



# National Shelter response to the Treasurer's call for pre-Budget Submissions 2020-21

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## Summary

National Shelter welcomes the opportunity to make this submission.

Our submission builds on the recent work of National Shelter, other peak and member bodies and draws on the extensive work of AHURI and other research to propose a set of measures which will begin transforming our national housing system to produce sufficient affordable, well located, fit for purpose housing, to meet our nation's dramatic shortfall of affordable housing and insufficient responses to homelessness.

We recognized and welcomed the measures in the 2019/20 Budget, specifically the creation of a National First Home Deposit Scheme within the National Housing Finance Investment Corporation (NHFIC) which complement the measures in the 2017/18 Budget including:

- The change from a National Affordable Housing Agreement to a National Housing and Homelessness Agreement
- the development of a Bond Aggregator;
- the creation of an Affordable Housing Infrastructure Fund;
- the development of City Deals including affordable housing
- the extension of funding to the National Partnership Agreement on Homelessness
- The extension of Capital Gains Tax concessions to Managed Investment Trusts for Affordable Housing and
- Stronger rules for foreign investors in housing

The 2020/21 budget is a chance to build on the 2017/18 and 2019/20 initiatives and help rebuild our social and affordable housing systems.

National Shelter urges the government and all parties to commit to a national plan and strategy to address affordable housing in Australia and enable governments, the private and community sectors to work together to solve the current affordable housing crisis. The shortage of housing for low and moderate-income households acts as a brake on productivity and inhibits the economic and social participation of households without access to appropriate, well located, affordable, secure and accessible housing.

Recent AHURI research estimates that over the next 20 years 727,300 additional social dwellings will be required<sup>1</sup> using an "infrastructure investment pathway" approach to construct and operate assets and services to deliver social and economic benefits to society.

The private rental market continues to fail low income households (Q1 & Q2) based on research from AHURI in December 2019<sup>2</sup>

The Commonwealth should establish a growth fund (in addition to the NHHA funding) which it uses to leverage additional new outcomes from states and territories to begin building Australia's level of social and affordable housing and to provide the subsidy gap required by private scale institutional investors to invest in affordable and social housing through Community Housing providers (CHPs).

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1 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) Social housing as infrastructure: an investment pathway, AHURI Final Report 306, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/306>, doi:10.18408/ahuri-5314301.

2 Hulse, K., Reynolds, M., Nygaard, C., Parkinson, S. and Yates, J. (2019) The supply of affordable private rental housing in Australian cities: short-term and longer-term changes, AHURI Final Report No. 323, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/323>, doi:10.18408/ahuri-5120101.

We have long held that a growth fund would be part of a split funding arrangement and be paid to states on a per capita basis and allow the NHHA SPP to transform into an operational fund paid on a per dwelling basis for social housing and also reflect the differences in homelessness levels experienced in different jurisdictions, funding their operations based on levels of relative homelessness. Recent transfers by state governments<sup>3</sup> have accelerated the role of community housing within social housing while not lifting the overall level of social housing. Transferred dwellings now attract a CRA payment to the tenant which is then captured by the provider within their rent setting creating a de facto operational subsidy for CHPs. This also creates an additional cost to the Commonwealth unmatched by states. Transfers also occur for property/tenant management without any arrangement which could enable assets to be redeveloped to create additional supply.

One way of complementing the creation and development of net new additional supply would be through the creation of an Affordable Housing Infrastructure Booster AHIB.

AHIB is explicitly based on a recognition that the Commonwealth is a leading partner in the development of affordable housing. AHIB is thus not intended as a substitute for state and local government policy, but a compliment – a booster – to enhance and unlock the provision of affordable rental housing. Existing Commonwealth initiatives, such as NHFIC's Affordable Housing Bond Aggregator, National Housing Infrastructure Fund or the Commonwealth Rent Assistance, and State level policies, e.g. SAFH and SHGF in NSW, should work in conjunction with AHIB. Similarly, AHIB should complement and enable planning policies and reforms, such as inclusionary zoning and density bonuses.

To pay for these and other measures the Commonwealth should reform the tax treatment of housing to find the additional revenue required to offset these budget expenses.

To assist the Commonwealth facilitate the expansion of the roles of CHPs and to further develop policy and program options and allied policies and programs, tenant engagement, linkage between housing and allied services, tenancy law reform, broad consultation with community services and to provide a conduit between government and the community sector the Commonwealth should return funding to peak bodies in housing and homelessness.

We recommend the government:

*Establish a long-term Affordable Housing Growth Fund*

- **Cost: \$1000 million in 2020-2021**

*Establish a two-tiered payment system within NHHA with an operational cost paid per dwelling or relative to homelessness levels and a growth fund paid on a per capita basis.*

- **Cost: Nil**

*Establish an Affordable Housing Infrastructure Booster (AHIB)*

- **Cost \$20m in 2020-2021<sup>4</sup>**

*Review Commonwealth Rent Assistance (CRA) and increase the maximum rate of CRA by 40%*

- **Cost: \$1.2bin 2020-2021)<sup>5</sup>**

**Reform the tax treatment of housing through the following:**

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<sup>3</sup> Productivity Commission ROGS 2019 part g chapter 18A.3 attachment tables

<sup>4</sup> This would be an establishment phase which would be followed by establishing a tax credit facility to increasingly rollout an AHIB

<sup>5</sup> Based on estimates from Grattan Institute Daley, J., Coates, B., Wiltshire, T., Emslie, O., Nolan, J. and Chen, T. (2018). Money in retirement: More than enough. Grattan Institute.

**Deductions for expenses for investments in assets such as property and shares should be limited and the existing tax concessions for residential property investment replaced by a new Affordable Housing Infrastructure Booster.**

**Saving: \$1,000 million in 2020-21**

**Additionally, we also recommend the government prioritise the following to complement these budget adjustments:**

- *Consolidate Ministers for Housing, Community Housing and Homelessness within an Urban and Regional Development or Infrastructure portfolio to drive reform;*
- *Use new Commonwealth funding and other incentives to improve transparency and accountability between the Commonwealth and States and to encourage State level reform to planning, changing from stamp duty to land tax and to make more well-located land available for affordable housing;*
- *National Shelter recommends that all funding for homelessness service provision be identifiable and states specify their contribution to funding SHS provision.*
- *The Commonwealth should establish a new National Partnership Agreement on Remote Indigenous Housing (NPARIH) to carry on the success of the completed NPARIH/NRHA*
- *The Commonwealth should negotiate with states to identify a specified proportion of NHHA funding/growth funding or both be dedicated to ICHOs to enable a growth strategy to be developed for Indigenous Community Housing.*
- *Continue to reform the provision of affordable housing including social housing via transfers of state housing supply to the NFP sector with commitments to asset management and redevelopment at negotiated levels, with at least one third transferred to the NFP sector;*
- *Re-establish funding for dedicated housing and homelessness peak bodies to provide advice to governments on housing and homelessness issues, policy and programs and to advocate publicly for improved housing and homelessness responses.*
- *Re-establish a National Housing Council/Supply Council*

## Introduction

National Shelter welcomed the measures in the 2017/18 federal budget towards a comprehensive national affordable housing plan, specifically the creation of a National Housing Finance Investment Corporation including:

- The change from a National Affordable Housing Agreement (NAHA) to a National Housing and Homelessness Agreement (NHHA)
- the development of a Bond Aggregator;
- the creation of an Affordable Housing Infrastructure Fund;
- the development of City Deals including affordable housing
- the extension of funding to the National Partnership Agreement on Homelessness
- The extension of Capital Gains Tax concessions to Managed Investment Trusts for Affordable Housing and
- Stronger rules for foreign investors in housing

We also welcome the creation of a National First Home Deposit Scheme within the National Housing Finance Investment Corporation (NHFIC) in 2018/19.

While all of these measures are helping to lower the cost of financing and provide additional land and infrastructure to help develop more affordable housing they would be complemented by capital growth funding which we believe is a major missing element of any comprehensive plan.

The government has begun a process to reform the incentives in place in Australia to attract investment into social and affordable housing. This includes incentives for private investment and from other levels of government, especially states. The NAHA and its predecessor the Commonwealth States Housing Agreement (CSHA) have suffered from poor accountability, transparency and insufficient resources to undertake the task of providing sufficient affordable and social housing supply.

National Shelter proposes establishing and rearranging the incentives for private and government investment in affordable housing, adjusting existing tax settings to provide the required revenue and applying that revenue to housing expenditure across the range of needs.

We make this submission to suggest reforms of the tax treatment of housing and other measures to assist with the additional costs identified in measures in this submission to address the large shortfall of affordable rental housing in Australia.

Our submission is based upon National Shelter's role as Australia's peak housing advocacy organisation, our Policy development Housing and Infrastructure, Housing for Aboriginal and Torres Strait Islanders and Ending Homelessness. developed over a number of years in consultation with our members across the country, using the most recent evidence from AHURI and other researchers.

Additionally, National Shelter works with Homelessness Australia, the National Association for Tenants' Organisations, and the Community Housing Industry Association (CHIA) in the development of our policy and program recommendations. We also work with allied peaks like ACOSS and others to inform and prosecute policy ideas.

## About National Shelter

National Shelter is the peak non-government organisation representing the interests of low-income housing consumers, and has been in operation since 1976. It comprises representatives of Shelter bodies in all States and Territories, and also includes national bodies Homelessness Australia, the Community Housing Industry Association, National Council of the St Vincent de Paul Society, and the National Association of Tenant Organisations.

**National Shelter Vision:** Australia needs a *National Housing Strategy* to ensure that all citizens can access the housing they need and want, that is affordable, appropriate, safe and secure. A senior Commonwealth Minister must take responsibility for the implementation of the Strategy, coordinating and facilitating the policies, legislation and resources necessary to lead and engage State and Territory governments and the range of inputs required for its development.

## Why the budget needs to address housing affordability

Australia's housing problem has reached staggering proportions with new reports showing the number of households in housing need reaching 1.3m predicted to rise to 1.7 million by 2025.<sup>6</sup> At 30 June 2018, nationally there were a total of 398 582 households in social housing<sup>7</sup> and an estimated 433,000 in need of it<sup>8</sup>.

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6 Rowley, S., Leishman, C., Baker, E., Bentley, R. and Lester, L. (2017) Modelling housing need in Australia to 2025, AHURI Final Report 287, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/287>, doi: 10.18408/ahuri-8106901.

7 Productivity Commission ROGS 2019 Chapter 18 part g

8 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) Social housing as infrastructure: an investment pathway, AHURI Final Report No. 306

In an excellent chapter to the Committee for the Economic Development of Australia (CEDA) report, Housing Australia<sup>9</sup> Yates describes Australia's changing housing and demographic profile showing how an increase in renters is reflecting our diminishing level of home ownership during a decline in our social and affordable housing levels. She says "A failure to address housing affordability problems can jeopardise achievement of other government goals such as those relating to economic growth and employment" and calls for the Commonwealth to:

Set an initial minimum headline target of an Australia wide annual net increase of 20,000 dwellings affordable to low income households with access to jobs, transport and appropriate services and ensure enforceable arrangements are in place to meet this target.

The Commonwealth government should coordinate funding requirements to provide financial incentives for state and territory governments to meet the annual targets for affordable housing provision in a cost-effective manner and to meet any remaining financing shortfall through direct subsidies in the form of tax incentives to housing producers or income support to tenants.

Additionally, just over 40 per cent of tenants receiving CRA remained in rental stress (Productivity Commission, 2019 ROGS), whilst CRA reduces housing stress it is still inadequate to keep most recipients out of housing stress and poverty. Among those worst affected are the unemployed who have received no boost to their income support for two decades.

Research released by AHURI in December 2019<sup>10</sup> found the private rental market continues to fail to deliver sufficient supply of affordable rental housing to low-income households (Q1 & Q2) demonstrating a shortfall of 305,000 dwellings available and affordable by the bottom 40% of households in the bottom 40% of income distribution.

The 2019 Rental Affordability Index showed there were no affordable rentals in Australia for people on Newstart and that Hobart and Adelaide are our least affordable markets for renting. Even households on average household incomes struggle to afford rental housing and the unaffordability of renting is spreading to much of regional Australia.<sup>11</sup>

Other AHURI research estimates that over the next 20 years 727,300 additional social dwellings will be required<sup>12</sup> using an "infrastructure investment pathway" approach to construct and operate assets and services to deliver social and economic benefits to society.

Homelessness continues to grow in Australia, increasingly due to a lack of affordable housing, and is now estimated at over 116,000 people on any given night.<sup>13</sup> Client numbers of Specialist Homelessness Services have climbed to 288,795<sup>14</sup>

## Housing is Infrastructure

National Shelter believes a vital shift in thinking about housing needs to be made. Economists<sup>15</sup> and planners have overlooked the role of housing as infrastructure and the social housing and affordable housing as essential infrastructure supporting economic, social and cultural participation.

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9 Yates, J, in CEDA, Housing Australia 2017

10 Hulse, K., Reynolds, M., Nygaard, C., Parkinson, S. and Yates, J. (2019) The supply of affordable private rental housing in Australian cities: short-term and longer-term changes, AHURI Final Report 323, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/323>, doi: 10.18408/ahuri- 5120101.

11 [http://shelter.org.au/site/wp-content/uploads/SGS-Economics-and-Planning\\_RAI-November-2019.pdf](http://shelter.org.au/site/wp-content/uploads/SGS-Economics-and-Planning_RAI-November-2019.pdf)

12 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) Social housing as infrastructure: an investment pathway, AHURI Final Report 306, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/306>, doi:10.18408/ahuri-5314301.

13 <http://www.abs.gov.au/ausstats/abs@.nsf/lookup/2049.0Media%20Release12016>

14 <https://www.aihw.gov.au/reports/homelessness-services/specialist-homelessness-services-2017-18/contents/contents>

15 <https://cityfutures.be.unsw.edu.au/research/projects/strengthening-economic-cases-housing-productivity-gains-better-housing-outcomes/>

We are pleased to see the inclusion of social housing as an infrastructure component of the next Infrastructure Australia audit process as an element of social infrastructure, its recognition is long overdue.

Affordable housing is essential to productivity and requires a Cabinet level Minister with oversight to develop a National Housing plan and strategy to ensure appropriate adequate housing for a growing population and to ensure lower income households are included in planning, economic opportunity and as part of urban and regional development. Housing agreements between the Commonwealth and States have been reduced to welfare housing agreements focussed only on the lowest income highest need households. This approach has been counter-productive to good housing and productivity.

A broader approach to housing policy is required to link housing to an infrastructure approach.

Consolidate the Ministers for Housing, Community Housing and Homelessness within an Urban and Regional Development or Infrastructure portfolio to drive reform and establish a National Housing Strategy

## The National Housing and Homelessness Agreement (NHHA)

The NHHA has now replaced the previous NAHA and NPAH into a single payment system. It is an ongoing Specific Purpose Payment (SPP) with the Commonwealth providing \$4.58 billion to the States over the three years from 2018/19.

The NHHA now makes permanent funding previously unsecured in the NPAH which is welcomed. National Shelter also welcomes the indexation of the NHHA at Wage Cost indexation 1 although believes this level of indexation is still inadequate to meet the rising cost of service delivery. There are 3 additional problems we identify with the NHHA:

1. Social Housing as a proportion of total Housing
2. Transparency and Accountability
3. Outcomes and measurement

### Social housing as a proportion of total housing:

Although the total number of social housing dwellings has risen, this growth rate is not keeping pace with household growth. Therefore, the share of social housing is declining. Over the 9-year period, social housing's share has gradually fallen from 5.1% to 4.7%. In Victoria this is a staggeringly low 2.8%. All levels of government need to commit to increasing spending on social housing.

The NHHA requires both an ongoing maintenance cost (The SPP) plus a long-term housing growth fund dedicated to net new additional supply. The establishment of a growth fund would also provide the commonwealth with leverage to obtain reforms from states essential to the development of a housing reform process. The growth fund should be established to ensure reform and the development of an incentive/s to encourage private sector investment and complement adjustments to tax treatments.

Within the SPP the level of funding for specialist homelessness services is only estimated which risks erosion within the SPP over time. We recommend that the homelessness component be separated or otherwise made discreet with the overall SPP.

### Transparency and Accountability

The NAHA has been plagued by a lack of transparency and accountability with constant accusations from the commonwealth about states obscuring SPP funding outcomes or utilizing the NAHA SPP as a "one-way ATM" that has failed to boost supply<sup>16</sup>.

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<sup>16</sup> <https://www.theguardian.com/australia-news/2017/apr/10/scott-morrison-says-housing-agreement-a-one-way-atm-that-has-failed-to-boost-supply>

State budgets have become so obscure that it is impossible to track net increases or decreases in social housing supply or the real cost of providing social housing through state governments, but the Independent Pricing and Regulatory Tribunal in NSW (IPART) review of rent models for social and affordable housing states “We estimate that the additional explicit subsidy required to fund the current difference between tenant rent contributions and market rent is \$945m per annum.”<sup>17</sup>

The Productivity Commission has reported that the states contribute \$4.1 billion in 2017-18<sup>18</sup> to social housing with the Commonwealth providing approx. \$2b including \$1b for homelessness service provision.

There is an urgent need to understand the real cost of providing social housing both in terms of construction but ongoing subsidy. If we don't know the true cost of housing it is difficult to garner the support required to build it, the investors to invest in it or the providers to manage it.

#### Outcomes and measurement:

The NAHA/NHHA has also been plagued by a lack of data and an inability to be measured. National Shelter recommends restoring a National Housing Council to pick up the functions of the defunct National Housing Supply Council (NHSC/NHC). The restoration of a NHSC/NHC would provide timely data on housing supply especially the critical level of supply affordable and available to low and moderate-income households. A restored NHC could also be used to establish other critical indicators on need, supply and data on under-occupancy, overcrowding, the private rental market and ownership changes.

*National Shelter recommends any restored NHC/NHSC should have consumer interests represented.*

## Tax and Housing

Australia's current tax treatment of housing adds inflationary pressure to the price of housing. Capital gains tax concessions and negative gearing provide much greater benefits to existing owners and people who can afford to invest while leaving people living on low incomes languishing in a tired and expensive rental market. There are no capital gains tax concessions (CGT) on owner-occupied housing, nor any land tax, we have a 50% discount on CGT concessions for those who invest in rental housing, with the ability to deduct losses on rental housing against any income source through negative gearing. These tax settings help to commodify housing instead of promoting housing as a primary place of residence and home rather than an investment.

At the State and Territory level, our governments are understandably interested in maintaining the income from stamp duty on housing transactions but are also vulnerable to decreases in revenue and budgetary fortunes during downturns in property cycles.

Overall our current taxation measures detract from revenue which could be more purposefully applied to attracting at scale private investment into affordable and social housing managed by a vibrant and purposeful set of community housing providers (CHPs) and/or State and Territory housing authorities to alleviate housing stress and poverty. Tax reform and the additional revenue it may generate<sup>19</sup>, if partially re-directed, is a vital negotiating point in the future of funding agreements between the Commonwealth and the States and five reforms are promoted as follows:

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<sup>17</sup> [https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/pricing-reviews-section-9-publications-review-of-social-and-affordable-housing-rent-models/final-report-review-of-rent-models-for-social-and-affordable-housing-july-2017-\[w172737\].pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/pricing-reviews-section-9-publications-review-of-social-and-affordable-housing-rent-models/final-report-review-of-rent-models-for-social-and-affordable-housing-july-2017-[w172737].pdf)

<sup>18</sup> Productivity Commission ROGS 2019 Chapter 18 Table 18.1

<sup>19</sup> 1 Nearly \$80b total tax is foregone annually in CGT exemptions for principal residence, CGT discounts to investors and negative gearing deductions <https://static.treasury.gov.au/uploads/sites/1/2018/01/2017-TEs.pdf> and <https://grattan.edu.au/wp-content/uploads/2018/03/901-Housing-affordability.pdf>

- **Remove the exemption on CGT for home owners<sup>20</sup>;**
- Reduce the CGT discount for individuals and trusts to 25 per cent;
- Limit negative gearing and quarantine passive investment losses so they can only be written off against other investment income;
- Encourage and provide incentives to State and Territory governments to exchange stamp duties for a disaggregated land tax over twenty years; and
- Encourage and provide incentives to State and Territory governments to introduce vacancy taxes on residential housing that is untenanted or unoccupied for a period of greater than 6 consecutive months, returning any savings of revenue to an affordable housing fund.

One half of the savings generated from these measures, estimated be worth \$5.3 billion per year<sup>21</sup>, would generate \$2.65 billion per year for the Commonwealth to fund incentives for institutional scale investment in affordable and social housing, and with dollar for dollar matching from State and Territory governments, would amount to a significant increase in funding for affordable housing.

### Vacancy Taxes

National Shelter welcomed the initiative in the 2017 budget to charge foreign investors purchasing investment properties but leaving them vacant. While the revenue generated from this measure is expected to be modest (\$20m over the forward estimates) it sends an important market signal.

National Shelter recommends the revenue gained from this initiative should be directed into a fund controlled by the NHFIC to support the development of affordable housing.

### Foreign Resident Capital Gains tax

The Government will also bolster the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent, as well as increasing the number of foreign residents caught by the regime by reducing the threshold from \$2 million to \$750,000. These changes apply from 1 July 2017 and reduce the risk that foreign residents avoid paying a capital gains tax liability they owe in Australia.

These changes to improve the integrity of capital gains tax rules for foreign investors are estimated to have a gain to revenue of \$600 million over the forward estimates.

National Shelter welcomes these changes and recommends the revenue raised should be directed to a capital fund to boost social and affordable housing supply.

## Commonwealth Rent Assistance

Commonwealth Rent Assistance (CRA) provides assistance to low income renters in private rentals and community housing and prevents even more widespread housing stress, and housing affordability issues, among this group. However, CRA has not kept pace with increasing rents and household costs and must be increased in order to minimise housing stress among low income renters. The Harmer Pension Review

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<sup>20</sup> Removing the exemption of CGT for home owners may need an accompanying threshold and mechanism to defer payment to be taken from an estate on death

<sup>21</sup> <https://grattan.edu.au/wp-content/uploads/2016/04/872-Hot-Property.pdf> (Grattan Phase in a 25 per cent discount over five years through reducing the value of the CGT discount by 5 percentage points each year.)

found that because the rate of CRA is indexed to overall inflation, not to increases in rents, pensioners are on average \$9 to \$10 per week worse off over the period from 2000 to 2009 (Commonwealth of Australia, 2009). In addition, many low-income households are not eligible for CRA because it is only available to people on income support payments.

The Grattan Institute has argued for an increase in CRA of 40% as the most effective means of decreasing poverty among retirees. While National Shelter takes issue with arguments Grattan makes about CRA being the most cost-effective means of providing housing assistance, specifically to obviate the need to boost social housing levels beyond their historic level of 6%, we agree on CRA needing to be lifted. National Shelter believes a more holistic approach to boost social and affordable housing as well as private market assistance are required.<sup>22</sup>

National Shelter recommends that the Australian Government increase the maximum rate of Commonwealth Rent Assistance by 40%, that this amount be indexed to the rental component of CPI from 2019 onwards, and that eligibility be extended to all people who meet income test requirements, irrespective of their source of income.

The provision of rent assistance will not in itself promote adequate supply, although it does provide an important subsidy to community housing organisations which in certain conditions can make the difference between viability and non-viability of social housing projects.

The recommendations here need to be seen alongside recommendations about changing private rental investment, and more specifically about rent and subsidy arrangements in social housing. Rent assistance provides an important component in the financial viability of community housing providers and any changes to CRA will need to be evaluated for their impact on this sector.

## Affordable Housing Infrastructure Booster

The National Rental Affordability Scheme (NRAS) is being wound down after a successful run providing over 36,000 new affordable housing dwellings. NRAS established an appetite for investment in affordable rental housing but needed adjustments to its administration and operation to continue as an effective scheme enjoying multi-party political support. The need for a program to continue to develop affordable rental housing is more critical than ever. The Community Housing Industry Association (CHIA) has developed a new approach to supporting the development of affordable rental housing within the parameters of an infrastructure approach.

As described by CHI, “The Affordable Housing Infrastructure Booster (AHIB) aims to generate dwellings to be let at least 20% below local market rents for 20 years, targeted to low and moderate-income households. The AHIB mechanism lets the desired housing outcomes and locations determine the financial boost that is provided so as to enable affordability, rather than the financial boost conditioning the type of housing and locations that can be provided. AHIB is responsive to variation in construction cost, land cost and local rent levels.

Like some international initiatives, AHIB involves a tax credit that CHPs can use to raise capital investors. This capital injection can help fund construction and thus reduces the borrowing requirement and debt servicing costs for an affordable housing project. The AHIB could also work well alongside a housing capital aggregation vehicle which could provide a pathway for pooling funding to secure interest from larger institutional investors

The modelling that underpins the proposal demonstrates that a much higher-level housing that can be retained, or re-invested, beyond the initial 20-year affordability period. AHIB is thus a vehicle for a long-term strategy to provide an infrastructure of affordable housing in Australian cities and neighbourhoods.

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<sup>22</sup> <http://shelter.org.au/site/wp-content/uploads/National-Shelter-9-Priorities.pdf>

Unlike NRAS and some comparable international programs, AHIB does not operate with a priori determined annual levels of support or project level subsidies. Instead, registered providers tender for the boost required to service borrowing costs at prudential standards and to meet acceptable rates of investor returns. Registered providers can thus start by considering what type of housing is required where and then bid for tax credits to enhance the financial viability of the project.

The AHIB is designed to attract other ‘contributions’ such as state and local government co-investment; planning concessions and via cross subsidisation from market sale or rental housing.”

Whilst this approach is similar to NRAS it differs in key ways. National Shelter supports the development of the AHIB and asks that the 2020-21 budget should allocate resources to establish the AHIB.

The AHIB would be developed slowly to provide 3,000 incentives in 2021-22, 5,000 in 2022-23 lifting to 10,000 in 2023-24

- *Establish an Affordable Housing Infrastructure Booster to provide an incentive to attract scale institutional investment in affordable rental housing.*

## Specialist Homelessness Funding

National Shelter has welcomed the inclusion of the National Partnership Agreement on Homelessness within the NHHA. There are still risks involved within the funding arrangement and inconsistencies we highlight:

- *Homelessness funding should be identified as a discrete component in the NHHA*
- *Both social housing and Specialist Homelessness Services could be vulnerable to a change in the mix or makeup of state allocations*

National Shelter recommends that all funding for homelessness service provision be identifiable and states specify their contribution to funding SHS provision.

## Aboriginal and Torres Strait Islander Housing

Aboriginal and Torres Strait Islanders continue to experience the highest levels of housing stress and overcrowding in Australia.

The Report on Government Services 2019, the Productivity Commission reveals that, despite some improvements, nearly 30% of Aboriginal and Torres Strait Islander public housing tenants live in accommodation that does not meet basic acceptable standards (defined as having working facilities for washing people, washing clothes, storing/preparing food, and sewerage, and no more than two major structural problems)<sup>23</sup>.

It is difficult to engage in school/work/community when you don’t have access to basic living standards. Investing in adequate housing contributes to better social, education and health outcomes, and conversely an absence of adequate accommodation or severely overcrowded accommodation undermines other government efforts aimed at closing the gap.

Despite funding provided through the National Partnership Agreement on Remote Indigenous Housing (NPARIH), significant housing disadvantage remains for Aboriginal/Torres Strait Islander peoples in remote areas.

National Shelter urges a continuation of funding to lift the levels of housing disadvantage in remote communities.

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<sup>23</sup> Productivity Commission ROGS 2019 table 18A.39

Over 75% of Aboriginal and Torres Strait islander households live in urban and regional, rather than remote, settings and continue to suffer discrimination in rental markets across Australia. Reforms to the community housing sector through the NAHA and the introduction of a national regulatory scheme for community housing (NRSCH), have been poorly applied to Indigenous Community Housing Organisations (ICHOs).

ICHOs have been subject to a process of transferring out of federal jurisdiction and into state jurisdictions with varied success across states. This has left many ICHOs, particularly in Queensland outside the system without access to desperately needed maintenance funding because of a failure to register as providers for many. ICHOs in many cases own land and housing which is now unable to utilise the potential benefits of being registered as providers which is wasting a potential base to grow housing specifically targeted at Aboriginal and Torres Strait islander households.

The Commonwealth has also now passed legislation allowing previous caveats over ICHO properties with a Commonwealth interest to be lifted which represents a breakthrough in the ability to negotiate with ICHOs to bring them into community housing registration.

National Shelter recommend that the Commonwealth negotiate with states to identify a specified proportion of NAHA funding be dedicated to ICHOs to enable a growth strategy to be developed for Indigenous Community Housing.

## Recommendations:

*Recommendation: Establish a long-term Affordable Housing Growth Fund*

*An Affordable Housing Growth Fund should be established with a commitment of \$1 billion in the first year, growing to \$15 billion over 15 years. This funding should be explicitly for expanding the stock of affordable housing and, over time, could be directed towards direct capital funding and investment in incentives for institutional investors to deliver net new additional supply at scale. Program guidelines should enable housing providers to draw on a range of affordable housing programs to deliver maximum affordability and provide mixed tenure developments. Given the design of a financing mechanism will take some time, funding in the first year should be delivered through a revived Social Housing Initiative National Partnership Payment to the states and territories for capital funding of social housing.*

*Cost: \$1000 million in 2020-21*

*Establish a two-tiered payment system within NHHA with an operational cost paid per dwelling or relative to homelessness levels and a growth fund paid on a per capita basis.*

*Cost: Nil*

*Recommendation: Establish an Affordable Housing Infrastructure Booster*

*A National Rental Affordability Incentive program should be reinstated after redevelopment to provide an incentive to leverage private and institutional finance into the delivery of affordable housing. The new incentive would be designed to encourage scale investment in scale affordable housing as an incentive to complement other funding sources to deliver mixed tenure developments using the community housing sector and private developers in concert.*

*Cost of establishment \$20m in 2020-2021*

*Across the forward estimates*

*\$60m 2021-22*

*\$100m 2022-23*

*\$200m 2023-24*

*Recommendation: CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2019 by 40% for low income households currently receiving the highest rate of CRA.*

Cost: \$1.2 billion in 2020-21 <sup>24</sup>

**Recommendation: Establish a new National Indigenous Remote Housing Partnership Agreement over 10 years**

**Cost \$1 billion in 2020/21**

**Recommendation: Deductions for expenses for investments in assets such as property and shares should be limited and the existing tax concessions for residential property investment replaced by a new rental housing investment incentive.**

- (1) Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in such assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those assets, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2017.**
- (2) Part of the revenue saved from this measure should be used to introduce a two-tier rental housing investment incentive paid as an annual tax offset for a fixed period (such as 15 years) in respect of new dwellings or improvements for residential rental purposes, below a fixed construction cost. A higher rate would apply to dwellings defined as 'affordable rental housing', as part of a wider package of incentives to support investment in affordable housing.**

**Additionally we also recommend the government prioritise the following to complement these budget adjustments:**

- Consolidate the Ministers for Housing, Community Housing and Homelessness as a Minister for Housing within an Urban and Regional Development or Infrastructure portfolio;
- Utilise Commonwealth funding (NHHA) and a growth fund and/or other incentives to improve transparency and accountability between the Commonwealth and States and to encourage State level reform to planning, changing from stamp duty to land tax and to make more well-located land available for affordable housing;
- The Commonwealth should negotiate with states to identify a specified proportion of NHHA funding/growth funding or both be dedicated to ICHOs to enable a growth strategy to be developed for Indigenous Community Housing;
- National Shelter recommends that all funding for homelessness service provision be identifiable and states specify their contribution to funding SHS provision;
- Continue to reform the provision of affordable housing including social housing via transfers of state housing supply to the NFP sector with commitments to title transfer at negotiated levels, with at least one third transferred to the NFP sector;
- Negotiate to re-establish funding for housing and homelessness peak bodies to provide advice to governments on housing and homelessness issues, policy and programs and to advocate publicly for improved housing and homelessness responses.

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<sup>24</sup> Estimate based on calculations in Daley, J., Coates, B., Wiltshire, T., Emslie, O., Nolan, J. and Chen, T. (2018). Money in retirement: More than enough. Grattan Institute.

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