

NO PLACE LIKE HOME

A Social and Affordable Housing program
to rebuild Australia's homes

National Shelter Budget Proposals for Federal Budget October 2020

Introduction

National Shelter welcomes the opportunity to make this submission to the October 2020 budget.

The 2020 budget is primarily a response to the COVID-19 pandemic, which has disrupted the lives of all citizens. It has brought home the importance of home. Never before has the concept of home been more important as a place of safety, security, haven and increasingly of work.

The COVID-19 pandemic represents one of the most significant challenges to Australia's economy. The social distancing restrictions are unprecedented, and the associated uncertainty means that Australia will experience the biggest contraction in Gross Domestic Product (GDP) since the Great Depression. With substantially reduced international migration the demand for housing will fall dramatically during the coming 2021 calendar year. The Housing Industry Association (HIA) is forecasting that new housing construction could fall by 50 per cent and place hundreds of thousands of jobs at risk. Action is required to support the economy as it deals with the shock of COVID-19.

Our submission builds on the original budget submission from National Shelter and other peak and member bodies and draws on the extensive research of AHURI and others. A set of measures are proposed to rebuild our national housing system, to produce affordable, well located, fit for purpose housing, and to meet a shortfall of affordable housing, and end homelessness.

National Shelter recognises the decisive and welcome leadership and assistance the federal government and national cabinet have provided throughout 2020 in response to the COVID 19 global pandemic. In particular we welcomed:

- The provision of Jobseeker and Jobkeeper payments; and
- The National Cabinet's call for a moratorium on evictions in rental housing.

We also note the federal government's introduction of the Homebuilder package. We understand the intention of Homebuilder in boosting home building and renovation, increasing activity in the building and construction industry. It has been welcomed by many in the industry as a boost to the confidence and security of housing construction; however, we believe Homebuilder would have been improved had it been:

- Better targeted with lower qualifying thresholds for construction cost and income;
- Accessible to low and middle-income households, especially in regional Australia;
- Targeted at homes unlikely to be built without it and for lower priced builds and renovations;
- Targeted to include building for those most in need; and
- Assisting building activity into 2021-22 when employment forecasts for the industry are lowestⁱ.

National Shelter's key proposals:

1. National Shelter proposes that a larger and better targeted stimulus to economic activity would be gained through a major boost to building social and affordable housing via the Social Housing Acceleration and Renovation Program (SHARP)(cost over forward estimates \$7.7B over 4 years).
2. Introduce an Affordable Housing Infrastructure Booster (AHIB). Cost \$20m in 2020-2021¹
3. Establish a national head-leasing fund to complement state measures to re-house the temporarily housed, previously rough sleeping population (cost \$25m in 2020-21ⁱⁱ \$50m over forward estimates)
4. Match state spending announcements for housing and homelessness (cost \$1.062b Social Housing \$1.05b Homelessness \$107.12m over forward estimates 2020-21 depending on matching formulas over 1-4 years) ⁱⁱⁱ
5. Provide for the extension of Equal Remuneration to Community Services (cost: \$0 million-\$566 million in 2021-22)^{iv}

¹ This would be an establishment phase, to be followed by establishing a tax credit facility to increasingly rollout an AHIB.

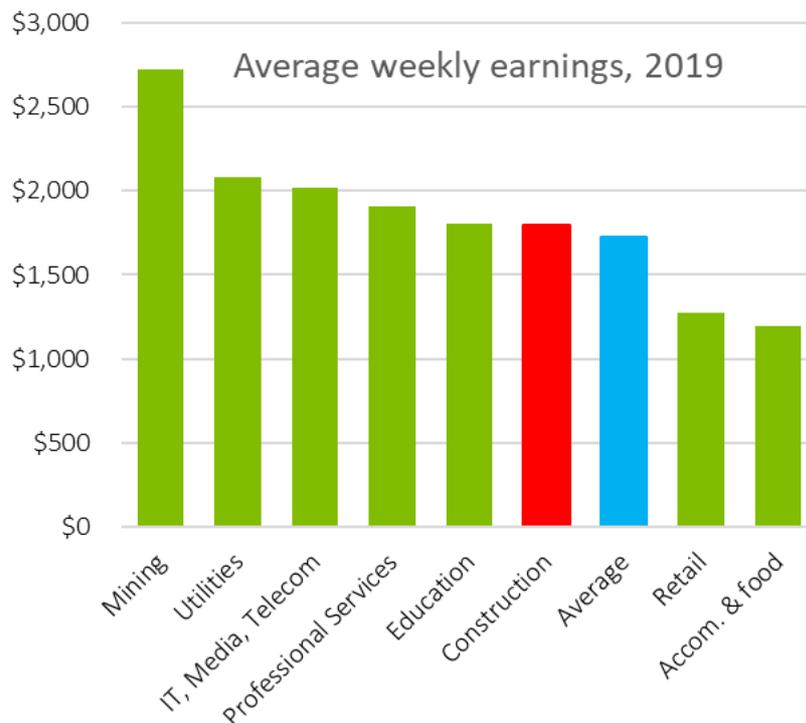
6. Increase Commonwealth Rent Assistance by 50% (cost \$1.875b in 2021-22,)

The SHARP proposal

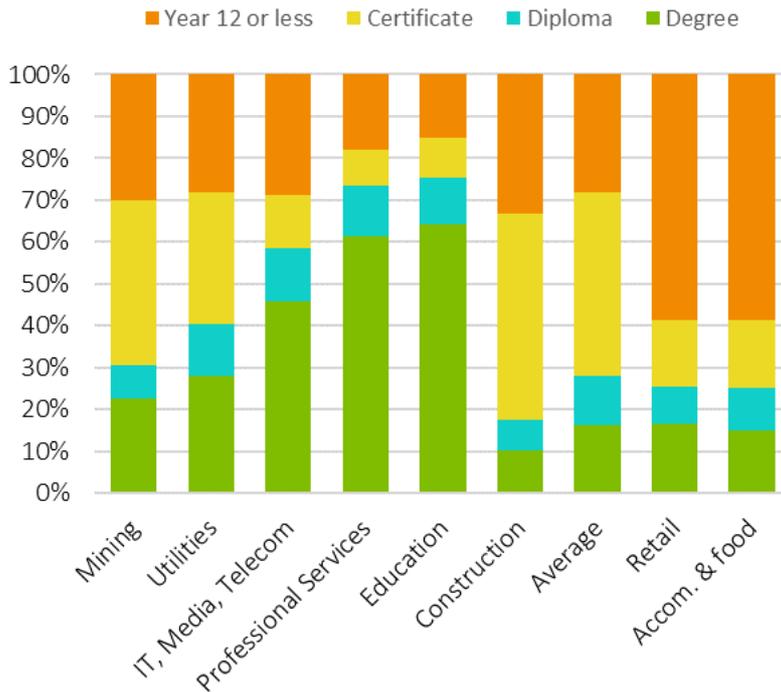
The Social Housing Acceleration and Renovation Program (SHARP) aims to build 30 000 social housing units over a four-year period, plus accelerate the maintenance and renovation of existing social housing stock. As well as the benefits of increasing social housing available to low income households Australia-wide, the construction process will provide much needed jobs and a timely economic stimulus following the Black Summer bushfires and the COVID-19 shutdown of a range of industries.

Importance of the construction industry

In the year to December 2019, construction provided \$145.9 billion to gross value added², or 7.8 per cent of total gross value added in Australia. In February 2020, 1.2 million people were employed in the construction industry, representing 9.1 per cent of Australia's 13 million jobs.



² Gross value added is the sum of wages and profits generated by an industry or economy.



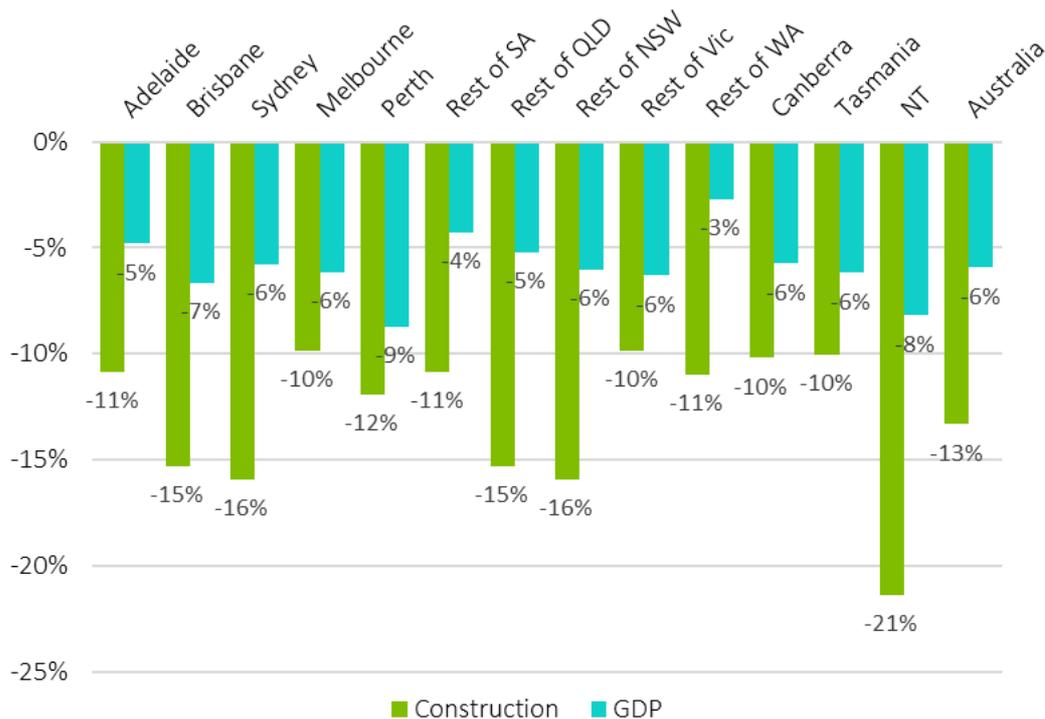
Source: ABS Labour Force

SurveyQuarterly, Average Weekly Earnings

The higher than average wages available in the Construction industry are unique as jobs in the industry do not require high levels of education. Just over a third – 34 per cent – of Construction industry workers have only a Year 12 education or less. Fewer than 20 per cent of workers in the Construction industry have a qualification higher than a Certificate III/IV, and only ten percent have a degree.

The Construction industry tends to be procyclical – when the economy is booming and employment is growing, construction employment tends to grow faster. When the economy is in decline and employment is falling, construction employment tends to fall faster. This can be seen in the impact of COVID-19 on activity in the Construction industry versus economy wide – while GDP Australia-wide is forecast to fall by around 6 per cent, the Construction industry is expected to decline by 13 per cent during 2020.

IMPACT OF COVID-19 ON CONSTRUCTION AND OVERALL ECONOMIC ACTIVITY



SHARP Impact

Social housing is distributed in line with the population, with greater concentrations of social housing in areas of the greatest population. It tends to be more common per capita in large cities compared to 'rest of state' areas, as capital cities tend to be where dwellings are more expensive, less affordable and there is a greater need for social housing.

It has been assumed that 20 per cent of the construction will take place in the 2020-21 financial year, 30 per cent in 2021-22, and 25 per cent in 2022-23 and 2023-24.

Direct and indirect economic impacts

On average over the four-year period, the SHARP would support between 15 500 and 18 000 full-time equivalent (FTE) jobs. This comprises both direct construction jobs and other jobs.

The peak number of jobs supported (between 21 000-24 500 FTE jobs) will be in 2021-22. This is when the economy is likely to be at its weakest and every dollar of stimulus presents a real opportunity to save jobs. Converting the FTE job figure into the actual number of workers means that the 21 000-24 500 FTE jobs could represent up to 30 000 individual workers whose jobs would be saved by the SHARP stimulus.

The SHARP is estimated to raise output in Australia by \$15.7 billion to \$18.2 billion in total over the four years of construction and increase GDP by between \$5.8 billion to \$6.7 billion.

Source: SGS calculations, 2020

Potential for construction stimulus to fill economic gaps

Investment in social housing has the unique potential for a greater, more reliable economic stimulus than other potential investments. This is because:

- Generally, residential construction can still occur safely even if a second wave of infections requires social distancing measures to be put back in place
- The decline in residential construction activity will be large, which means there are many jobs at risk
- The ability of the housing construction industry to use workers across a range of skill sets provides opportunities for many types of workers
- Private housing oversupply could potentially be absorbed by the social housing sector.

Over the longer term, a greater supply of social housing can be expected to have flow on economic impacts, as:

- Modest income workers can live closer to their jobs
- Families can have security of tenure
- Children have a more stable education
- Overall improvements to health and wellbeing from quality, affordable housing will increase the productivity of workers.

Cost \$7.7B over 4 years (7.2 new construction, \$500m acquisition and renovation)

Affordable Housing Infrastructure Booster

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 CHIA, “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.

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.”

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, and 5 000 in 2022-23, lifting to 10 000 in 2023-24.

Cost \$20m in 2020-2021³

Establish a National Head-leasing Fund with support to end rough sleeping

An historic opportunity now exists to effectively end rough sleeping in Australia. This could be a legacy achievement - a positive to emerge from the negative. Since the beginning of the pandemic, approximately 7 000 people have been temporarily housed in hotels across Australia^v. Formerly rough sleepers and

³ This would be an establishment phase, to be followed by establishing a tax credit facility to increasingly rollout an AHIB.

people in marginal housing have been temporarily housed and now require more permanent accommodation options.

The Department of Social Security (DSS) would administer a rapid housing response fund (RHRF) to provide additional housing and support to rough sleepers of any age or gender, with the highest level of need, and where conditions require their rehousing on public health grounds.

The fund would provide accommodation with support for rough sleepers with the highest level of need. An initial two-year fund is proposed with the opportunity to extend, subject to a positive review. It is designed to support and/or encourage State / Territory matched funding.

Eligible projects should involve assertive outreach and/or referrals to identify people with the highest level of need of such housing and support; securing accommodation for head-leasing in the private rental sector; provision of tailored support, including health supports; tenancy and property management functions; and the opportunity for long-term housing.

The RHRF will provide a recurrent monthly payment to successful projects based on a fixed rate per accommodated individual/household, as quoted in the application. The tenant will contribute 25% of income as rent.

The RHRF would be capped at \$25M for each financial year and make payments until at least 30 June 2022. It is anticipated that the RHRF:

- Would be open to applications from existing schemes and partnerships with a proven track record of effectively identifying, housing and providing support to people sleeping rough. Critically, the schemes must:
 - Demonstrate the need for the additional service in the localities in which they operate
 - Demonstrate that they have the capacity to expand immediately
 - Have a matching funding commitment for the scaling-up of their operation from the state/ territory government or from another source
 - Where funding is not sought from the state/territory government, secure its endorsement
 - Have a clear strategy for ensuring those assisted are not returned to homelessness at the end of their tenancy within the project
 - Have a proven track record of delivering high quality support to vulnerable groups
 - Must be led (or jointly led) by a registered community housing organisation and include at least one specialist homelessness support provider.

Cost \$25m in 2020-21^{vi} \$50m over forward estimates

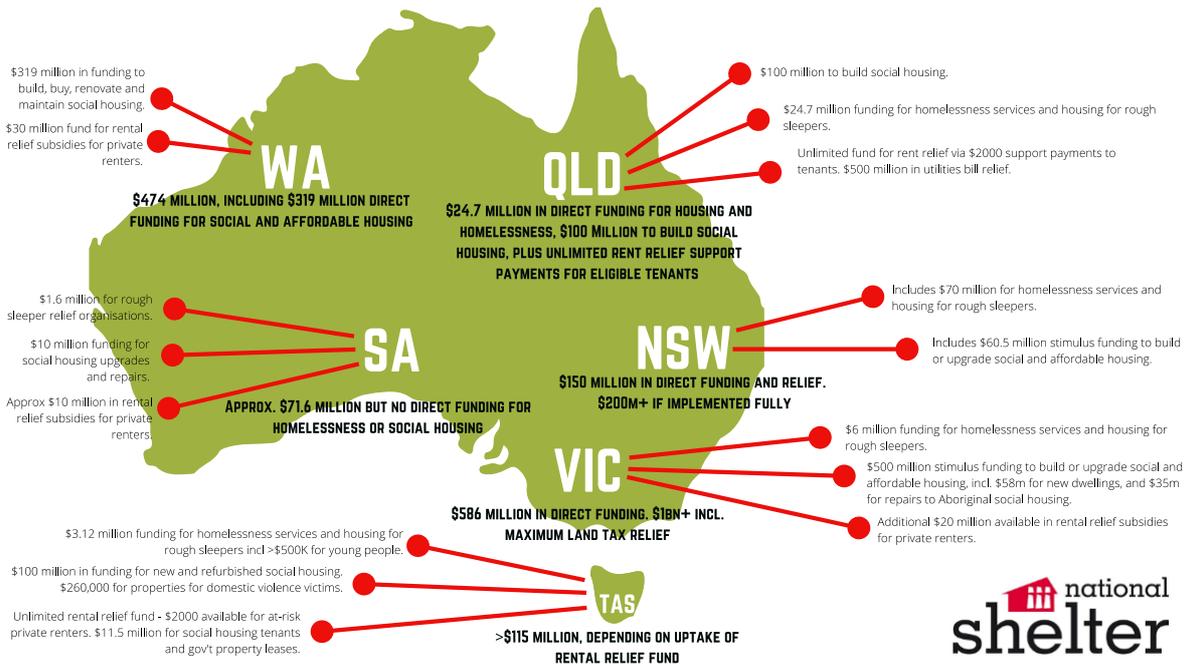
Match state spending announcements since COVID began

Since the beginning of the global pandemic, state governments have announced a raft of measures to provide healthy and safe accommodation for people sleeping rough; to allow self-isolation for people in homeless services requiring it; to provide rent relief and, most importantly, to maintain and build new social housing.

In total, over \$1.7b has been announced by state and territory governments in additional spending beyond the spending included within the National Housing and Homelessness Agreements (NHHA). Some of the spending was contained in yet to be announced state and territory housing strategies required under the NHHA bilateral agreements, some in direct response to COVID threats.

National Shelter has calculated new social housing spending (maintenance and new builds) of \$1.089b and additional spending announced for homelessness of \$107.12m.

The graphic below is yet to include recent ACT contributions of \$61m on social housing and \$1.7m on homelessness, but provides a breakdown of spending by states and territories.



National Shelter believes the minimum the Commonwealth can contribute will be to match the new spending announcements by states and territories, which will begin to meet the backlog of social housing shortfalls and to increase funding for the essential supports specialist homelessness services provide.



Cost \$1.062b Social Housing \$1.05b Homelessness \$107.12m over forward estimates 2020-21 depending on matching formulas over 1-4 years

Provide for the extension of Equal Remuneration to Community Services

The Fair Work Commission made a decision in 2012 to address the gendered undervaluation of work performed in much of the community services sector (the *Equal Remuneration Order* or ERO). As a result, wages increased by up to 45% over 8 years, and most governments across Australia, including the Federal Government, met additional funding requirements, ensuring community sector organisations could meet their equitable wage obligations while maintaining essential services to the community. Funds have not been allocated to continue supplementation beyond 2021. The supplementation that was provided in Federal Government grants and service agreements simply maintained the level of services to communities and ensured community organisations adhered to their industrial obligations under the ERO ruling. To secure continuation of this supplementation, the 2020-21 Budget should incorporate it into the base rate of community sector grants.

The base rate of grants for community sector organisations currently receiving ERO supplementation should be increased to incorporate that supplementation so as to prevent cuts across the community sector.

Cost: \$0 million (\$566 million in 2021-22)

Increase Commonwealth Rent Assistance by 50%

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 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.

Since the advent of the global pandemic the security and affordability of rental housing has been changing. While various moratoria on rental evictions, called for by National Cabinet, and introduced by states have been very welcome, their implementation has been patchy. Most have time limits to the end of September, except Victoria which has extended theirs. The timing of these moratoria, unless the budget also maintains the current Jobseeker and Jobkeeper payment levels, will coincide with significant income losses to existing and newly unemployed households placing great strain on many household's ability to meet their rent 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.⁴

To avoid the potential mass evictions due to rental losses, National Shelter recommends that the Australian Government increase the maximum rate of Commonwealth Rent Assistance by 50%; that this amount be indexed to the rental component of CPI from 2020 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

⁴ <http://shelter.org.au/site/wp-content/uploads/National-Shelter-9-Priorities.pdf>

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.

Cost \$1.875b in 2021-22

ⁱ <https://www.masterbuilders.com.au/MediaLibraries/MB/Budget-2020/Pre-Budget-Submission-Rebuilding-Australia-October-Federal-Budget-2020.pdf>

ⁱⁱ <https://www.communityhousing.com.au/wp-content/uploads/2020/04/200422-CHIA-HA-RHR-FINAL.pdf?x53549>

ⁱⁱⁱ <http://shelter.org.au/site/wp-content/uploads/State-rental-relief-and-stimulus-June-2020-1.png>

^{iv} <https://www.acoss.org.au/wp-content/uploads/2020/02/FINAL-ACOSS-Budget-Priority-Statement-2020-2021.pdf>

^v <https://www.abc.net.au/news/2020-06-08/housing-homeless-in-pandemic-has-worked-lets-make-it-permanent/12330442>

^{vi} <https://www.communityhousing.com.au/wp-content/uploads/2020/04/200422-CHIA-HA-RHR-FINAL.pdf?x53549>