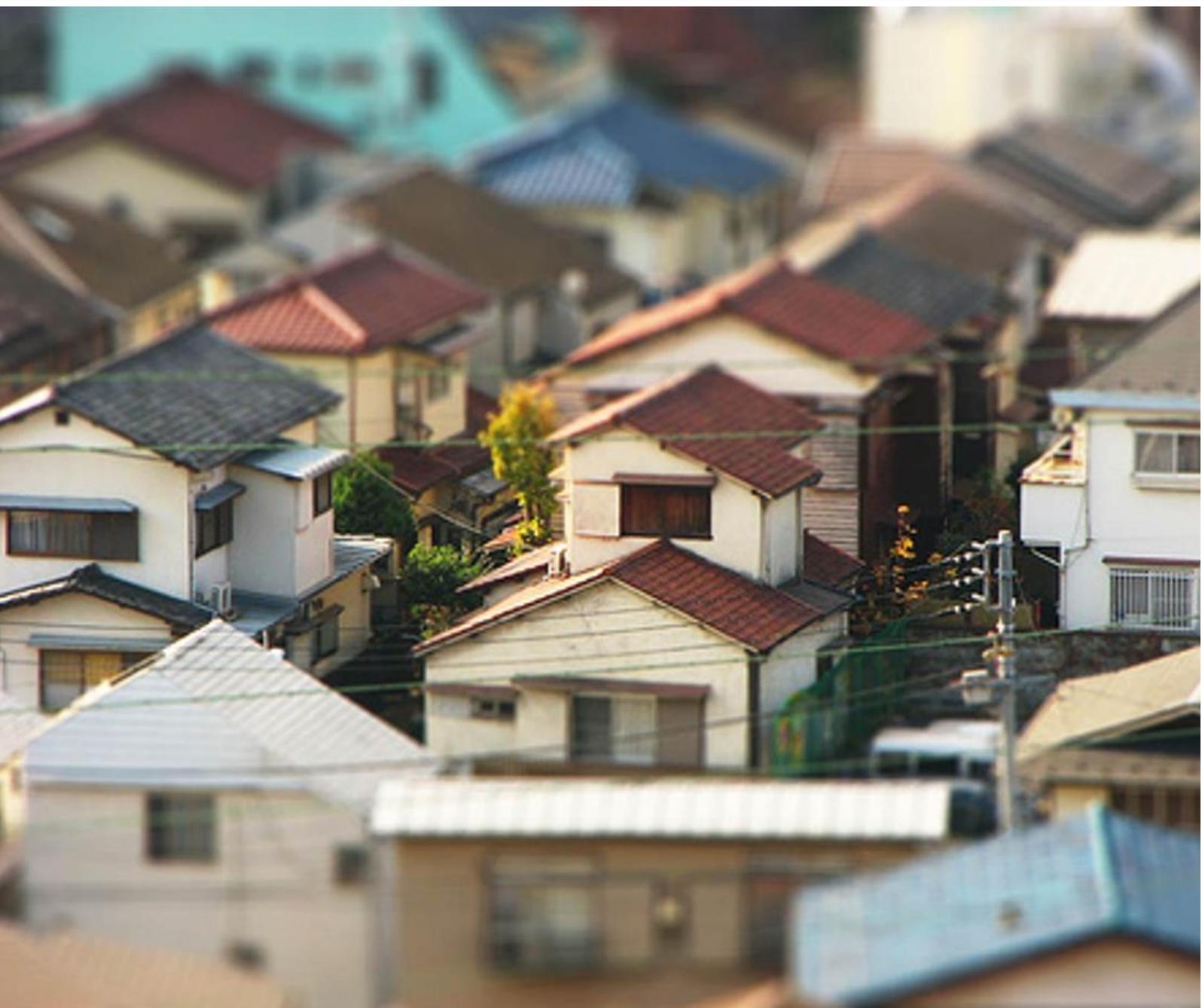


An Affordable Housing Reform Agenda

Goals and Recommendations for Reform



Homelessness Australia

Creating a framework for ending homelessness



ACOSS

The Australian Council of Social Service is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

Community Housing Federation of Australia

The Community Housing Federation of Australia (CHFA) is the national industry body representing the views of community housing providers in Australia.

Homelessness Australia

Homelessness Australia (HA) is the national peak body for the homelessness service sector. HA's broad membership, of 350 organisations, range from large, multi-sited national organisations with diverse client base to small local single-focus services.

National Association for Tenants' Organisations

The National Association of Tenant Organisations (NATO) is a federation of State and Territory-based Tenants' Unions and Tenants' Advice Services across Australia.

National Shelter

We are dedicated to advocating for a fairer, more just housing system, particularly for low-income Australian households. We aim to make housing more accessible, affordable, appropriate, safe and secure for everyone.

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Executive summary

Australia's housing system serves some well and fails other dismally.

House prices in capital cities have reached prohibitive heights for those on, or below, average incomes. Recent projections suggest that the median house price in major Australian capital cities will exceed \$1 million in the next decade.

While homelessness is the most severe consequence of housing failure, Australia's housing supply shortfall is seriously restraining productivity. The country's policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

It cannot be denied that stable housing is essential to raise children, participate in paid work, develop community connections and to maintain health and wellbeing. Few would deny that Australia's housing system is broken. Yet calls for reform have been met by political paralysis.

Budget projections are demanding that poorly targeted and inefficient spending be curtailed. It is now an opportune time to examine Commonwealth/state relations, tax reform and growing concern about intergenerational equity, to overcome this paralysis.

Goals of reform

The recommendations for reform outlined below are designed to ensure:

- Affordable housing is planned and invested in as essential social and economic infrastructure through public and private investment supported by government incentives;
- Housing policy has a central place in government at all levels;
- Secure, long-term and coordinated public and private investment streams deliver steady and adequate growth in the stock of affordable housing dwellings to meet the current and projected shortfall;
- The profile of investors in private rental shifts from away from an overreliance on small scale volatile investment to an increased component of large-scale, long-term investment;
- Assistance to low-income renters better reflects housing costs and is indexed appropriately to ensure it retains adequacy into the future;
- Stronger tenancy regulation delivers greater security for long-term renters;
- Shared equity and similar schemes provide a pathway into ownership for low and moderate income households in partnership with governments and not-for-profit organisations;
- Increased affordable housing supply provides exit points from homelessness and is complemented by an expansion of 'housing first' models;
- Commonwealth/state funding agreements deliver greater transparency and accountability; and
- Funding for homelessness services is long-term and adequate to meet current and projected demand and directed towards the ending of homelessness in line with the targets contained in this paper.

Recommendations for reform

Tax reform

- A common tax discount for individual investments should be introduced in the following assets (excluding active business investment):
 - Rental housing;
 - Shares;
 - Interest bearing deposits;
 - Capital gains.
- This should be substantially lower than the current 50% discount on capital gains and deductions against such investment, including negatively gearing housing, should be similarly discounted.¹
- A consistent approach to the taxation of land and housing should be taken across states and territories with stamp duty progressively replaced with a broader land tax base levied according to value per square metre, with provision for the deferral of payment until sale or death and other provisions for income hardship.

Investment in new affordable housing stock

- A future national affordable housing agreement should adopt specific targets to halve homelessness by 2020; halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025, and meet the shortfall in housing supply available and affordable to the

bottom 40% of household by 2035.

Government investment should comprise 10% or \$15 billion over 20 years, beginning with an additional \$10 billion in the first 5 years.

- Intergovernmental housing agreements (including the current NAHA and NPAH) should be adequately indexed to ensure their real value is maintained.
- In order to facilitate growth in social housing, state governments should accelerate stock transfer to meet the 2009 Housing Ministers' target of up to 35% of stock owned or managed by CHPs by 2020.
- State governments should provide land to new social and affordable housing developments as part of their contribution to meeting targets for net-growth in social and affordable housing, priced at a level (the residual value) that enables providers to meet affordable housing benchmarks.

Innovative finance models

- The Federal Government should convene an expert panel including community housing groups, finance experts, Treasury officials and academics to provide a recommendation to the Government on the best approach to deliver long-term finance to grow social and affordable housing stock.
- This should include modelling of a range of options to leverage low-cost private finance (including housing supply bonds, guarantees and establishing a Housing Finance Corporation) to fund an affordable housing growth fund.

¹ Australia's Future Tax System Panel (2010): *Australia's Future Tax System: Report to the Treasurer*, Commonwealth of Australia.

- The Federal Government should build on the strengths of the National Rental Affordability Scheme to increase the supply of affordable rental housing. Funding for Round 5 incentives in the 2014-15 Budget should be reinstated to deliver 12,000 additional affordable rental dwellings and maintain investor confidence in the program, while the program is reviewed and problems are addressed to ensure a viable future program of incentives for private investment.

Urban planning, land and building regulation

Effective planning for affordable housing should include a range of specific planning mechanisms to retain, promote and create new affordable housing.² Within this framework, state housing policy and planning legislation should promote affordability and enable affordable housing creation through:

- Increasing land availability for affordable housing;
- Reducing barriers to affordable housing investment;
- Preserving social and affordable housing; and
- Securing dedicated affordable housing in new developments.

² Australian Housing and Urban Research Institute (2008): *International practice in planning for affordable housing: lessons for Australia*. AHURI Research and Policy Bulletin, July 2008.

It should also ensure an adequate and expanded supply of flexible accessible housing for an ageing population and for people living with disabilities. To this end planning systems and building codes should ensure:

- An accessible path of travel from the street or parking area to and within the entry level of a dwelling;
- Doors, corridors and living spaces that allow ease of access for most people on the entry level; and
- A bathroom, shower and toilet that can be used by most people, with reinforced wall areas for grab-rails at a later date.³

Commonwealth Rent Assistance

- The maximum rate of CRA should be increased by 30% in the 2015-16 Budget;
- A review of rental subsidies in private and public rental housing should be conducted. This should include an expert review of CRA indexation with recommendations to ensure the future adequacy of the payment in the context of rising housing costs.
- To ensure the future adequacy of CRA, the 3 yearly independent review of pension adequacy should have scope to regularly review the adequacy and indexation of all payments, including CRA; and
- Social housing rent setting should continue to ensure that households are not left in after-housing poverty.

³ Rights and Inclusion Australia and the Australian Network for Universal Housing Design: *Position Statement*.

“We can’t get away from the role or contribution of governments to the problem we’re in. We need to distinguish between affordable housing, and housing affordability, and we need policies for both. The role of government is to take the punch bowl away when the party kicks off. Nobody has taken the punch bowl away from Australians at this point in time. Everybody who comes here from Britain notices the incentives for middle class ownership are amazing: negative gearing and capital gains arrangements are effectively turning people into multi owners of units, and other people can’t get into the market at all.”

Dr Tim Williams, CEO, The Committee For Sydney

Tenancy Law Reform

- The Australian Government should enshrine in legislation the right to adequate housing.⁴
- State and territory governments should work to strengthen tenancy protections in the priority areas identified above.
- The interest generated by rental bonds, which are required in most states and territories to be lodged with a government agency, should be used as a funding stream to support tenants’

advice and advocacy services. This would grow in proportion to the rental sector and hence demand for services.

Homelessness

Funding agreements

- Governments need to establish multipartisan long-term (four+ years) funding agreements for the services that prevent, intervene early in, and support people experiencing homelessness. These agreements need to be
 - Indexed annually at a level that continues to meet the costs (including wages) of providing the services, capital and research funded under the agreements.
 - Negotiated and drafted in a manner that involves the homelessness sector and wider civil society in a collaborative fashion with government.
- Funding agreements need to include funding for ongoing service research and innovation to ensure best practice achievement of the goals to prevent and end experiences of homelessness.

⁴ For more on the right to adequate housing, see the United Nations Housing Rights Program:

<http://mirror.unhabitat.org/categories.asp?catid=282>

For an example of the right to adequate housing in legislation, see section 26 of the South African Constitution:

Everyone has the right to have access to adequate housing.

The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.

<http://www.constitutionalcourt.org.za/site/constitution/english-web/ch2.html>

Coordination of homelessness services, funding and initiatives between jurisdictions

- A mechanism for coordination of homelessness policy and service delivery should be established. This could sit under COAG but must ensure engagement with community organisations delivering housing and homelessness services.

Interim funding

- In the short term, current funding arrangements need to be maintained and extended while reform processes such as the Federation White Paper occur, and longer term recommendations contained within this paper are implemented. In particular:
 - Governments need to extend the National Partnership Agreement on Homelessness for at least an additional two years.
 - The National Affordable Housing Agreement needs to be re-indexed to meet the costs of providing the homelessness services that it provides. This needs to include a true wage-based indexation for employment costs contained within the funding.

Housing, homelessness and the Federation

- Housing affordability should be elevated to Cabinet level in the Federal Government through the introduction of a National Housing Minister. This portfolio would have the responsibility to coordinate across Federal Government portfolios (including

infrastructure, urban and regional development, employment and social services) and to partner with state and federal governments.

- The Commonwealth should maintain Federal policy responsibility to ensure broadly equitable access to services and support to people across the country, regardless of where they live, including homelessness and housing policy and funding arrangements.
- The Commonwealth and State and Territory Governments should establish a clear reporting framework for the NAHA and NPAH with a COAG select committee to oversee the implementation and reporting on this agreement.

“The central political challenge of government is to recognise they have a role to play (in housing policy). The idea that governments don’t shape markets by their interventions is fiction. We just have a badly shaped (housing) market that needs heavy intervention”
**Prof Duncan Maclennan,
University of St Andrews,
Scotland**

Introduction

This paper has been developed by a group of community sector organisations, including national housing, homelessness and social service peak bodies and service providers, concerned about the state of affordable housing policy in Australia.

It seeks to highlight acute challenges in the housing market and to inform and influence current debates about the future of the Federation, the tax system and national housing policy.

The paper unpacks the causes of Australia's current housing market failure, defines a number of reform goals, and advances recommendations for reform to create a more affordable, fair and efficient housing system which also systematically addresses homelessness.

A core concern is housing stress experienced by lower income households, but it is also understood that the failures of the housing market are affecting people on moderate incomes and pose particular challenges for young people and older retirees renting privately.

If housing continues to be viewed by governments as a welfare issue, rather than an infrastructure issue, the current problems in the Australian housing market will continue to impede economic activity, participation and productivity. The market will also continue to fail to provide adequate housing for all people.

In order to drive an affordable housing reform agenda, it is recommended that the Federal Government adopt clear targets to increase the supply of affordable housing and reduce homelessness as follows:

- Halve homelessness by 2020 (To 50,000 people experiencing homelessness on any given night and 125,000 persons requiring specialist homelessness services each year);
- Halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025; and
- Meet the shortfall in housing supply available and affordable to the bottom 40% of household by 2035, thereby ending homelessness caused by lack of housing.

“National governments have to recognise what the issue is here in terms of resourcing housing policy. Housing policy has to be seen not simply as social policy for the poorest people. Australia can do better in that regard, it’s about housing outcomes for all of us, which involves tax, planning, and expenditure.”

Prof Duncan MacLennan, University of St Andrews, Scotland

The problem

Australia's home ownership levels are declining. The proportion of households who own outright is now smaller than the proportion who have a mortgage, and is continuing to diminish. This is a significant problem for a country whose retirement income system is based on outright home ownership in retirement.

House prices continue to rise nationally. They are rising faster in our two major cities (Sydney and Melbourne) which, between them, house 40% of the population. Average Australian house prices are approximately 4-5 times the average annual household earnings.⁵

Nationally, four in five private rental households in the lowest 20% of incomes are in unaffordable housing situations (paying more than 30% of income in rent). Additionally, more than 30% of the second lowest quintile is also experiencing housing stress.⁶

Australia has a shortfall of housing supply, estimated by the most recent reputable assessment as over 500,000 rental dwellings which are both affordable and available to the lowest income households.⁷

⁵ Ryan Fox and Richard Finlay (2012): *Dwelling prices and household income*, Reserve Bank of Australia Bulletin, December Quarter 2012. Available: <http://www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>

⁶ Kath Hulse, Margaret Reynolds and Judith Yates (2014): *Changes in the supply of affordable housing in the private rental sector for lower income households, 2006-2011*, AHURI

⁷ National Housing Supply Council (2012): *State of Supply Report 2012*. The actual figure is 539,000. The figure of

One result of these pressures is that many Australians become, or remain homeless due to a lack of affordable housing. More than 105,000 people were counted as homeless on census night in 2011, in increase from just over 89,000 in 2006.⁸ This figure probably significantly underestimates the number of people affected by homelessness. The Australian Institute of Health and Welfare reported that 254,000 people sought help from specialist homelessness services during 2013-14,⁹ and an additional 423 requests for support were unable to be met each day. Funding to homelessness services is inadequate to meet the needs of people.

While homelessness is the most severe consequence of housing failure, Australia's housing supply shortfall is becoming a serious brake on productivity. Our policy and tax mix distorts investment decisions, is a barrier to workforce participation and mobility, contributes to house price inflation and exacerbates inequality and social exclusion.

Australia currently has 414,000 social housing dwellings dedicated to households on the lowest incomes, often with the highest needs.¹⁰

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

⁸ Australian Bureau of Statistics (2012): *Estimating Homelessness 2011*, p5

⁹ Australian Institute of Health and Welfare (2014): *Specialist Homelessness Services 2013- 14*, pvii

¹⁰ Productivity Commission (2015): *Report on Government Services*, 2014.

In real dollar terms, there has been a decline in investment in social housing. Between 1991 and 2001 funding for social housing fell by 25%.¹¹ This fall continued in the next decade, with base federal funding to social housing declining 10% in real terms between 2003 and 2013. The exception to this was the one-off Social Housing Initiative (SHI).¹² However, the steady decline in social housing stock has led to very long waiting lists and the targeting of social and affordable housing to highly disadvantaged tenants often with complex needs.

Australia needs to build significantly more dwellings, particularly at the low cost end of the housing supply spectrum, to meet current and projected needs. With projected growth of 150,000 households per year over the next 20 years, standing still will constrain economic growth and productivity.

This paper seeks to engage with the critical policy question: what is the investment and policy mix required across governments, the community and the private sector to address the investment shortfall and build Australia's affordable housing supply?

Although it is fundamental to economic participation, affordable housing is not currently considered by governments to be part of the nation's infrastructure agenda. As a

¹¹ Hall and Berry (2004), quoted by Toohey, S (2014) *The Failure of the Housing System*, Homelessness in Australia an Introduction, edited by Chamberlain, Johnson and Robinson, University of NSW, Sydney

¹² Toohey, S (2014) *The Failure of the Housing System*, Homelessness in Australia an Introduction, edited by Chamberlain, Johnson and Robinson, University of NSW, Sydney

It's fundamental that local councils are more empowered, and that people within local communities tell their councillors and mayors that affordable housing is an issue. If they do this, that will go to state and federal governments and we might have the leadership to make a change

Andrew McAnulty, CEO, Link Housing

result of this broader disconnect, many of the policies pursued by Australian governments in the name of housing affordability¹³ serve to increase demand for housing, while failing to tackle the regulatory and cost barriers to housing supply.¹⁴ These housing market failures need to be addressed if Australia wishes to increase our national productivity.

While the responsibilities for affordable housing and homelessness are shared between the three levels of government, each level has historically looked to blame the others for the failures of the housing and homelessness system. This has contributed to policy paralysis and undermined efforts to collaborate and coordinate policy. The current review of the federation shines a spotlight on housing and homelessness policy and provides an opportunity to grapple with these complexities at a systemic level.

¹³ Such as the first home buyers grants and concessions.

¹⁴ Kirchner, S. (2014): *Eight Housing Affordability Myths* The Centre for Independent Studies.

Reforming housing tax concessions to improve affordability

Housing gets special treatment by Australia's taxation system.

Owner-occupied housing is exempt from Federal capital gains tax, which means that if the owner sells the residence for more than they paid then no tax is not paid on the gain. Owner-occupied housing is also exempt from state land tax. This encourages people with money to spare to spend, or borrow and spend, on their own housing.

The special treatment afforded to owner-occupied housing encourages people to become landlords as landlords, while not exempt from capital gains tax or land tax, can sell their rental properties in the inflated market.

Tax payers carry the burden of these concessions. In 2013-14, main residence housing tax concessions cost \$45 billion in foregone revenue and increased significantly (from \$29.5 billion in the previous year) as a result of higher than expected increases in house prices. Capital Gains Tax Concessions for investment assets, including but not limited to housing, amounted to \$5.8 billion that year.¹⁵

Over the last fifteen years, the amount of money borrowed and spent on housing has increased substantially, but the amount spent on new housing supply has changed very little.

15 Australian Government (2015): *Tax Expenditures Statement 2014*, available: <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/TEs-2014>.

Instead, speculative spending has inflated house prices, and priced out many would-be owner-occupiers who are required to rent for longer. Australia's taxation system creates competition between investors and owner-occupiers for the same properties, adding inflationary pressure.

It has also distorted the shape of the rental market, with more high-value, high-rent stock being brought into the rental sector, and low-cost, low-rent properties dropping out.

Speculation in housing has frustrated would-be owner-occupiers, and severely disadvantaged low-income households.

A tax reform package, addressing these problems, should be developed as a result of the Review of Federation process that is examining the nation's taxation system. Tax reform should aim to minimise distortions caused by the tax system through more consistent treatment of investment incomes and improve housing affordability. These goals were endorsed by a broad cross-section of business and community groups at a tax reform conference in December.¹⁶

The following housing tax reform principles should be adopted to ensure sustainability, efficiency and fairness, and to manage reform transitions:

- A reform package should include Federal, state and territory taxes;

16 See ACOSS and the Business Coalition for Tax Reform (2015): *Media Release: Joint community-business tax reform gains momentum*, 7 February 2015 available http://www.acoss.org.au/media/release/joint_community-business_tax_reform_dialogue_gains_momentum.

- Reforms should remove inefficiencies and distortions in the tax treatment of investment income;
- Reforms should as far as possible improve equity in the distribution of income and resources among households;
- Reforms should improve affordability, especially for people on low incomes;
- Reform proposals should ensure a stable and sustainable state and territory revenue base;
- The reform process should be implemented gradually to protect existing housing investors and ensure a staged market transition.
- Revenue from housing tax reform should be directed to fund the growth of affordable housing stock and community infrastructure.

Treatment of housing investment income: negative gearing and capital gains

The tax treatment of rental housing encourages speculative investment.

This arises due to the combination of capital gains and negative gearing arrangements. First, capital gains are taxed at half the rate of tax on income from rent and work. This encourages landlords to borrow and spend ('gearing'), in pursuit of large capital gains. Many landlords do so to the extent that the cost of their borrowing is more than the rent they receive (this is 'negative gearing'). Secondly, Australia's tax system allows landlords to deduct the costs of negative gearing from their non-rental income which means landlords can wear larger losses, push their gearing harder, and spend more. Further, capital gains are taxed on sale (often years after they are accrued) while deductions can be deducted annually against other income.

More than 90% of investment in negatively geared housing stock is in existing properties, thereby inflating housing costs and fuelling speculative booms in the housing market.¹⁷ This tax concession also skews investment in housing towards individual investors rather than institutions, and towards investments yielding capital gains rather than a stable rental income stream.

Speculative investment also poses broader risks for our economy as noted by the final report of the Financial System Inquiry:

*"The tax treatment of investor housing, in particular, tends to encourage leveraged and speculative investment. Since the Wallis Inquiry, higher housing debt has been accompanied by lenders having a greater exposure to mortgages. Housing is a potential source of systemic risk for the financial system and the economy."*¹⁸

Although the profile of investors is somewhat mixed, the tax benefits of negative gearing are heavily skewed to high income earners, providing ten and a half times the benefits to the top 20% of households (around \$3,800 a year) than they do to the lowest 20% (around \$364 a year).¹⁹ The arrangement benefits those who can borrow to invest and especially those with higher marginal personal tax rates. While

17 Saul Eslake (2013): *50 Years of Housing Failure* Prosper Australia, available at: <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

18 Financial System Inquiry Panel (2014): *Financial System Inquiry, Appendix 2, Tax Summary*. Commonwealth of Australia. Available: <http://fsi.gov.au/publications/final-report/appendix-2/>.

19 Yates, J. (2009) *Tax expenditures and housing* AHURI for the Brotherhood of St Laurence, Melbourne.

this tax treatment applies to all passive investments, it has supported a substantial increase in investment in rental housing, particularly since the 1999 decision to provide a 50% capital gains tax discount, with the number of such investors increasing by around 30% in the decade since the CGT changes.²⁰ The discount on the rate of capital gains tax should be reduced, and the treatment of negative gearing reformed.

The proposals for reform to capital gains tax and negative gearing outlined by the Henry Tax Review provide a sound basis to continue discussion of reform of housing and other investment income concessions.²¹ The recommendation below proposes a common tax discount for investment incomes which is significantly lower than the current 50% capital gains tax concession. It is informed by the Henry Tax Review proposal. The Review panel's stipulation that reforms should be undertaken so as to ensure a smooth transition, and be complemented by reforms to housing supply and assistance is also sound.

A common tax discount for individual investments should be introduced in the following assets (excluding active business investment):

- Rental housing;
- Shares;
- Interest bearing deposits; and

²⁰ In 2005-6, tax subsidies for investment properties were estimated to be \$1.2 billion for negative gearing and \$4.2 billion from capital gains tax discount. *Ibid.*

²¹ Australia's Future Tax System Panel *op cit.*

- Capital gains.

This should be substantially lower than the current 50% discount on capital gains, and deductions against such investment should be similarly discounted.

Stamp duties and land tax

In all jurisdictions except the Northern Territory, land taxes are currently levied according to use and the size of holdings. In most cases land tax is not levied on the primary place of residence. Crucially, land taxes are generally charged based on the value of an investor's entire portfolio, rather than the sum of the land tax that would apply to each individual property within a portfolio.²² This increases the total land tax payable for large portfolios and discourages institutional investment.

In all jurisdictions except the ACT which is phasing them out, stamp duties are levied on home purchasers, regardless of whether they are investors or intend to occupy the dwelling themselves.²³

Land tax has many potential advantages, it discourages speculation in land and housing, encourages productive development, is simple to administer and difficult to avoid, and cannot be passed onto tenants. Australia's present system does not realise all these advantages, because considerable land is excluded from

²² Gavin Wood, Rachel Ong and Ian Winter (2012): *Stamp duties, land tax and housing affordability: the case for reform* 27 Australian Tax Forum at 344.

²³ Stamp duty is currently charged in the ACT, however it is being phased out over a 20 year period and will be replaced by a broad-based land tax.

the tax base (in particular, land used for primary place of residence and primary industry), and the rates structure discourages large-scale institutional ownership. Land tax should be reformed to have a broader base, and land tax rates be restructured so as to be applied progressively, according to value per square metre.

Stamp duties cause a number of undesirable distortions in the housing market, including:

- increasing the deposit gaps for first home owners;
- increasing the cost of moving house which can result in the reduction of the effective supply of housing;²⁴ and
- creating a disincentive to labour mobility.

The logic of replacing stamp duties with an extended land tax is explained in by Wood, Ong and Winter (2012) which lists the benefits of such reform. It would lead to:

- downward pressure on house prices;
- faster development of old industrial sites;
- easier entry to home ownership for first home buyers;
- increased supply of private rental accommodation;
- a reduction in the number of taxes (by one); and
- removal of a barrier to labour mobility.²⁵

24 This can affect people at varying stages of their housing career. For people with a growing family or changing needs it can incentivise undertaking a house extension over moving to a more suitable dwelling, and for people with spare rooms or living in less accessible housing it can discourage moving to a smaller or more appropriate dwelling.

They also proposed a strategy for managing the reform transition, to avoid current home owners from having to pay land tax on properties for which they had already paid stamp duty. It would be necessary to ensure that the land tax base more than offsets the lost revenue from the abolition of stamp duty, to ensure a sustainable revenue stream for state and territory government.

Recommendation

A consistent approach to the taxation of land and housing should be taken across states and territories with stamp duty progressively replaced with a broader land tax base levied according to value per square metre, with provision for the deferral of payment until sale or death and other provisions for income hardship.

25 Gavin Wood, Rachel Ong and Ian Winter, *Op Cit.* 344.

Tax status of community housing providers

Community housing providers' charitable tax status is an essential component of the community housing model. This tax status gives providers access to a range of tax concessions which lower operating, construction and development costs for providers. However, access to these concessions is contingent on a community housing provider satisfying the Australian Charities and Non-Profit Commission (ACNC) and the Australian Tax Office (ATO) that their organisation's purpose (as stated in their constitution) meets the criteria for charitable status.

Over the last several years the community housing sector has operated under the threat and uncertainty that many of its activities, especially in the delivery of affordable housing, could jeopardise their charitable status. Legislation, passed in June 2013, contained tax conditions that included the re-introduction of ATO discretion to refuse tax exemption to a charity if the ATO considered the charity is not meeting a governing rule or applying its assets 'solely' to its charitable purpose. This revisits a problematic area around the interpretation of 'solely' and what activities are deemed acceptable to demonstrate that income and assets are being appropriately applied.

This unsettling environment in the charities and tax arena will cause continuing uncertainty for the sector for planning in the affordable housing market and may limit their participation for fear of putting their charitable tax status at risk.

Policy consistency and eligibility certainty is essential to allow community housing providers to make decisions about how to

structure their business to comply with charity and tax law. To meet governments' growth expectations of the sector and to achieve maximum participation by community housing providers in the delivery of social and affordable housing, appropriate tax policies must enable participation by the community housing sector, not hinder the sector's involvement in affordable housing.

Recommendations

Tax treatment should allow community housing providers to work across the market by:

- Ensuring that ATO 'special conditions' concerning governance rules and use of income and assets not restrict community housing providers from providing a range of affordable housing activities across the market;
- Ensuring that there are no tax impediments to residential rental real estate being an attractive investment class for wholesale property investors such as real estate trusts.

Investment in new affordable housing stock

Government funding for housing has shifted over the past 50 years from direct capital investment in affordable housing properties, to providing preferential tax treatment for investment in private housing with rent assistance for people on lower incomes.

As a result, there has been a reduction of low cost housing that is available to people on low-incomes. To meet shortfalls, identified by the National Housing Supply Council, of at least 500,000 properties available and affordable to the bottom 40%²⁶ will require an investment mix over 20 years of more than \$150 billion. Governments cannot be expected to meet that target alone but must develop incentives to attract it from institutional and private sources.

Due to declining funding to social housing from both the Commonwealth and state governments in recent decades there is now an enormous cumulative funding shortfall. This has led to the proportion of all dwellings that are social housing, to decline from 4.7% to 4.5% between 2006 and 2011, despite a modest increase in the actual number of stock.²⁷ This has occurred at a time when the Commonwealth's Social Housing Initiative was bringing online 20,000 new social housing dwellings and paying for renovations of 80,000 more as part of the Government's stimulus package.

²⁶ National Housing Supply Council, *Op.Cit.*

²⁷ Australian Institute of Health and Welfare (2013). *Australia's Welfare 2013*, Commonwealth of Australia p 118

Australia's share of social housing is low by international comparison and declining by any reasonable comparison.²⁸

No single level of government can meet the challenge of declining stock. A mixture of funding inputs, including private sector investment, is required to arrest the decline. A combination of capital investment (direct grants, land, and asset transfers) is needed to increase supply, and operational funding (tax incentives, income support rental supplements), to ensure long-term viability of the social and affordable housing system

Direct grants

The National Affordable Housing Agreement (NAHA) provides the primary funding for public housing, with the Commonwealth providing \$6.2 billion to the States over the five years from 2009. Other contributions are primarily generated through rents and state contributions, which since 2009 have not been prescribed. The NAHA funding includes funding for homeless services (estimated at approximately \$250 million) with the balance spent on housing. Rather than funding supply growth, the NAHA has acted as an operational subsidy to the States to prop-up a system in which rents no longer cover operating costs or

²⁸ The U.K. has some 18% of all housing in the form of social housing and a much smaller private rental sector compared to Australia. The Netherlands has 35% of all housing in a broad social or affordable band while the U.S. and Canada have around 5% of housing as social housing. J Lawson and V Milligan (2007): *International trends in housing and policy responses*, AHURI Final Report No. 110, AHURI, Melbourne.

modernization of ageing housing stock, due to the reduction in full rent paying tenants, smaller household sizes and tighter targeting to those on the lowest incomes.

An effective social housing system is critical to address the failure of the low cost end of the housing market to provide adequate shelter to people with low incomes. This failure was seen historically in the development of slums in Australian cities. Today it is seen in the use of boarding houses, caravan parks and tents as long-term shelter for some people. Direct capital funding for social housing will continue to be essential to achieve growth in social housing stock to ensure that the population can secure adequate and affordable housing.

Investing in the construction of housing infrastructure (specifically social and affordable housing) not only supports the critical social outcomes attached to shelter, but also has a multiplier effect for the economy. A 2012 KPMG review of the Social Housing Initiative identified that:

For every \$1 of construction activity, around \$1.30 in total turnover is generated for the economy... This includes direct effects such as on employment, and industry turnover; and indirect effects, driven by additional spending from the construction industry, construction industry employees and business that supply the construction industry.²⁹

This cost/benefit ratio clearly demonstrates that investing in affordable housing has both social and economic benefits.

²⁹ KPMG (2012): *Housing Minister's Advisory Committee: Social Housing Initiative Review*, p.17.

Recommendation

- A future national affordable housing agreement should adopt specific targets to halve homelessness by 2020; halve the shortfall in housing supply available and affordable to the bottom 40% of household incomes by 2025 and meet the shortfall in housing supply available and affordable to the bottom 40% of household by 2035. Government investment should comprise 10% or \$15 billion over 20 years beginning with an additional \$10 billion in the first 5 years.
- Intergovernmental housing agreements (including the current NAHA and NPAH) should be adequately indexed to ensure they do not lose their real value over time.

'There is a high level of anxiety in the construction industry about what we're meant to be delivering. If the definition of affordable housing was clear, if there was good leadership from government on what the industry is meant to deliver, we would embrace it'

**Toby Long, GM of Master Planned Communities,
Mirvac**

Property transfers and land contributions

Transferring ownership of public housing stock from state governments to community housing providers (CHPs) offers an opportunity to grow the number of social housing properties available by allowing CHPs to leverage the additional income that these assets earn when managed by non-for-profit organisations (CRA, access to tax concessions etc), plus taking advantage of underutilized land when redeveloping to invest in new housing supply. This is facilitated by CHPs owning the title to those dwellings. Additionally, CHPs are well placed to conduct asset renewal and community development once properties have been transferred.

While the contribution to overall stock levels was modest, the Commonwealth's Social Housing Initiative generated significant growth in the stock owned and managed by not-for-profit CHPs. More than 19,700 new social housing dwellings were built under the initiative with the assistance of the not-for-profit sector.³⁰ The Commonwealth, often with contributions of land from States, provided funding for the new housing. A proportion of this stock was then transferred to CHPs, however transfers have been patchy from state to state.

By taking on these assets, CHPs have a base for private leverage that can underpin the further expansion of housing stock where appropriate financing is available. Mandated

targets have been used to ensure stock expansion as a condition of the transfers.

Research commissioned by National Shelter suggests that title transfers play an important role in supporting CHPs to leverage their assets. However, it found that this will only increase growth where a CHP holds title to a significant proportion of stock (estimated to be at least one third of their portfolio).³¹

Recommendations

- **In order to facilitate growth in social housing, state governments should accelerate stock transfer to meet the 2009 Housing Ministers target of up to 35% of stock owned or managed by CHPs by 2020.**
- **State governments should provide land to new social and affordable housing developments as part of their contribution to meeting targets for net-growth in social and affordable housing, priced at a level (the residual value) that enables providers to meet affordable housing benchmarks.**

30 Social Housing Initiative, The Department of Social Services - <https://www.dss.gov.au/our-responsibilities/housing-support/programmes-services/social-housing-initiative>

31 Ferrer, Crawford for National Shelter, 2013. Available www.shelter.org.au

Expanding affordable housing through innovative finance

Access to a continuous pool of low-cost, long-term private funding would accelerate the rate of growth in affordable housing and increase the scale of developments. A new asset class of private investment in rental housing is possible but it will require government underpinning through a well-designed finance mechanism.

Experience overseas suggests such a mechanism is eminently viable and would come at a significantly reduced cost to government in comparison with the outlay required to maintain another Social Housing Initiative, for example.

The following outlines some innovative finance models that could be used to accelerate the rate of growth in affordable housing.

Housing supply bonds

Internationally, governments have created housing supply bonds to generate capital to invest in new affordable housing.³² Affordable housing supply bonds are designed to reduce the cost of funding available for community

32 Milligan, V., Yates, J., Wiesel, I. & Pawson, H. (2013). *Financing rental housing through institutional investment*. AHURI, Melbourne. Available: http://www.ahuri.edu.au/publications/download.asp?ContentID=ahuri_71016_fr1; Lawson, J., Milligan, V. & Yates, J. (2012). *Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?* AHURI, Melbourne. Available: <http://www.ahuri.edu.au/publications/projects/p30652>; Lawson, J. (2013). *The use of guarantees in affordable housing investment—a selective international review*. AHURI, Melbourne. Available: http://www.ahuri.edu.au/publications/download/ahuri_53019_pp.

housing providers, which enhances their capacity to increase the supply of affordable rental housing. The bonds would be attractive to retail and institutional investors through a mix of tax incentives and government guarantees. Bonds could also be issued directly by government, or using financial intermediaries with the Commonwealth providing a low-risk guarantee to support this activity.

The model proposed by the Australian Housing and Urban Research Institute would involve a combination of Government funding and private bond finance indirectly subsidised through tax incentives and Government guarantees.³³ The costs of establishing such a scheme here have been estimated at \$25 million in the first year (\$145 million over the forward estimates), which could raise \$2 billion in bonds and generate 7200 new dwellings, in addition to the costs of setting up a housing finance intermediary (estimated at approximately \$10 million per annum).

Guarantees and tax credits

The use of a government guarantee to unlock construction finance provides significant cost savings as direct, actual costs for governments are lowered. Debt is accounted by the housing provider or developer, while the government notes the contingent liability based on accepted accounting standards. Experience overseas is of a very low rate of default and documented minimal impact on balance sheet and credit rating.

33 AHURI (2014): 'How might bond finance expand affordable housing in Australia?', Issue 173, June 2014

Tax incentives can also be used to increase effective returns. These can be built into the design of a bond to support finance.

National Rental Affordability Scheme

NRAS is the only substantial program which seeks to encourage institutional investment in below-market housing. In contrast, a range of tax incentives and exemptions are provided by the Commonwealth Government to owners and investors of full-market housing for which there is little social return.

While the original NRAS program committed support for 50,000 additional low rent dwellings, the final round of incentives was cancelled, reducing the program by 12,000 homes. As the only program that currently exists to attract private investment in affordable housing, expansion and improvements are needed to reward the interest of the large-scale investors it was initially intended to attract. It is imperative that market confidence is maintained in this relatively new asset class to stimulate private investment. Otherwise the long memories of the institutional investment sector could doom any future effort to fund housing off the government balance sheet.

- The Federal Government should convene an expert panel including community housing groups, finance experts, Treasury officials and academics to provide a recommendation to the Government on the best approach to deliver long-term finance to grow social and affordable housing stock.
- This should include modeling of a range of options to leverage low-cost private finance (including housing supply bonds, guarantees and establishing a Housing Finance Corporation) to fund an affordable housing growth fund.
- The Federal Government should build on the strengths of the National Rental Affordability Scheme to increase the supply of affordable rental housing. Funding for Round 5 incentives in the 2014-15 Budget should be reinstated to deliver 12,000 additional affordable rental dwellings and maintain investor confidence in the program, while the program is reviewed and problems are addressed to ensure a viable future program of incentives for private investment.

Recommendations

‘We’re keen to get some action at all levels of government. This is one of the most critical issues for the state election. It’s about the community, society and country we want to live in, and it’s up to all of us to do something about it.’

Clover Moore, Lord Mayor of Sydney

Urban planning, land and building regulation

Effective urban planning and building approvals systems are critical to encourage the efficient supply of land and housing types that meet the diverse housing needs of all Australians.³⁴

State and territory land use planning systems could be enhanced to better support and promote affordable housing for low and moderate income households. The land use planning system plays a central role in promoting housing affordability in many cities elsewhere including in the United Kingdom, Ireland, North America and the Netherlands.³⁵ In contrast to international practice, there has been fairly limited implementation of affordable housing planning approaches in Australia to date.³⁶

Planning for affordability and new affordable housing creation can be grouped under four key strategic objectives:

1. Increasing land availability for affordable housing

State, territory and local governments should audit government-owned land to identify suitable properties for social and affordable

housing development, including innovative approaches such as land above car parking or over rail corridors, or as part of urban renewal projects or transit-oriented developments. Governments can also dedicate and acquire land for affordable housing purposes, as well as include incentives or penalties in land development approvals to encourage affordable housing construction. State Land and Urban Development Authorities should have specific affordable housing mandates built into their objectives.

2. Reducing barriers to affordable housing investment

State, territory and local governments should assess the impact of current and proposed planning regulation on the production of affordable housing, and include housing affordability as a positive factor for consideration in development approvals. Development controls should permit the development of social and affordable housing in established areas, and planning mechanisms should be available to speed up planning approval for social and affordable housing. State, territory and local governments should initiate community discussion and consultation to inform the community about affordable housing and its impact on local neighbourhoods.

3. Preserving social and affordable housing

State and territory Governments should put in place planning protections for social and affordable housing, particularly in high-amenity locations such as the inner city. Where social or affordable housing properties are re-developed, they should result in no net loss of housing dwellings, ideally on the same site and required to be in the local community. Where families and individuals must relocate due to loss of affordable housing options, state

³⁴ http://www.planning.wa.gov.au/dop_pub_pdf/Planning_for_Affordable_Housing_Discussion_Paper_-_Final_Draft.pdf

³⁵ AHURI, *Policy brief: International practice in planning for affordable housing: lessons for Australia*, pg 1 <http://www.ahuri.edu.au/publications/projects/p60322>

³⁶ *ibid*

governments must require or provide assistance so that residents can remain in their local communities without significant financial penalty.

4. Securing dedicated affordable housing in new developments

State and territory governments should implement planning tools that leverage additional social and affordable housing from new development. These tools include graduated planning controls for social and affordable housing, such as reductions in parking requirements in locations with good public transport. Other incentives and bonuses can be introduced to induce additional affordable housing in development, including allowing increased dwelling density or reducing fees and charges for affordable developments. A number of models of inclusionary zoning can be applied, including requiring a fix percentage of multi-dwelling development to be allocated to social or affordable housing, or an equivalent contribution to their construction nearby.

As Australia's population ages and the country continues to reform its approach to facilitating the participation of people with disabilities and an increasingly older population, it is also important to recognise a role for design and planning in the development of an adequate supply of flexible housing capable of catering for current and future need. To this end, and as a minimum, encouragement must be given to planning systems and building codes to incorporate and encourage innovative design and development to ensure housing caters for the increasing demand and flexibility.

Recommendations

Effective planning for affordable housing should include a range of specific planning mechanisms to retain, promote and create new affordable housing.³⁷ Within this framework, state housing policy and planning legislation should promote affordability and enable affordable housing creation through:

- Increasing land availability for affordable housing;
- Reducing barriers to affordable housing investment;
- Preserving social and affordable housing; and
- Securing dedicated affordable housing in new developments

It should also ensure an adequate and expanded supply of flexible accessible housing for an ageing population and for people living with disabilities. To this end planning systems and building codes should ensure:

- An accessible path of travel from the street or parking area to and within the entry level of a dwelling;
- Doors, corridors and living spaces that allow ease of access for most people on the entry level; and
- A bathroom, shower and toilet that can be used by most people, with reinforced wall areas for grab-rails at a later date.³⁸

³⁷ *Ibid*

³⁸ Rights and Inclusion Australia and the Australian Network for Universal Housing Design, *Op.Cit.*

A better system for tenants: principles, priorities and options for reform

Governments should be concerned not only with the affordability of rental housing, but also with its conditions. Rental housing should be a place where people can feel that they can make a home with security and dignity. Australia's current rental housing system does not give tenants this assurance.

Governments should act to improve the conditions on which rental housing is provided by:

- ensuring that Commonwealth Rent Assistance provides adequate assistance with housing costs;
- strengthening tenants' rights and remedies under residential tenancies laws;
- reforming social housing tenancy management policies; and
- ensuring access to tenants advice and advocacy services.

Commonwealth Rent Assistance

Commonwealth Rent Assistance (CRA) is an essential support to people on low incomes in order to meet the cost of their accommodation. It also functions as a secure income stream for community housing providers to support the payments of overheads and to repay debt.

Inadequate indexation of CRA has eroded its value over time and rendered the payment increasingly ineffective in preventing housing stress. The Interim Report of the Reference

Group on Welfare Reform found that CRA has failed to keep up with the rise in housing costs.³⁹ Forty-two per cent of CRA recipients are still in housing stress after their CRA is taken into account.⁴⁰

A number of recent reviews have suggested extending CRA to public housing tenants, who are currently not eligible for the payment. The 2010 Review of Australia's Tax System suggested this change in concert with a 'high needs housing payment' and other supply mechanisms. In 2014, the National Commission of Audit recommended that the Commonwealth should cease funding the NAHA and associated National Partnership Agreements and restrict its role in the housing sphere to providing demand-side subsidies directly to tenants through Commonwealth Rent Assistance (CRA). The Commission of Audit also recommended that CRA be made available to public housing tenants, provided that state and territory governments commence charging market rates of rent.⁴¹

The Final Report from the Welfare Review Taskforce also references this option, and notes that there are 'perverse incentives' that make social housing more attractive than the private rental market.⁴² The other argument

³⁹ Reference Group on Welfare Reform (2014) *A new System for Better Employment and Social Outcomes*, Canberra, p69

⁴⁰ Australian Institute of Health and Welfare (2013). *Australia's Welfare 2013*, p 114

⁴¹ National Commission of Audit (2014) "Towards Responsible Government: the report of the National Commission of Audit, Phase One" Commonwealth of Australia, Canberra

⁴² Reference Group on Welfare Reform (2014) "A New System for Better Employment and Social Outcomes: Interim Report for the Reference Group on Welfare

frequently made to support a market rent approach is that income-based rent setting acts as a disincentive to workforce participation. This argument is not supported by evidence, while the risks of a market rent model are clear. Current research being conducted by the Productivity Commission on the links between different forms of housing assistance and workforce participation should shed further light on this issue and inform future policy directions.

Suggestions that public housing rents should be set at full market rate are flawed, and should not be a condition of extending CRA. Current rent setting in public housing is designed to ensure that vulnerable households are not left in after-housing poverty. Setting market rents for public housing tenants would create significant housing stress, prevent people taking accommodation close to employment opportunities and increase homelessness.

Reform of CRA is a priority, but must be done carefully with the objectives of reducing housing stress and income poverty and ensuring the future adequacy of the payment in a climate of rising housing costs. As a first step, the maximum rate of CRA should be increased by 30% to provide some immediate relief from rental stress for those on the lowest incomes. A broader review of rental subsidies in private and public housing would enable the issues identified above to be explored in detail. This should include an expert review of indexation to determine an appropriate mechanism for future indexation

to ensure CRA keeps pace with the true costs of housing.

Recommendations

- The maximum rate of CRA should be increased by 30 per cent in the 2015-16 Budget;
- A review of rental subsidies in private and public rental housing should be conducted. This should include an expert review of CRA indexation with recommendations to ensure the future adequacy of the payment in the context of rising housing costs.
- To ensure the future adequacy of CRA, the 3 yearly independent review of pension adequacy should have scope to regularly review the adequacy and indexation of all payments, including CRA; and
- Social housing rent setting should continue to ensure that households are not left in after-housing poverty.

Tenancy law reform

The residential tenancies legislation of states and territories is important consumer protection, but does not go far enough to properly address the special disadvantage that tenants face as consumers.

A prospective tenant's need for housing will typically be more urgent than the landlord's need for a tenancy, such that landlords usually have the upper hand in setting terms, particularly in tight rental markets. And during a tenancy, tenants are not able to take their business elsewhere as readily as other consumers, because of the large financial and emotional costs of moving house. This means landlords feel little market pressure to compete to keep their respective tenants'

custom. To address this special disadvantage, residential tenancies legislation should provide strong legal rights and remedies for tenants.

The National Association of Tenant Organisations (NATO) identifies the following priorities for tenancy law reform across Australia.⁴³ In each respect states' and territories' current laws differ; but all could do better.

Termination by landlords on reasonable grounds only

The laws of all states and territories currently provide for landlords to give termination notices without grounds. This allows landlords to terminate tenancies for unjust reasons (such as retaliation and discrimination) and undermines the ability and willingness of tenants to assert their legal rights. Provisions for termination without grounds should be replaced by a prescribed list of reasonable grounds for termination, such as breach (including rent arrears), sale of premises requiring vacant possession, termination of tenancy-related employment, and the landlord needing the premises for their own housing. The final decision as to whether a tenancy is terminated, whatever the grounds, should be made by the relevant tribunal, considering the circumstances of each case.

43 See National Shelter (2010) *A Better Lease on Life: Improving Australian tenancy law – a report prepared by NATO*. Available:

http://www.shelter.org.au/index.php?option=com_docman&task=doc_download&gid=14&Itemid=487

Effective protection against excessive rent increases

Because it is difficult and costly for them to move, tenants often lack the power to bargain down excessive rent increases. All states and territories should limit the frequency of rent increases and provide that where an increase is in excess of an objective measure (for example, the CPI Rents Series), the landlord must prove that the increase is not excessive, considering the market and other factors.

Strong regulation of residential tenancy databases

Being listed on a residential tenancy database can effectively exclude a person from the private rental market. All states and territories should limit the circumstances in which tenants can be listed and the timeframes for listings, ensure listed persons have free access to the listing, and provide remedies for persons wrongly or unfairly listed.

Ensuring standards for rental housing

All states and territories should legislate a general standard requiring rental premises to be provided fit for habitation and maintained in a reasonable state of repair considering the rent payable and other factors. Additionally, specific standards should be legislated in relation to smoke alarms, electrical safety switches, locks and window safety devices.

Appropriate legislative coverage for marginal renters

Marginal renters – such as boarders, lodgers and residents of crisis accommodation – are some of the most vulnerable members of our community, and their vulnerability is made worse by exclusion from tenancies legislation. All states and territories should ensure that all marginal renters are covered either by

legislation for broad occupancy principles (as in the ACT), or legislation specific to each form of marginal rental accommodation.

Social housing policy reform

In the social housing sector, landlords (state housing authorities or community housing providers) have different motivations from private landlords, and operate according to policies and an ethos of 'client service'. However given the acute shortage of social housing properties and their high levels of disadvantage, social housing tenants generally have less bargaining power than other tenants and are subject to more scrutiny and regulation through the administration of rent rebates and other social housing entitlements.

Recent changes in law- and policy-making have made social housing tenancies in many states less secure, increased work disincentives, and applied the blunt instrument of eviction to complex social problems.

Security

In recent years a number of states and territories have made social housing tenancies subject to periodic reviews as to eligibility. The intention was to move those whose incomes improved out and free up stock for applicants. There are a number of problems with this approach, including the lack of other affordable housing options.

Community development, not exclusion

In response to concerns about anti-social behavior, a number of states and territories have introduced laws and policies to impose additional obligations and more readily evict social housing tenants. These responses are often procedurally unfair (for example, some involve use of termination notices without grounds, or restrict the tribunal's discretion in

relation to termination), disrupt other responses to anti-social behaviour, and make vulnerable persons – particularly persons with mental illness – homeless. States and territories should commit to genuinely preventative approaches that build trust, resilience and inclusion in social housing neighbourhoods.

Review of social housing decisions

The administrative decisions of social housing providers can affect tenants profoundly. All states and territories should provide accessible systems of independent, binding review of social housing decisions.

Tenants advice and advocacy services

To properly exercise their rights and responsibilities, tenants need information and advice. In some cases, they also need representation by an advocate in negotiations with a landlord, or in proceedings before a tribunal.

Governments should ensure that free, independent tenants advice and advocacy services are properly funded in each jurisdiction. Services should be funded to provide a core service of phone information and advice, with additional resources provided to expand the provision of representation and duty advocacy services, extended casework, and specialist Aboriginal and Torres Strait Islander advocates and services.

Recommendations

- The Australian Government should enshrine in legislation the right to adequate housing.⁴⁴
- State and territory governments should work to strengthen tenancy protections in the priority areas identified above.
- The interest generated by rental bonds, which are required in most states and territories to be lodged with a government agency, should be used as a funding stream to support tenants' advice and advocacy services. This would grow in proportion to the rental sector and hence demand for services.

⁴⁴ For more on the right to adequate housing, see the United Nations Housing Rights Program: <http://mirror.unhabitat.org/categories.asp?catid=282> For an example of the right to adequate housing in legislation, see section 26 of the South African Constitution:

Everyone has the right to have access to adequate housing.

The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.

<http://www.constitutionalcourt.org.za/site/constitution/english-web/ch2.html>

A stronger homelessness service system

The current situation

There has been a successive and fundamental failure of governments, Commonwealth, state and territory, to provide adequate funding and support to end homelessness at its sources. There is a lack of sufficient support for early intervention in, and prevention of, experiences of homelessness.

Importantly, there is a lack of safe, securely tenured, affordable and well located housing available to those who need it, when they need it. Once people end up in long-term homelessness, there is not enough funding to get them housed and connected to the community. There are opportunities for governments to work with services and people affected to address this at both systemic and individual levels. This will involve significant, but cost effective, investment.

Homelessness statistics: the issue in perspective

Currently more than 105,000 Australians experience homeless on any given night.⁴⁵ There are around 1500 specialist homelessness service (SHS) providers in Australia.⁴⁶ Some target specific population groups (young people, domestic violence and rough sleepers), while others may support several of these groups. In 2013-14, 254,001

⁴⁵ ABS, Estimating homelessness 2011: <http://www.abs.gov.au/ausstats/abs@.nsf/MediaReleases/ByCatalogue/0DB52D24450CC7ACCA257A7500148E4C?OpenDocument>.

⁴⁶ The exact number is hard to ascertain as several states have undergone considerable sector reform.

people received support from SHSs. This was a 4% increase on the previous year. Additionally, unmet requests for support rose from 417 to 423 per day (or 154,429 for the year).

Monitoring of the homelessness trends, drivers and outcomes over time is underpinned by adequate resourcing for research and statistics organisations. These include the Australian Bureau of Statistics (including the 5 yearly census) and the Australian Institute of Health and Welfare (particularly Specialist Homelessness Services data).

Of those presenting at SHSs in 2013-14:⁴⁷ 43% were aged 24 or under; 59% were female and 41% male. According to analysis of the 2011 census by the Australian Bureau of Statistics 39% of those experiencing homelessness were staying in severely overcrowded accommodation, 20% in supported accommodation (i.e. SHSs), 17% in boarding houses, 17% temporarily with other households (couch-surfing), while 6% were sleeping rough and 1% were in other temporary lodging. Each of these forms of homelessness could be addressed through more affordable housing options.

Reasons for experiencing homelessness

While domestic and family violence is the reason 24% of people (mainly women, accompanied by children under 12) present at SHSs, 15% present due to financial difficulties, and 16% due to the housing crisis. Fundamentally, each of these reasons for

homelessness results from the people lacking access to safe, securely tenured, affordable and well located housing.

A lack of exits from homelessness

The capacity of homelessness and domestic violence services to meet the demand is limited by their ability to secure public housing, community housing, or affordable rental properties in the private rental market. The availability of safe, secure and affordable housing is critical to transitioning clients out of homelessness and preventing future homelessness.

Crisis accommodation specifically tailored to suit the needs of vulnerable people (such as at risk older women, women with children or young people) is critical as a starting point for their journey out of homelessness. Additional capacity will be required in these services to meet current and future levels of demand. Timely access to safe, secure and affordable housing is needed to complete that journey with funding for ongoing support to maintain stable housing.

Without suitable housing options, even the best efforts of SHSs will not be able to achieve the most beneficial outcomes for consumers. The Western Australian Auditor General's performance audit of the implementation of the NPAH in Western Australia identified that the 'shortfall in available housing has put achieving long-term accommodation outcomes at risk'.⁴⁸ The same can be said

⁴⁷ Australian Institute of Health and Welfare (2014) 'Specialist Homelessness Services, 2013-14' (Australian Institute of Health and Welfare, Canberra).

⁴⁸ Western Australian Auditor General (2012) 'Western Australian Auditor General's Report: Implementation of the National Partnership Agreement on Homelessness in Western Australia' Western Australian Government

nationally. This robs people of the opportunity to lead happy and productive lives and has detrimental and costly impacts for society as a whole.

The need for secure long-term funding

SHSs, like other organisations, need secure, long-term, and sustainable funding. This will enable them to plan, operate and deliver targeted support to those experiencing or at risk of homelessness.

SHS's are mainly funded, nationally, through two intergovernmental agreements: the National Affordable Housing Agreement and the National Partnership Agreement on Homelessness. The table below outlines the basic characteristics of the two agreements.

Table: Outline of major sources of homelessness funding.

Name of Agreement	Description	Amount
National Affordable Housing Agreement (NAHA)	Ongoing agreement.	\$250 million per year for homelessness initiatives.
National Partnership Agreement on Homelessness (NPAH)	Time limited agreement. It was originally a four-year agreement for 2008-2012. It has had three one-year extensions since 2012.	\$115 million in 2014-15 for front line services only. Was \$159million in 2013-14 (included funding for the Journeys' Home research project and capital works).

The NAHA funding is indexed annually but with below CPI indexing, which means it has not kept pace with inflation. The NPAH requires specific state and territory project plans (which are approved by the Commonwealth) and joint state funding. This means that it is a multi-government approval process, rather than just a concern of the states and territories.

NPAH-funded services provide holistic early intervention and transitional supports which prevent people becoming homeless and assist others to move out of homelessness. These programs work towards breaking the cycle of homelessness by providing specialist models of support and/or accommodation to keep people housed in long-term stable accommodation. They improve and expand the service system to ensure people experiencing homelessness receive timely responses from mainstream services. The impact of these reforms in providing better integrated wrap-around services and referral processes is a significant improvement in longer term

Perth; A similar sentiment is made in a nationally framed paper where it says 'The Australian Government [needs to] [d]evelop an overarching affordable housing strategy with short, medium and long term targets to increase the supply of safe, secure, affordable housing that meets people's needs' in Homelessness Australia (2012) Making the grade? Homelessness Australia's report card on the Australian Government's White Paper on Homelessness (Homelessness Australia, Canberra), p68 http://www.homelessnessaustralia.org.au/images/publications/policy/Making_the_Grade_final.pdf.

tenancy and life outcomes for homeless service users.

A small number of other programs are funded separately, on time-limited agreements. Of these, *Reconnect* is due to expire in mid-2016 while *Home Advice* and the *National Homelessness Strategy* are operating on an extension. Ad hoc funding sources would be better targeted as part of a long-term strategic plan that involved collaborative and participatory research, monitoring and improvement.

The transitional NPAH is due to expire on 30 June 2015. The lack of certainty around the NPAH is putting pressure on homelessness services' ability to plan for coming years and to reduce the instance and severity of homelessness. Unless all governments commit (at a minimum) to maintaining the current level of funding for homelessness services for two years, we will go backwards in our national efforts to end homelessness. Two years will provide some time for a replacement funding mechanism to be developed in collaboration between the states, territories, the homelessness sector, broader civil society, and the Commonwealth government. It will also allow for the completion of the Federalism White Paper process and other parallel reviews.

The last rollover agreement of the NPAH reduced the quantum of funding by \$44 million. It did so by discontinuing funding for capital and research. This will have negative long-term and cumulative effects on the ability of the sector to expand and continually improve. Adequate long-term funding to meet the capital and research needs of the sector and ensure the maintenance of robust homelessness data should be secured in the negotiation of a more long-term housing and homelessness agreement.

Capital contributions help to ensure that there are adequate facilities available from which to provide housing and support services to people experiencing homelessness.

Research helps to identify and develop the programs and techniques being used are the best practice to:

1. prevent homelessness;
2. intervene early in peoples' experiences of homelessness;
3. end experiences of homelessness; and
4. prevent relapses into homelessness.

Through investing in research, we can improve services in an informed manner and better allocate resources to the programs that work well.

Overall, the funding programs currently in place are fragmented and erratic which neither engenders opportunities for homelessness services to invest in the development of new programs nor to plan long-term strategies to best support their clients (e.g. infrastructure, employment and staff training are 'on hold' pending funding outcomes).

The need for national coordination and funding to address homelessness

Homelessness service systems need to be targeted to the needs of the individual communities. These systems could be improved with the introduction of a mechanism to coordinate the research and trial of different methods to address homelessness. In this way we can harness the strength of diversity in service delivery around the country. However, this requires commitment and coordination to support innovation, best practice and continuous improvement. This should be underpinned by a

culture of collaboration, rather than competition, between and within jurisdictions and services. Longer term funding security and investment would help to ensure that this occurs.

There is a need for continued and increased role of the Commonwealth in funding initiatives to address homelessness. The Commonwealth has a greater ability to generate revenue due to its monopoly over the collection of income taxes. Additionally the Commonwealth has control and influence over other taxation, international investment, social security policy and the labour environment which all affect the existence and causes of homelessness.

Costs of homelessness

On the individual level, it costs the Commonwealth twice as much (\$30,000) to deliver the same services to the average person experiencing homelessness, compared with the average person not experiencing homelessness (\$15,000).⁴⁹ It costs an additional \$14,507 per year to provide health care to a person experiencing homelessness, as compared with a person who is not.⁵⁰ Providing justice to people experiencing homelessness costs an additional \$5906 compared with providing the same services to

those not experiencing homelessness.⁵¹ Forgone taxation is modeled to be between \$6620 and \$15,923 per person who is unemployed.⁵² This is significant because people experiencing homelessness are far more likely to be unemployed.

Recommendations

Funding agreements

- Governments need to establish multipartisan long-term (four+ years) funding agreements for the services that prevent, intervene early in, and support people experiencing homelessness. These agreements need to be
 - Indexed annually at a level that continues to meet the costs (including wages) of providing the services, capital and research funded under the agreements.
 - Negotiated and drafted in a manner that involves the homelessness sector and wider civil society in a collaborative fashion with government.
- Funding agreements need to include funding for ongoing service research and innovation to ensure best practice achievement of the goals to prevent and end experiences of homelessness.

Coordination of homelessness services, funding and initiatives between jurisdictions

- A mechanism for coordination of homelessness policy and service delivery should be established. This could sit under COAG but must ensure engagement with community

49 Kaylene Zaretsky and Paul Flatau (2013) *The cost of homelessness and the net benefit of homelessness programs: a national study* (Final Report No. 218, Australian Housing and Urban Research Institute, Melbourne), p3; Homelessness Australia (2014) *Homelessness: We can't afford to ignore it* Homelessness Australia, Canberra, p2.

50 Kaylene Zaretsky and Paul Flatau (2013) *Op. Cit* p5; Homelessness Australia (2014) *Op. Cit.*, p3.

51 Homelessness Australia (2014) *Op. Cit.* p3.

52 Kaylene Zaretsky and Paul Flatau (2013) *Op. Cit.* p3.

organisations delivering housing and homelessness services.

Interim funding

- In the short term, current funding arrangements need to be maintained and extended while reform processes such as the Federation White Paper occur, and longer term recommendations contained within this paper are implemented. In particular:
 - Governments need to extend the National Partnership Agreement on Homelessness for at least an additional two years.
 - The National Affordable Housing Agreement needs to be re-indexed to meet the costs of providing the homelessness services that it provides. This needs to include a true wage-based indexation for employment costs contained within the funding.

Housing, homelessness and the Federation

There is little more fundamental to the welfare of a nation than the ability of its citizens to secure shelter. As outlined in previous sections, the Commonwealth, state and local governments all have a critical role to play in making sure every Australian has a home.

The Reform of the Federation Housing and Homelessness Issues Paper highlights the wide range of roles, responsibilities and spheres of influence pertaining to housing and homelessness policy, funding, and programs at both the Commonwealth and state and territory levels.⁵³

The Federation and housing affordability

When considering the delineation of responsibilities between the different levels of government, it is critical to understand housing's role as essential infrastructure of national importance. Housing and housing markets are integral to participation and productivity.

In order to achieve better outcomes in housing affordability, the Federal and state and territory governments need to continue to work together. The Commonwealth should continue to provide funding to states preferably with separate strands for operational cost and capital growth. This is essential to maintaining Commonwealth interest in reform. States should continue to

53 Australian Government (2014): *Reform of the Federation White Paper: Roles and responsibilities in Housing and Homelessness, Issues Paper 2*, Commonwealth of Australia, Canberra

play a central role in delivering housing but increasingly via the use of community housing providers. Both state and Commonwealth governments are critical to the reform of taxes which impact housing supply. States develop planning legislation which could better facilitate increases in affordable housing supply. Local government and community housing organisations will also increasingly play a role in service delivery and facilitation of affordable housing development.

The following priorities need to be considered in the Federation reform process.

- ensuring that revenue streams are sufficient to deliver adequate services in any re-alignment of responsibilities including operational costs of the current level of supply and growth to increase supply;
- facilitating national housing and homelessness policy coordination;
- recognising the significance of structural levers in the tax and transfer system;
- centralising data collections and maintenance; analysis and dissemination of national data sets to inform policy across jurisdictions;
- affirming the role of the Commonwealth in ensuring equitable access to services across the country;
- improving accountability and outcomes reporting under Commonwealth/state funding agreements;⁵⁴ and
- ensuring a mechanism of policy engagement by key stakeholders in the

⁵⁴ While ensuring that funding requirements do not inhibit innovation or flexibility by state governments.

reform process and in future intergovernmental policy mechanisms.

Introducing a Federal Housing Minister and elevating housing to Cabinet level would ensure that housing and associated infrastructure decision making could occur in a coordinated way. This portfolio would have the responsibility to coordinate across Commonwealth Government portfolios (including infrastructure, urban and regional development, employment and social services) and to partner with governments to:

- address the housing supply crisis through public, community and private investment in new affordable housing dwellings;
- reform housing tax concessions to ensure the tax system supports efficiency and equity and improves housing affordability;
- ensure an integrated homelessness service system that provides a diversity of services; from prevention through to crisis and transitional accommodation options and 'housing first' service models.

Reforming the Federation to improve housing affordability

The current review of the Federation provides an opportunity to reconsider government responsibilities for:

- funding the capital and recurrent costs of social and community housing;
- stimulating private sector investment in affordable housing stock;
- alleviating rental stress in the private rental market through supply and demand mechanisms (including Commonwealth Rent Assistance);

- funding homelessness service delivery; and
- facilitating access to home ownership for low income households.⁵⁵

As highlighted above, the interaction of policy and regulatory decisions across governments affect the affordability, quality and security of housing. As these systems are complex and interdependent, coordination and collaboration are required to deliver more affordable housing, and reduce the impact of housing stress, including homelessness. This is not to suggest that the status quo should be preserved.

Under direct grant systems such as the NAHA the states are not required to provide their full accounts to the Commonwealth, nor are they required to report against specific outcome requirements.⁵⁶ There is a need to reform the architecture of Commonwealth/state funding agreements to achieve greater transparency and accountability for the way that funds are spent and ensure that funding delivers a net increase in housing stock.

The COAG Reform Council and COAG select committee on Housing and Homelessness played an important role in monitoring the allocation of resources between the state and Federal governments.

Recommendations

- The Commonwealth should maintain its responsibility to ensure broadly equitable access to services and support to people across the country, regardless of where they live, including affordable housing.
- Housing affordability should be elevated to Cabinet level in the Federal Government through the introduction of a National Housing Minister. This portfolio would have the responsibility to coordinate across Federal Government portfolios (including infrastructure, urban and regional development, employment and social services) and to partner with state and federal governments.
- Establish a clear reporting framework for the NAHA and establish a COAG select committee to oversee the implementation and reporting on this agreement.

⁵⁵ The tax review will also need to review the current tax and duty arrangements that impact housing affordability with a view to removing distortions, increasing efficiency and improving housing affordability and equity.

⁵⁶ Adrian Pisarski *Housing and Federalism – is it time to change direction*, National Shelter http://www.shelter.org.au/index.php?option=com_content&view=article&id=168:federalism&catid=64:housing-supply-news&Itemid=96

Conclusion

This paper outlines an agenda for reform to improve housing affordability and end homelessness in Australia. It calls for a reframing of affordable housing as a central economic, productivity and equity issue in the lives of Australians.

It has considered the reform of the federation, tax reform and the adequacy of funding, planning and investment. It outlines a role for each level of government in partnership with the private and community sectors in creating better housing futures for us all.

The starting point in reform must be the recognition that housing is important national infrastructure. A well-functioning, affordable housing system will strengthen productivity and participation.

Governments must also recognise and accept that reform will not come cheaply, but cannot be deferred. The legacy of decades of under-investment in affordable housing is a system in crisis. A national housing strategy should set ambitious goals for the development of new affordable housing stock funded through a combination of government and private sector investment.

Now is not the time for a national retreat from this urgent challenge. The Commonwealth Government must stay the course and deliver on its responsibility to ensure access to housing for people wherever they live. It must ensure that national policy settings support a well-functioning housing system, play an ongoing role in policy coordination and increase its investment in affordable housing programs. At the same time, it must strike a balance between demanding accountability and enabling flexibility in the way it funds state and territory governments.

Innovation is essential. Governments, community organisations and the private sector must partner to create new mechanisms to leverage investment in affordable housing at scale. All must have a commitment to fixing the distortions in our taxation system.

Australia faces an enormous but not insurmountable challenge. Through partnership, innovation, investment and strategic reform we can meet this challenge and unlock the economic and social dividends of secure, affordable and stable housing for all.