195.0M
Rest of SA	6,717	336	\$40.4M	2,024	101	\$12.1M
Greater Hobart	4,812	241	\$62.4M	2,053	103	\$26.6M
Rest of Tas.	6,023	301	\$48.4M	1,616	81	\$13.1M
Greater Darwin	1,391	70	\$17.3M	1,337	67	\$16.7M
Rest of NT	5,889	294	\$47.7M	5,585	279	\$45.3M
ACT	3,838	192	\$77.2M	5,977	299	\$120.2M
Grand Total	445,013	22,251	\$5,789.3M	340,598	17,030	\$4,550.4M

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The substantial figures above reflect the accumulated need following 25 years of disinvestment in social housing, exacerbated by rapid rises in housing costs, low wage growth and rapid population growth in several major cities.

Public investment is required to address the backlog of repair and production. State and territory jurisdictions cannot be expected to fulfil this need on their own. They will require Commonwealth co-funding, akin to levels provided in the 1980s. This effort will directly contribute towards flagging economic growth, secure and provide jobs in the construction sector and lift demand for building materials alongside many other positive economic effects.

Joint commonwealth in public and community housing continues a long established role in supporting the building industry to avoid decline and address severe levels of housing stress experienced by a growing cohort of vulnerable private tenants, for whom Commonwealth Rent Assistance is not sufficient to secure access to housing.

As mentioned social housing is also a revenue raising capital asset. Tenants pay for housing services received. Rents and CRA, although modest, can sustain a degree of debt financing. The CHP sector has growing experience in debt funding and in the near future, more cost effective investment will be sourced via the National Housing Investment Corporation (bond aggregator) raising longer term lower cost debt directly via the capital markets.

Nevertheless, debt alone is not sufficient to grow affordable housing. In recognition, the Affordable Housing Working Group (2017)

Recommends *“that the Commonwealth and State and Territory governments progress initiatives aimed at closing the **funding gap**, including through examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock.”*

The NHHA bill provides an opportunity to address the funding gap through a dedicated long term capital investment program shared by all jurisdictions and tailored to local conditions.

Towards a more balanced approach to assisting households across tenures

The important partnership role between the Commonwealth and the State and Territories in capital investment in social housing has generated the scarce resources we are seeing erode and deteriorate today. The level of public investment in the supply of social housing, once shared by both states and Commonwealth governments, is now dwarfed in comparison to demand side assistance, being less than 25% of CRA and declining. **A demand side only housing assistance strategy would seriously undermine the already limited capacity of government to influence the quality and allocation of housing supply for low income and vulnerable households.** The answer of course is not less supply side investment but more.

Since the 1990s, the Commonwealth government has modestly and narrowly assisted private renters via Commonwealth Rent Assistance (CRA) and this is only provided to households on statutory incomes and residing in the private rental sector. Public tenants do not receive CRA, rather state governments pay rent rebates to cover the gap between rents geared to incomes and market rents.

State governments, with their narrow and constrained revenue base, are largely responsible for land banking, planning systems and maintaining public housing. In addition they fund the operating costs of public housing via rent rebates for very low income tenants. Given the drop in rent revenues with targeting to those on statutory Commonwealth pensions, State and Territory governments have had to defer maintenance and sell stock to cover operating costs rather than develop new innovative supply.

Recent AHURI research has forecast a 61 per cent increase in the number of households eligible to receive Commonwealth Rent Assistance (CRA) from 2011 to 2031. CRA payments are forecast to rise from \$2.8 billion in 2011 to \$4.5 billion in 2031—a 62 per cent addition to real budget expenditures. The rise in the budget cost of providing rent rebates to public housing tenants is more modest: an increase in budget cost from \$1.1 billion in 2011 to \$1.5 billion in 2031 is forecast (Wood et al, 2017).

The Productivity Commission (2016) points out that the inadequate and declining supply of social housing limits the choice for vulnerable tenants, who languish on waiting lists. However, rather than recommend the expansion of social housing stock, the PC suggests lifting CRA payments for tenants in the private rental sector and makes no mention of the key driver of supply: direct capital investment. In fact the concept of capital investment is not even mentioned in their report.

This demand side approach via the private sector continues a blinkered policy trend which has diverted investment in public housing for three decades and during this time supply has declined. Growth in social housing has only occurred when governments have specifically invested in new supply. CRA will assist demand, it will not ensure supply or ensure that those who need secure affordable homes actually gain tenancies.

The important partnership role the Commonwealth with the state on the supply side, has generated the scarce social housing resources we are eroding today. Thus, the answer is not

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less supply side investment but more, at least commensurate with the levels spent in the early 1980s.

There are many other inequities overlooked in Australian housing assistance policy. The Commonwealth government, at considerable cost in terms of foregone revenue, broadly and generously subsidises home owners and private investors indirectly through the tax system.

Combined, assistance to home owners far outweighs that to poor tenants in housing need. Indirect assistance is provided to home owners through: non-taxation of imputed rent; Goods and Services Tax (GST) exemptions; stamp duty concessions; exemption of the family home from capital gains tax (CGT) and land tax; as well as preferential income support payment (ISP) asset tests, most importantly those applicable to the age pension. The cost of home ownership tax concessions was \$15.3 billion in 2011 and will rise to \$18.8 billion in 2031, more slowly due to steeply declining home ownership rates. (Wood et al, 2017).

Unlike countries in our region, Australia is following the path of many Anglo western countries that have seen their assistance budgets balloon and social housing production plummet. In the West since the 1980s, many nations with welfare systems ranging from liberal to social democratic, stepped away from direct housing supply programs, reduced their investment in social housing and provided additional demand side assistance to enable income-constrained households to rent in the private market. These policy changes combined with demographic factors, such as declining household size and rising housing costs, led to a growing number and proportion of people receiving some form of rent assistance (Lawson and Milligan 2007, van der Heijden et al. 2002, Kemp 2000).

Since the 1990s, housing policies in Australia followed a similar path, and relied on the deregulation and expansion of mortgage markets to increase homeownership and reduced the role of governments in direct procurement, mortgage insurance and credit regulation.

These general policy trends include strong promotion of individual home ownership, privatising social housing programs, deregulating housing finance markets and the use of rent assistance to private tenants.

The outcomes of this approach have not been favourable to low and middle income households, as well as government budgets, with homeownership rates are sharply declining, high levels of household mortgage debt and housing stress. In lightly regulated rental markets such as Australia's, narrow and shallow demand assistance through CRA is increasingly ineffective (ROGS, 2017). Nevertheless, it has diverted an increasing share of resources from the expansion of social housing provision (CEDA, 2017, ROGS, 2017).

Meanwhile, vulnerable private tenants in housing stress, such as the elderly and people with physical and mental disabilities, continue to need more secure and supportive accommodation than the current private rental sector can provide.

Shifting resources to bolster demand in a tight private rental market with relatively weak tenant protection provides no guarantee that households in need would actually be allocated housing opportunities. The choice for them is not there. The PCs singular focus on demand assistance and its faith in markets offering choice is not only irresponsible but costly to society at large.

Solving the lack of supply and maintenance of social housing

As a consequence of Australia's unbalanced approach housing assistance, its social housing system is starved of investment. A national strategy could turn this around, as has occurred in the UK, Canada and New Zealand, and be delivered via an amended National Housing and Homelessness Agreement.

The inadequacy of public housing's current funding model has been subject to increasing scrutiny for more than twenty years, notably by researchers and public accounting bodies concerned with the operational sustainability of state housing authorities (SHAs), the quality of their asset management and their ability to invest in necessary renovations as well as new supply. Also of concern, although less prominently, has been SHAs capacity to support vulnerable tenants in a variety of ways, including access to aged care services and employment opportunities (Hall and Berry 2004; 2007; 2009; DPC 2014; Productivity Commission 2015; 1993; Victorian Auditor General 2012).

The vital importance of governing agreements such as the former CSHA, subsequent NAHA and this new NHHA bill cannot be underestimated, as they directly affect the financial capacity of Australia's social housing policy to deliver desired housing outcomes. How this Agreement is designed really matters and the devil is in the detail.

To illustrate, more than any previous agreements, the 1996 Interim CSHA and subsequent CSHA and NAHA agreements have driven public housing decline and encouraged the sporadic growth of the third sector. A critical turning point in 1996 was the removal of requirements to invest capital and for greater flexibility given to SHA to enable use of these funds for non-capital expenditure. With declining funds and an unsustainable operating model, SHAs used freed funding as well as funds generated from asset sales to address declining rent revenue and rising operating budgets across many different portfolios and return a dividend to Treasury.

Under a revised NHHA commonwealth capital investment funds should be strategically matched with state and territory government contributions to address the back log in maintenance and new supply, commensurate with evidence based need targets.

A second fundamental change was the narrowing eligibility and prioritisation given to emergency applicants. With more single and fixed income tenants, revenue from tenant rents has eroded, requiring rebates to make up the difference in order to cover operating costs.

Thirdly, during the same period, operating costs have risen, as wages grow and more active maintenance strategies are pursued as well as standards and efforts to support high needs tenants increased.

A series of detailed investigations of primary sources by Hall and Berry (2004; 2007; 2009) describes these rising costs and the worsening financial situation of SHAs from 1990 to 2005. **During this period most SHAs slid from surplus to deficit over a 15-year period.**

Obviously, the narrow allocation of tenancies, rents geared to low statutory incomes with state funded rent rebates to cover market level rents is an unsustainable operating model that requires fundamental reform.

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Various solutions have been put forward to governments to address this decline generated by the lack of capital funds, narrowing revenue base and rising costs, and it is useful to revisit them as address these in the revised NHHA bill.

Proposed Australian reforms include **clarifying the community service obligation** to be provided by SHAs and community housing organisations, including their tenant profile and incomes and adequately funding the difference between the commercial or market rent for a dwelling and the concessional price paid by the tenant (Hall and Berry 2004). Properly accounted for, CSOs should **adequately fund the rent rebate required**. The same experts have also called for the **broadening of the income profile of public tenants**, which would in turn reduce SHA reliance on rent rebates (Hall and Berry 2009).

Focusing on allocation and rent policy, Pawson, Milligan et al. (2013) call for an expert **review of rent setting** to determine the most effective way of protecting affordability for tenants while minimising work disincentives, while at the same time improving financial certainty for providers. Debate on the allocation of rent assistance continues (Audit Commission 2014) with recent work by the Productivity Commission (2015) finding that a **shift from public rent rebates to Commonwealth Rent Assistance (CRA) will not improve tenant employment opportunities but will instead cause financial hardship for many**.

To grow a well maintained social housing sector of sufficient scale would require a substantial **equity injection to providers** or the transfer unencumbered stock to NPOs. However, even transfers to NPOs are not enough to grow social housing, as has been seen by AHURI research (Milligan et al, 2017).

A **thorough and cost competitive assessment of the maintenance works required** to secure universal compliance with social housing property standards would also be required to address the backlog in maintenance. This would enable governments to model future resource requirements to reach a satisfactory standard and make appropriate budget allocations and management contracts based on these costs (Pawson, Milligan et al. 2013).

Some researchers have also called for a return to more **clearly defined funding transfers**, such as specific special purpose grants **tied to different realms of housing management, maintenance and redevelopment activities** (Hall and Berry 2009).

In essence, this represents a re-centralisation of administration and contrasts with looser performance based trends exemplified by the NAHA agreements – which have failed to solve the problem and seen expenditure drift.

The new NHHA must improve on the NAHA performance based accounting and reporting arrangements have been criticised as thin and loose, lacking body and contestable (Gronda and Costello 2011).

Awareness of what went wrong in 1996 under the CSHA (untying resource allocation) and with loose performance based targets under the NAHA is critical. Resource inputs must also be clearly linked to targets.

There is substantial scope for specific strategic reforms to be outlined in the NHHA Bill, including a system of input and process linked targets and accountability arrangements.

Improving procurement processes for social housing – international best practice

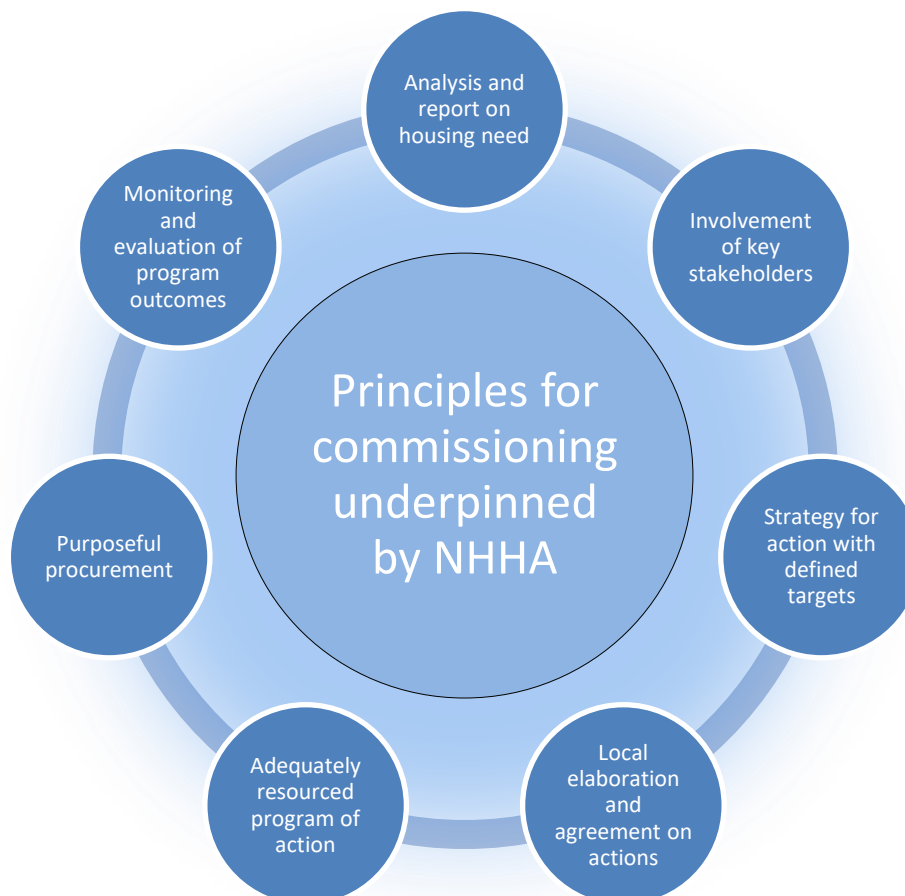
Beyond targets best practice in commissioning social housing is called for.

Underpinning social housing delivery in any country is a commissioning framework which defines the nature and volume of housing services it generates. Today, evidence based and strategic commissioning processes play an increasing role guiding several multi-provider social housing systems.

An international review, examining social housing systems in similarly developed countries to Australia with small social housing systems and involving multiple public, private and not for profit providers: United States, Canada, England, Scotland and Austria, was undertaken for NSWFA in 2016.

It examined the extent to which their commissioning processes are both comprehensive and well integrated, that are informed by an evidence base; involving needs based planning; with strategic targets and adequately resourced to achieve them (Lawson and SGS, 2017) The following principles and international insights (table 3) were distilled from this research.

Figure 4 Principles for commissioning social housing (Lawson in [SGS, 2017](#))



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Table 3 Insights from international experience to inform an Australian NHHA framework

Dimensions of Commissioning Process	Insights from international experience to inform an Australian framework
Overarching and strategic principles	Commissioning processes should be linked to overarching public policy objectives, such as societal well-being and environmental sustainability and respond to diverse needs, improving capacity of service providers, transparency in use of public funds, as well as appropriate and accountable services
Information based on housing needs	Valid national and local data on the of the affordability, adequacy and availability of housing is collected and rigorously analysed and reported to reveal level and type of need, disaggregated to regional and local sub markets (as in the US) and presented to parliament in a regular and standardised format.
Strategy with Supply targets	<p>Institutionalise a planning mechanism that transparently translates evidence into desirable national, regional and local targets that can be disaggregated spatially and by household type. Provide clear guidance for the establishment of these targets and their local elaboration (as in Scotland)</p> <p>Formulate a long term strategy, with realistic performance indicators and clear targets, that can be periodically assessed and adapted</p>
Requirement. for local strategy	Require and support key stakeholders such as state and local governments, their social services and planning departments and the social housing industry to collaborate and agree on steps to stake to achieve supply targets, incorporate these into appropriate tools for implementation such as program design and funding, training, financing instruments, procurement processes, land baking, land use zoning, planning permission processes, strategic development funds.
Includes stakeholders Evidence based commissioning process	<p>Require involvement and agreement between key stakeholders in the delivery of social housing commissioning (Scotland’s HNDA, US Housing Charters,)</p> <p>Develop a procurement system that encompasses both public and private social housing providers (BC) and encourages pooling to achieve economies of scale (England)</p> <p>Ensure that goods and services commissioned are subject to a transparent, competitive and purposeful tending process.</p> <p>Integrate value for money beyond standard costs appraisal, incorporating social inclusion (as in Vienna’s four pillars) and environmental sustainability (as in US green procurement).</p>
Adequate resourcing, relating to targets Requirements clear and assessed	<p>Establish regular reporting on performance of social housing programs to inform focus and level of housing budget (US Congress Housing , BC Housing and Scottish Parliament)</p> <p>Link housing strategy to actions including provision of subsidies and defined social housing outcomes, (US)</p> <p>All in receipt of subsidies must be accountable for their use and enable monitoring to occur (Austria)</p> <p>Adequate but not onerous compliance processes, good regulation rather than deregulation (US)</p> <p>Monitoring and evaluation to assess progress and drive decision-making on service priorities and improvements (Vienna).</p>

Lawson in [SGS \(2017\)](#) Strategic Commissioning Towards coordinated, efficient and evidence: based delivery of social and affordable housing in NSW, NSW Federation of Housing Associations, April 2017

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Other countries are moving forward with procurement reform and a review of good practice is informative for Australia (Lawson in [SGS, 2017](#)).

The Scottish government has been a leader in administrative reform of progressive social housing policy and has since passed legislation, regulations and guidelines. It developed a [charter](#) setting performance standards and desired outcomes for local authorities and housing associations in 2012 (Scottish Government, 2012).

Outcomes are reported annually on the website of [Scotland's Housing Regulator](#), where their performance of different social landlords can be compared on matters such as management costs, energy efficiency and financial status. Depending on reported results, the regulator decides on the level of engagement required with each landlord to achieve compliance with the Charter.

It also developed a [Housing Planning Process](#), designed to assist local authorities and encourage them to integrate strategic actions of both their housing and planning departments. It has provided an associated [guide](#), elaborating on this process.

To integrate need with strategic action the Scottish Government's Housing Need Demand Assessment (HNDA) process requires an estimation of housing need and demand for different types of housing *including social rental housing*.

HNDA also informs deliberations between local and regional housing and planning departments concerning housing supply targets for each type of housing in local areas. The Guide (2014:10) provides advice on the nature of these targets: that they should represent a realistic and feasible interpretation of need and demand across all tenures and market segments and be agreed by local authority housing and planning departments. Further, large areas should allocate sub-targets across geographical areas. The horizon for achieving targets should be both short and long term (5, 10 and 20 years) and align with local housing strategies and development plans, as required by Scottish Planning Policy. Finally, monitoring progress towards set targets is necessary to ensure their timely achievement.

The extent to which **housing budgets** are sufficient to meet these targets at a regional level is detailed in the very informative 2016 Scottish Parliament Briefing paper on the [Housing Supply Budget](#). From 2011-2016, the (modest) target was 30,000 homes, which was exceeded by 1,000. Over the next five years the government plans to support 50,000 units (35,000 social rental).

The importance of strategic public investment in leveraging more cost effective additional investment

International best practice typically combines the most cost-effective long term investment with strategic and conditional public investment and delivered via limited-profit landlords in both the public and private sector, where surpluses are reinvested to achieve their mission of affordable and accessible housing.

Finland, Europe's best performer in terms of social outcomes combatting homelessness and providing choice for young and old, continues to support strategic public investment in social housing. It has achieved goals Australia could also strive for.

Their social housing system combines a sliding scale of public funding for students, young families, the elderly and people with disabilities with the most cost efficient private financing. It is delivered by both public and private not for profit landlords under limited profit legislation. For a country just under 6 million, Finland is able to produce 9,000 units of fit for purpose social housing every year (being 22% of supply).

[Canada](#) released that nation's first ever national housing strategy in November 2017 viewing housing as a human right and pledging to increase the supply of moderate rent and supportive housing by at least 100,000 homes over 11 years. It has pledged \$16.5 billion towards a National Housing Co-investment Fund.

Meanwhile, also in November, the [UK](#) Government announced \$15.7 billion in direct investment and importantly lifting the public sector borrowing caps for social housing, for the first time since the 1980s.

Conclusion and key recommendations

The National Housing and Homelessness Agreement Bill presents the Australian government with an opportunity to re-engage more effectively with national housing policy and in particular address the acute need for secure affordable housing amongst vulnerable households. To make the most of this opportunity, the Australian government should pursue best international practice, in tune with emerging official priorities in comparator countries such as Canada ([National Housing Strategy](#), 2017), and resume a more responsible and strategic role in capital investment, demand assistance and tax reform.

It is timely the Australian government joins other similarly developed countries to secure better housing outcomes and genuinely expand housing choices. The most effective route to do so is to co-invest in social and affordable housing alongside the National Housing Finance Investment Corporation, thereby promoting stability in residential construction, and providing an investment pipeline for patient capital to deliver more equitable and sustainable housing and urban development outcomes.

An evidence based Commonwealth and State strategy involving publicly led co-investment, cost effective NHFIC debt, tax and planning reform would enable Australian governments have the greatest positive impact on affordable supply and a more equitable allocation of genuine housing opportunities.

The National Housing and Homelessness Agreement bill should be amended to include such a National Housing Strategy to make a real difference to the lives of many Australian households in need of secure affordable housing.

This submission makes the following 20 key points, to inform the Senate on the necessary reforms to the proposed National Housing and Homelessness Agreement Bill:

1. Commonwealth leadership matters and can play a highly effective role in bringing all jurisdictions on board to address housing needs and promote economic stability. The NHHA should commit to a National Housing Strategy.
2. Australian housing policy requires long term cross-jurisdiction and cross-party commitment, the NHHA can provide a mechanism for constructive dialogue and mutual accountability towards such a Strategy.
3. Mechanisms for informing, co-ordinating and resourcing a National Housing Strategy can be outlined in the NHHA.
4. The NHHA should specify the Commonwealth's obligation to co-ordinate a National Housing Strategy, in tandem with state based efforts, drawing on an evidence base, stakeholder consultation and adequate resources to achieve commitment to specific reforms and supply outcomes within its control (evidence base, capital investment, tax reform).
5. In recent years successive Commonwealth governments have devolved responsibilities and withdrawn resources for affordable housing, leading to the deterioration and decline of public housing assets. More responsible levels of resourcing from the

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Commonwealth now necessitate a return to long-term and adequate levels of capital investment, as in comparator countries ([Lawson, Legacy, Parkinson, 2017](#)).

6. Strategic levels and locations of social housing construction can play a productive role in maintaining economic growth, labour market stability and promoting innovation in place making and sustainable building. This role is especially pertinent now as Australia enters a period of decline in residential construction ([BIS Oxford Economics, 2017](#)).
7. There is a substantial backlog in the need for social housing in Australia following 30 years of public disinvestment. While need continues to grow, residential markets are unlikely to respond without clear and long term government commitment. Such a commitment would enable the construction industry and patient investors to play a more effective role and achieve the greatest social benefits. The NHHA presents an opportunity to outline such a commitment known as the 'funding feasibility gap' (Hamilton, 2016 for Commonwealth of Australia).
8. AHURI research has undertaken an assessment of the backlog in need, newly arising need and the cost of procurement over the next 20 years that could inform the basis of targets under a national housing strategy. Ideally such a role would be undertaken by the governments via the National Housing Supply Authority.
9. CRA for private tenants, although important in reducing housing stress, cannot solve problems of supply, access and allocation. A 'bricks and mortar' supply side solution is necessary, requiring the joint effort of all jurisdictions, not for profit landlords and patient capital from superannuation and insurance funds.
10. Unlike the private rental sector, social housing allocates affordable opportunities more fairly and securely to households in need, especially to those not well served by the private rental sector. Not for profit and public housing providers need to be regulated to ensure they carry out this role and the potential for limited profit housing association legislation should be actively explored.
11. Social housing can be used to achieve multiple social, economic and environmental policy goals, beyond social welfare including employment generation, sensitive urban redevelopment, sustainable building standards and even renewable energy generation.
12. There should be balanced access to sources of public funding between public (state housing authorities) and not for profit housing associations, with both beholden to defined community service obligations and regulated under limited profit housing law, as proposed above, which exists in other countries where multi provider social housing systems operate successfully.
13. Efforts to build more efficient and effective tools to channel private investment should be supported, while recognising that mission orientated public co-investment remains crucial to ensure housing accommodates those most vulnerable.
14. The Commonwealth should establish and resource an expert National Housing Supply Authority to annually report to the Australian Parliament on housing conditions, costs and supply using agreed and robust standards of measurement (ISA, 2017).
15. The National Housing and Supply Authority can also support more detailed needs based state and local planning.

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16. With the decline in public investment, the Commonwealth has made important strides towards more cost efficient the role of private investment in social housing, via the National Housing Finance Investment Corporation providing long term turn-key finance, which could also be supported by an expanded role for the Clean Energy Finance Corporation in the provision of development finance for green community housing ([Commonwealth of Australia, 2017](#)).
17. The Commonwealth, State and Territory governments should progress initiatives aimed at closing the funding feasibility gap, including examining the levels of direct subsidy needed for affordable low-income rental housing, along with the use of affordable housing targets, planning mechanisms, tax settings, value-adding contributions from affordable housing providers and innovative developments to create and retain stock as recommended by the Affordable Housing Working Group in 2017 (Recommendation 1, [Commonwealth of Australia, 2017](#)) (Hamilton, 2016)
18. Public housing should be empowered to broaden its tenant base beyond emergency and highest needs clients, to embrace a broader range of tenants and shift its role from welfare silo to broader based community builder together with not for profit providers, providing a refuge, oasis and stepping stone for residents offering a continuum of housing pathways.
19. A more transparent and resourced approach to asset maintenance and replacement is required to improve services to residents, achieve decent housing standards and prevent the deterioration and forced sales of stock ([Lawson et al, 2016](#)).
20. International research informs principles and best practice for commissioning social housing which Australia can draw on and adapt ([Lawson in SGS, 2017](#)).

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