National Shelter 2021-22 Budget Analysis

Overview

The 21/22 Budget was presented as “the COVID Budget” with some extraordinary measures pitched as addressing growth, jobs, infrastructure and women. It continues or extends a range of measures from previous budgets (tax cuts, programs like Home Deposit Schemes) and does provide some additional funding into housing, which, from our perspective, will tend to pump inflationary pressure without addressing our underlying supply issues.

In a year of predictions that never eventuated, like house prices will fall by 15% off the back of reduced demand from immigration, we have instead seen house prices go through the roof as the reality is of cashed up residents on a spending spree, encouraged by government incentives like Homebuilder and increased savings.

The budget forecasts or deficit levels have also surprised. The underlying cash deficit in 2021-22 is forecast to be $106.6 billion (5.0 per cent of GDP). This is expected to improve over the forward estimates to a $57.0 billion deficit (2.4 per cent of GDP) in 2024-25 and to a deficit of 1.3 per cent of GDP by the end of the medium term.

Compared to the 2020-21 Budget, the underlying cash deficit has improved by $52.7 billion in 2020-21. This is largely due to economic growth rebounding more quickly than expected, largely due to containment of COVID-19 allowing economic activity and the growth of iron ore prices adding to revenue.

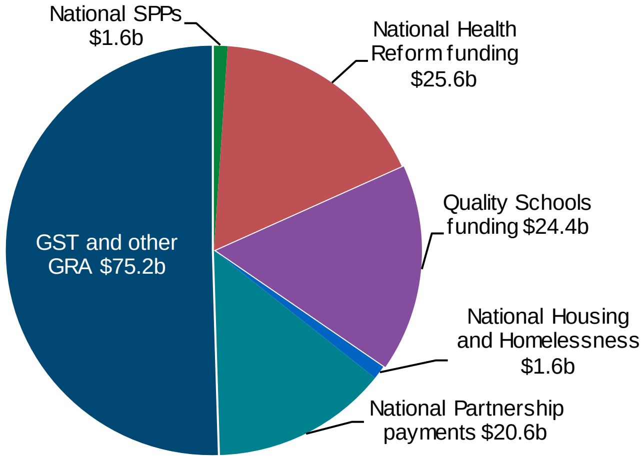
Real GDP is forecast to grow by 1.25 per cent in 2020-21, by 4.25 per cent in 2021-22 and 2.5 per cent in 2022-23. After falling by 2.5 per cent in 2020, real GDP is expected to grow by 5.25 per cent in 2021, and by 2.75 per cent in 2022.

Population growth is forecast to be around 0.1 per cent in 2020-21, 0.2 per cent in 2021-22 and 0.8 per cent in 2022-23.

Despite the low population growth, house prices have not fallen, as banks, commentators and even the RBA predicted. Additional capacity expected due to low migration, international students and workers has been offset by personal savings growth and record low interest rates and meant that house prices have grown at very high rates, rental markets have become increasingly tight, rents have risen and our regions have been impacted to a higher degree than cities.

Before we go to the detail of the government’s housing measures it’s worth looking at housing payments in relation to overall payments to the states. It’s pretty clear where housing sits as a priority in terms of specific purpose payments when we consider the levels of support compared to education, health and other partnership payments.

Chart 1.2: Total Australian Government payments to the states, 2021-22



Positive Budget Measures Non-Housing

The Budget did announce a range of measures that we welcome, and which will have a positive impact on people's lives. Many are overdue and not as well-funded as possible, but the following are worthy of noting and congratulating the government for:

- $18b on aged care funding an additional 80,000 home care places.
- $1.6b for childcare.
- $1b for women's safety (although funding services without the housing required is short-sighted).
- $2b National Mental Health and Suicide Prevention Plan.
- $2.7b in wage subsidies.

Machinery of Government Changes

The Machinery of Government changes were also announced in Budget paper 4 but only one with a bearing on housing:

- Consolidation of the functions of the Infrastructure and Project Financing Agency within the Department of the Treasury.

Tax Cuts

- The Government will deliver an additional $7.8 billion in tax cuts by retaining the low- and middle-income tax offset (LMITO) in 2021-22.
- This is on top of the $25.1 billion in tax cuts announced in previous Budgets that is expected to flow to households in 2021-22.
- Around 10.2 million individuals will benefit from retaining the offset in 2021-22, which is worth up to $1,080 for individuals or $2,160 for dual income couples.

Additionally, for businesses:

The Government will extend the two tax incentives announced in the 2020-21 Budget by one year:

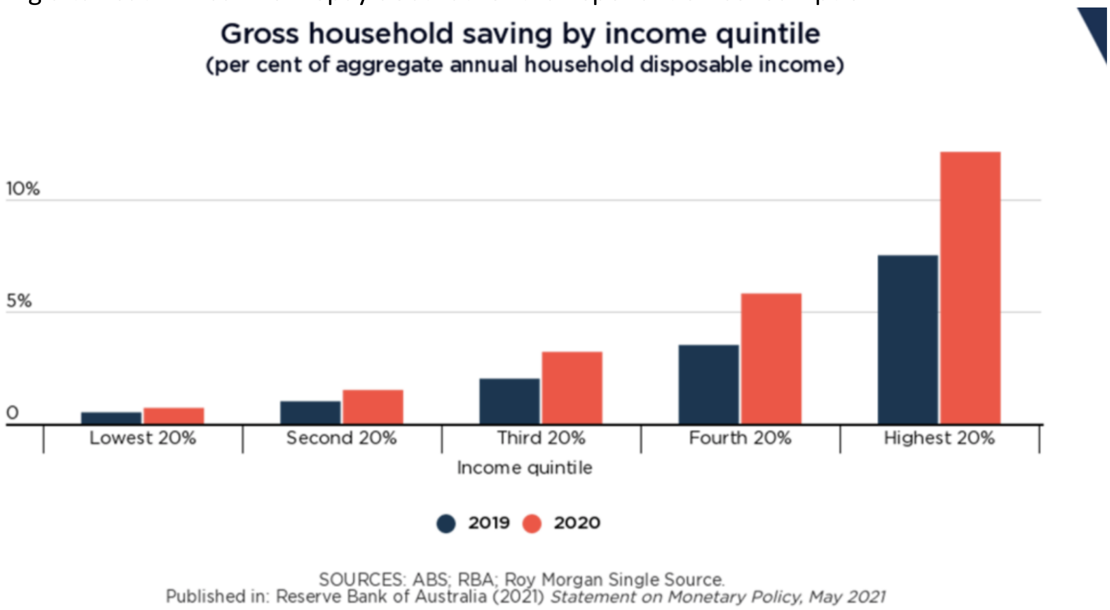
- Temporary full expensing and temporary loss carry-back.

Together, temporary full expensing and temporary loss carry-back may allow businesses to bring forward investment to access the tax benefits before they expire.

Combined, the extension of the temporary full expensing and temporary loss carry-back measures is estimated to deliver a further $20.7 billion in tax relief to businesses over the forward estimates.

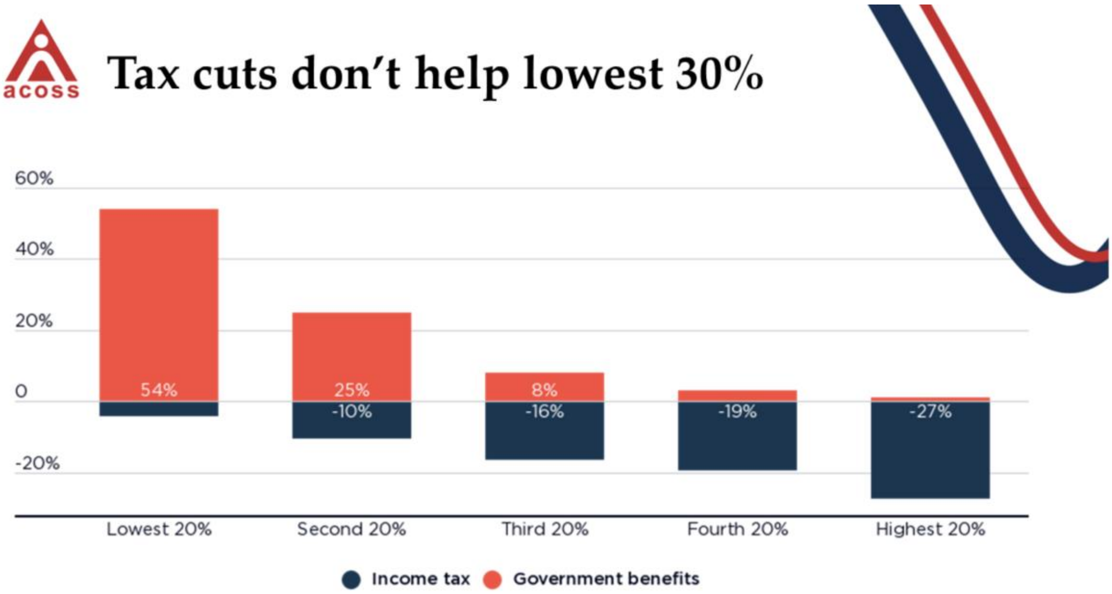
Our Analysis

Tax cuts will help to drive economic activity, but most analysts estimate about 50% of those receiving a tax cut will bank or repay debt rather than spend it on consumption. [1]



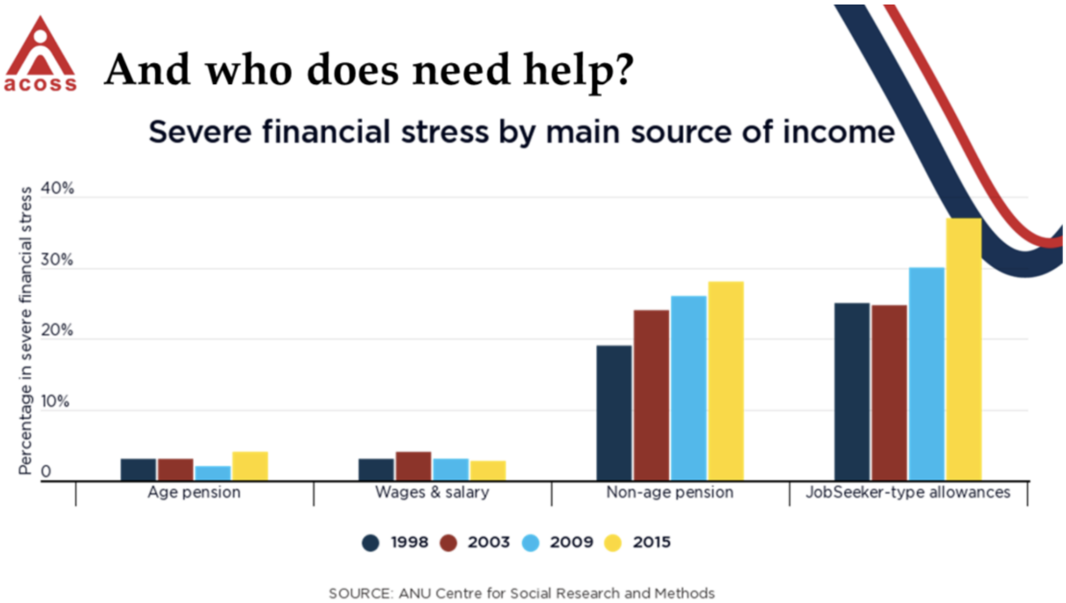
[1] Chart from ACOSS supplied during their Budget Briefing May 18th 2021.

Direct payments to low-income households are more effective in driving consumption and economic activity as low-income households typically spend rather than having a capacity to save. The extension of the LMITO is welcome but we can't see a case for continuing with the higher income tax cuts planned for beyond next year, which will rob the budget or revenue and provide benefits only to higher income earners likely to be saved or, if borders open, spent overseas. ACOSS has developed a couple of charts which add to the picture:



As we also pointed out last year, Negative Gearing may become less useful to higher income earners to offset tax bills and therefore the basis for much of our rental supply may be affected. It demands greater attention but there is also scope to revise future tax cuts for higher income brackets.

We would have preferred direct supply side investments in housing which would have created jobs, economic activity, and homes and financial supports for those who need them.



Housing and Homelessness

Housing and homelessness spending is static in Budget 2021-22 with the Specific Purpose Payments on housing essentially as they were in previous years. The National Housing and Homelessness Agreement (NHHA) continues to be indexed at the low wage cost indexation 1 which means it will continue to erode as costs of provision continue to outstrip its level of indexed growth.

It is worth noting that note (a) shows the bilateral agreements under NHHA expire at the end of 2022-23 and will need to be renegotiated which will further open the degree at which states diverge and develop their own strategies.

Table 2.7: Payments to support state affordable housing services

$million	2020-21	2021-22	2022-23	2023-24	2024-25
National Housing and Homelessness Agreement	1,594.5	1,616.2	1,639.8	1,598.6	1,619.4
National Partnership payments					
HomeBuilder	680.0	1,515.5	459.6	-	-
Northern Territory Remote Aboriginal Investment					
Remote Australia strategies component	3.7	3.7	-	-	-
Remote housing	237.2	185.0	110.0	-	-
Social Impact Investments					
Vulnerable priority groups	0.5	1.1	0.5	0.5	0.5
Youth at risk of homelessness	0.5	1.1	0.5	0.5	0.5
Total National Partnership payments	921.9	1,706.3	570.7	1.1	1.1
Total	**2,516.5**	**3,322.5**	**2,210.5**	**1,599.7**	**1,620.5**

National Housing and Homelessness Agreement(a)(b)

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	488.8	413.6	327.9	171.0	111.3	34.6	27.1	20.3	1,594.5
2021-22	493.2	419.8	333.7	173.8	112.6	35.1	27.5	20.4	1,616.2
2022-23	498.6	427.0	339.7	176.6	113.9	35.6	27.8	20.6	1,639.8
2023-24	495.5	412.0	331.9	169.8	110.0	34.0	26.1	19.3	1,598.6
2024-25	500.8	419.3	336.3	172.0	110.8	34.3	26.4	19.4	1,619.4
Total	**2,476.9**	**2,091.8**	**1,669.4**	**863.1**	**558.6**	**173.7**	**135.0**	**100.0**	**8,068.6**

(a) Bilateral agreements under the NHHA expire at the end of 2022-23, beyond which funding is subject to negotiation.
(b) The distribution of the additional $124.7 million for 2021-22 and 2022-23 has been notionally allocated to all states but is subject to negotiation.

The NHHA restores payments in 2021-22 to all jurisdictions for payments for the Equal Remuneration Order (ERO). This follows campaigning around the ERO payments that were to be reduced. Last year we had thought ERO would be restored in this budget, but it was only after extensive lobbying by the sector and the government’s sensitivity around women’s economic security that the payments were restored in an announcement by Treasurer Frydenberg just prior to the Budget release.

The payments include the Homebuilder program ($2.655b over 3 years) which has been the government’s response to COVID-19 as a stimulus measure. The program has been welcomed by building and construction peaks like the Housing Industry Association (HIA), the Master Builders (MBA) and Property Council of Australia (PCA).

In here we also see the NHHA payments, payments for remote housing and impact investing. The remote housing payments are all for Northern Territory spending over the next 3 years after which remote housing payments cease.

Our Analysis

It is clear that in the absence of any boost to NHHA and recent comments from the Assistant Treasurer, the Commonwealth has relinquished responsibility for improving social housing and homelessness service provision, leaving it up to state and territory governments. National Shelter acknowledges the additional money states and territories have provided since COVID-19 (totalling some $4.08b)[2] and had hoped at the least for a matching response from the Commonwealth.

Table 2: Summaries of initiatives and amount allocated: by jurisdiction and housing outcome

	Australian Government	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Total Initiatives	Indicative Amount ($)
Home ownership	1	1	1	2	-	1	1	1	1	9	$60m +
Assisted home ownership	1	1	-	-	1	-	2	1	1	7	$817m +
Private rental	2	2	2	-	3	3	3	2	4	21	$1.21b +
Social housing	-	1	4	2	1	2	5	7	7	29	$1.57b +
Crisis accommodation	1	1	1	-	3	-	1	1	2	10	$206m +
Homelessness	2	2	6	-	3	2	3	2	2	22	192m +
Total initiatives	7	8	14	4	11	8	15	14	17	98	
Indicative amount ($)	$856.9m	$1.875m +	$638.3m +	$60m +	$533.4m +	$76m +	$201m +	$1.039b +	$662.1m +		**$4.08b + (approx.)**

We had hoped Budget 21-22 would have provided a more significant program to add to social and affordable housing (as the budget reply by Labor provided) but there was nothing in this budget except the extension of eligibility timeframes for Homebuilder to allow current applications to be processed and begun.

Homebuilder has stimulated housing activity by providing grants of $25,000 and $15,000 for eligible projects and applicants, however it has likely only brought forward building projects which would have occurred and has added inflationary pressure to house prices by pumping up demand.

We would have preferred and argue still, that a stimulus to social and affordable housing of a similar or greater magnitude would have provided a similar or greater boost to construction and building without having added inflationary pressure. Homebuilder has largely gone to expensive renovations and new builds which would have occurred without the incentive and would have happened later when there is still an anticipated drop off in construction and building activity, in the later half of 2021 and through 2022-23.

It is unlikely immigration will return at significant levels before then, leaving the prospect of low building and construction and a downturn in markets. This could coincide with rising interest rates which could put downward pressure on house prices leaving many households with larger debts than they would have had and the prospect of negative equity in their properties.

Instead, a steady supply of social and affordable housing would create a pipeline of investment, attract institutions into residential investment, not add inflation and create a steady flow of jobs and economic activity as construction and building activity drop-off.

We are also concerned that there is nothing for remote, or any other Indigenous housing post 2022-23, there will still be very significant needs and despite there being some money in the National Indigenous Australians Agency for the coalition of peaks and for strengthening community-controlled services in Health, Disability and Housing, there will be significant need unmet beyond those dates.

[2] https://www.ahuri.edu.au/__data/assets/pdf_file/0020/65450/AHURI-Final-Report-343-Policy-coordination-and-housing-outcomes-during-COVID-19.pdf

Other Housing Measures

Family Home Guarantee

From 1 July 2021, 10,000 guarantees will be made available over four years to eligible single parents with dependants to build a new home or purchase an existing home with a deposit of as little as two per cent, subject to an individual's ability to service a loan.

The New Home Guarantee

The Government is providing a further 10,000 places under the New Home Guarantee in 2021-22, specifically for first home buyers seeking to build a new home or purchase a newly built home with a deposit of as little as five per cent.

First Home Saver Scheme

From 1 July 2022, the Government will increase the maximum amount of voluntary contributions that can be released under the First Home Super Saver Scheme from $30,000 to $50,000.

Our Analysis

These measures are fairly modest in scale, so superficially shouldn't create large scale impacts, however they send very strong market signals which affect the whole market. Whilst they are better than first home-owner grants which tend to inflate price by approximately the level of grant on specific markets targeted by first home owners, they nonetheless add inflationary pressures and build demand and competition between different types of purchasers and investors for the same properties. They also increase the borrowing level available to new purchasers which adds to their bidding power (inflation) and also adds to their long-term debt, which while manageable during low interest rates, could become difficult to cover when interest rates rise. This could then lower demand creating house price drops and leaving buyers in negative equity and potentially at risk of foreclosure.

Social Security Measures

JobSeeker

National Shelter would not normally comment on social security payments outside Commonwealth Rent Assistance (CRA) but the past year has been a year like no other. The clearest picture painted curding the pandemic when JobKeeper was established and JobSeeker was supplemented by doubling its value, was that all of those households found a genuine social security net to catch their fall, or had, for the first time since the 1970's enough income to meet household expenses, albeit at still austere levels.

It is also clear to National Shelter that the economic recovery Australia is enjoying is largely due to the lifting or establishment of these payments, which have translated directly into consumption and economic activity.

The cutting of Jobseeker back to poverty levels is a cruel blow to the dignity of households now forced to live on $44 per day (which includes CRA and energy supplements).

Commonwealth Rent Assistance (CRA)

CRA was estimated in last year's budget to be $5.509b over the past year, the actual expenditure was $5.426b, a saving of some $83m. It is estimated to be lower again in the next financial year presumably due to lower social security payments, to which it is largely attached, mainly JobSeeker. More aged pensioners, youth allowance and disability support payment recipients are expected to use CRA but fewer single parents and people on special benefit.

Cash projections for Rent Assistance (a)

Cross-Program – Rent Assistance

	2020-21 Estimated actual $'000	2021-22 Budget $'000
DSS: A New Tax System (Family Assistance)(Administration) Act 1999		
Family Tax Benefit	1,986,785	2,056,169
DSS: Social Security (Administration) Act 1999		
Age Pension	950,515	974,669
Austudy	45,347	45,700
Carer Payment	139,764	148,428
Disability Support Pension	757,616	771,206
JobSeeker Payment	1,239,134	988,375
Parenting Payment (Partnered)	3,144	2,718
Parenting Payment (Single)	44,675	42,624
Partner Allowance	9	–
Special Benefit	12,064	9,654
Widow Allowance	2,815	206
Youth Allowance	199,345	210,023
DSS: ABSTUDY (Student Assistance Act 1973)	19,893	19,366
Department of Veterans' Affairs: Veterans' Entitlements Act 1986 (b)	25,334	24,126
Total cash projections	**5,426,440**	**5,293,264**

(a) Rent Assistance is a supplementary payment included in the calculation of the primary income support payment, Family Tax Benefit or service pension. This table provides cash projections for the Rent Assistance component included in the primary income support payment, Family Tax Benefit or service pension.

(b) Rent Assistance is paid to eligible service pension and income support supplement recipients.

The level of CRA estimated in last year’s budget for this year was $4.618m nearly $60m below the estimated actual for the past year and CRA is projected to cost $822m more in 20-21. This foreshadows an increase in renting as home ownership declines further.

Our Analysis

Renting continues to rise as a tenure in Australia and while National Shelter remains tenure-neutral it is becoming apparent that CRA no longer performs the function of addressing affordability in our private rental markets. It does maintain a permanent commonwealth expenditure to help renters and cost to the Commonwealth anticipated to fall by some $130m.

CRA doesn’t work adequately to provide an operational subsidy for community providers and increasingly doesn’t meet the benchmark for helping affordability sufficiently. It is our intention to conduct our own inquiry into CRA inviting others to join with us to consider how it could be reformed or replaced as an income support payment.

Infrastructure

Most of the big-ticket projects have already been foreshadowed by the government.

They include:

- $2bn to support delivery of the Melbourne intermodal terminal, which McCormack said would boost productivity by increasing the efficiency and capacity of the national rail freight network and take thousands of trucks off the road.
- $2.6bn for the North-South Corridor – Darlington to Anzac Highway in South Australia.
- $2bn for the Great Western Highway upgrade – Katoomba to Lithgow in New South Wales.
- $400m in additional funding for the Bruce Highway in Queensland.
- $380m for the Pakenham roads upgrade in Victoria.
- $237.5m for the Metronet to support grade separations and the elevation of stations in Western Australia.
- $161m for the Truro Bypass in South Australia.
- $150m for the Northern Territory national highway network.
- $132.5m for the Canberra light rail – stage 2A.
- $113.4m for the Midland Highway upgrades in Tasmania.

The package also includes an additional $1bn to extend the local roads and community infrastructure program.

The road safety program is also being extended to 2022-23, with additional funding of $1bn.

Regional Australia will be a particular focus, with $250m allocated for a sixth round of the building better regions fund and a bringing forward of grants to councils.

Our Analysis

The great missing piece of infrastructure in Budget 2021-22 is the absence of a social housing investment.

Conclusion

Budget 2021-22 was another opportunity to provide a major boost to social housing via a new investment at a time when the nation will need more social housing and has a major shortfall of it. We had supported the development and modelling of the SHARP proposal which, if implemented, would have created 30,000 homes and over 60,000 jobs as a 4-year program. It would have begun a pipeline of investment that could have been built on using NHFIC, State land and contributions, NGO and local government land and contributions and drawn investment from institutional players.

It would not have added inflationary pressure as a supply strategy it would have targeted low-income households relieving pressure from markets and keeping house price stable.

Additionally, we pitched programs to re-house rough sleepers and others who were temporarily housed during the initial COVID-19 response. We had a chance to end rough sleeping and to make a generational impact on overall homelessness. There was also an opportunity to end the bickering between the commonwealth and states over responsibility and a chance to begin to develop a national housing strategy in response to a historic crisis. None of these opportunities were acted on.

Instead, we have seen house prices rise, despite low population growth, pumped up by government grants and programs, our rental markets have tightened especially in regions and homelessness has grown instead of ending.

It is hard not to conclude that the commonwealth government doesn't see or hear these problems (we have also failed to secure a meeting with Minister Sukkar), because they consider them politically unpalatable and too difficult to tackle.

National Shelter will keep pressing for responses and was pleased to see the budget reply from Opposition leader Anthony Albanese who has dedicated a potential Labor Government to building 30,000 properties over 5 years.

It reminded us that there is a point to governing apart from winning a contest, it is to do things that matter. While not perhaps in the same category or scale it reminded us of JFK's going to the moon speech:

"*We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard, because that goal will serve to organise and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one which we intend to win, and the others, too."*

We choose to build social housing for the same reasons.