National Shelter response to the Treasurer's call for pre-Budget Submissions 2018-19

Monday, 11 December 2017

Summary

National Shelter welcomes the opportunity to make this submission.

Our submission builds on the recent work of National Shelter, ACOSS, other peak and member bodies and draws on the extensive work of AHURI and other research to propose a set of revenue and expenditure

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 recognize and welcome the measures in the 2017 Budget, specifically the creation of a National Housing Finance Investment Corporation 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

While all of these measures will help 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 in the comprehensive plan.

National Shelter urges the government to develop 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.

The Commonwealth should establish a growth fund 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).

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.

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.

In negotiating with states and territories the Commonwealth should not threaten the withdrawal of dedicated funding under the NHHA, as this would risk vital funding to housing for low income households and homelessness services, but look to other possible sanctions e.g. withholding GST proportionally to provide a more powerful incentive for states and territories to ensure they contribute to building social and affordable housing.

To assist the Commonwealth facilitate the expansion of the roles of CHPs and to further develop policy and program options, e.g. establishing ventilation points in the negotiation of the NHHA 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: $750 million in 2018-19($1000 million in 2019-2020)

- **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

- Review and reinstate a National Rental Affordability Incentive
  Cost $100 million in 2018-19 (120m in 2019-2020)[1]

[1] Calculated based on NRAS 2013 payments plus CPI

- Review Commonwealth Rent Assistance (CRA) and increase the maximum rate of CRA
  Cost: $750 million in 2018-19 ($770 million in 2019-2020)[2]

Reform the tax treatment of housing through the following:

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.

Saving: $500 million ($1,000 million in 2019-20)

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

- Establish a Cabinet Minister for Housing within an Urban and Regional Development or Infrastructure portfolio to drive reform and use all the levers available;
- 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 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 title transfer at negotiated levels, with at least one third transferred to the NFP sector;
- Negotiate to 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.

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

While all of these measures will help 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 in the comprehensive plan.

[2] Calculated using Stinmod and indexed to growth in CRA expenditure.

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

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 Platform, Meeting Australia's Housing Challenges, developed over a number of years in consultation with our members across the country, as well as recent AHURI research.

National Shelter has worked closely with Australian Council of Social Services (ACOSS), to develop Housing Australia's People: A Serious Plan, which provides extensive goals and recommendations to reform our housing system.

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.

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, Jobs Australia, National Council of the St Vincent de Paul Society, and the National Association of Tenant Organisations. National Shelter cooperates closely with other national organisations such as the Australian Council of Social Service, the Community Organisations Housing Alliance and the campaign group Australians for Affordable Housing and was a member of the National Affordable Housing Summit Group (2004-2011)

National Shelter advocates for the development of a national housing policy based around the following principles:

- Housing is affordable. People on low and moderate incomes should not have to pay more than 30% of their income on housing costs.
- Housing is adequate. Everybody is entitled to housing that meets acceptable community standards of decency and their own needs.
- Housing is secure. People should not live under threat of loss of home and shelter. A secure base enables people to form constructive relationships, grow families and seek employment and community engagement.
- Housing is accessible. People should be informed about available housing options and access to these should be free from discrimination. Most housing should be built to Universal Design principles.
- Housing is in the right place. It should be located close to services and support networks, to job opportunities, to transport networks and to social and leisure activities.
- Housing meets people's life-cycle needs. People have different housing needs at different stages of their lives, and housing should be available to match these changing needs.

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.[3]

In an excellent chapter to the Committee for the Economic Development of Australia (CEDA) report, Housing Australia[4] 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, 2017 Human Services Identifying Sectors for Reform), 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

The National Housing Supply Council, the most reliable data source on housing supply, in it's final report estimated a shortfall of affordable rental housing available to households on the lowest 40% of household incomes as 539,000[5]

Homelessness continues to grow in Australia, increasingly due to a lack of affordable housing, and is now estimated at over 120,000 people on any given night (we await the release of new census data in January 2018). Client numbers of Specialist Homelessness Services increased 3% from 2015–16 to over 288,000 with the rate per 10,000 population reaching 119.1, up from 117.1 the previous year.[6]

A Housing Plan and Strategy

A major reform in the way affordable housing is delivered is required to meet these needs. To date Australia has relied primarily on state governments to deliver public housing, financially supported by the commonwealth through the NAHA and the (CSHA). Over the past 25 years these agreements have increasingly targeted low income high need households paying 25% of income to meet their rents. This has inevitably led to a deterioration in the supply, maintenance and quality of low cost housing as rent plus subsidies amount to deficits for state systems on their current portfolios.

The 2017 budget marked a shift towards building affordable housing through a growing community housing sector. Establishing a National Housing Investment Finance Corporation overseeing:

- extended Capital Gains Tax (CGT) discounts to Managed Investment Trusts (MITS);
- a Bond Aggregator;
- the creation of an Affordable Housing Infrastructure Fund;
- the development of City Deals including affordable housing outcomes;

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3 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, hiip://www.ahuri.edu.au/research/final-reports/287, doi: 10.18408/ahuri-8106901.

4 Yates, J, in CEDA, Housing Australia 2017

5 National Housing Supply Council, Housing Supply and Affordability – Key Indicators, 2012, p22-27 & p47 The figure of 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.

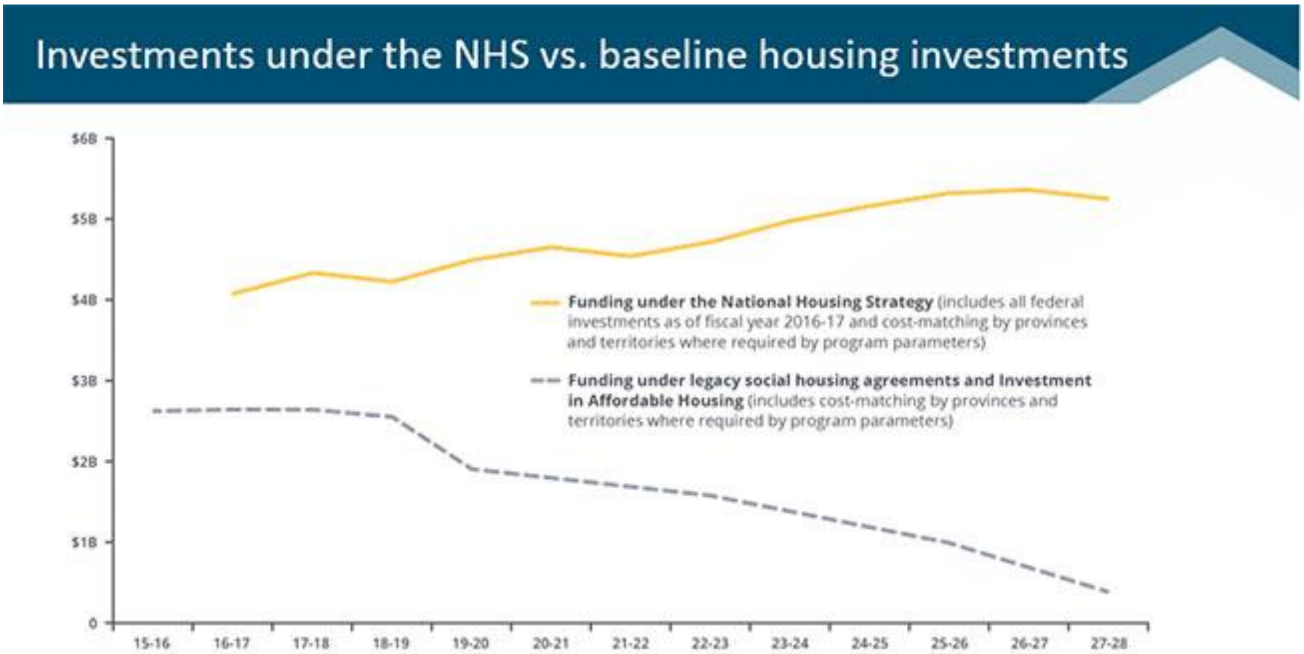
6 hiips://pp.aihw.gov.au/reports/homelessness-services/specialist-homelessness-services-2016-17/contents/clients-services-and-outcomes

- the extension of funding to the National Partnership Agreement on Homelessness and
- Stronger rules for foreign investors in housing

has gone some way toward developing a national housing plan and strategy. However, without additional capital investment or incentives to meet the subsidy gap required to attract additional investment from equity institutional investors, to have state governments improve their contributions and speed transfers to CHPs or deliver other related measures (planning, land, state tax reform e.g.) these welcome measures will not deliver the quantum reform required.

At the AHURI conference 2017 held in Sydney in December, two keynote presenters made critical points about providing incentives for investment in social and affordable housing. Firstly, Mr. Evan Siddall outlined the Canadian Government's decision to develop a national housing plan and said of it, "The 2017 federal budget included a historic long-term fiscal commitment of more than $11 billion over 11 years to ensure that Canadians have access to housing that meets their needs and that they can afford.

The actual economic impact will be much greater. With matching provincial and territorial funding for some elements of the Strategy, as well as the value of low-cost loans to housing developers, municipalities and non-profits, and anticipated funding from these partners for joint initiatives, we estimate that total investments arising from the National Housing Strategy will be nearly $40 billion.



The NHS is a key element of the Government of Canada's plan to make new investments in social infrastructure – things like affordable housing and early learning and child care – to help strengthen the middle class, promote growth and give all Canadians the opportunity to succeed.

From a purely economic perspective, research has shown that investments in housing have a higher short-term multiplier effect on the economy compared with other measures, such as personal or corporate tax cuts."

Australia needs an urgent boost from the Commonwealth for social and affordable housing at least as large as that of Canada. The Commonwealth of Australia should develop new incentive payments to negotiate matching payments or other equivalent contributions from states and territories which would also also attract private investment. Increasingly the role of governments will be providing subsidy gap incentive payments which attract private investment to build new social and affordable housing using community housing providers, consistently with measures introduced through the NHFIC.

Secondly Mr. Piers Williamson, in outlining the parallels and success of The Housing Finance Corporation, on which the NHFIC is modelled noted that "Subsidising Housing Needs Subsidy". He made the point that despite the THFC ability to aggregate debt lowering the cost of borrowing, incre4asing confidence and attracting institutional investors, there is still a requirement to meet the subsidy gap between debt or equity finance and repayments and returns to investors.

Australia has now developed the debt financing capacity, or is in the process of doing it, however we have not developed the national plan or the subsidy required to meet the financing gap.

A national plan and strategy will ideally be a process driven by a National Housing Minister at Cabinet level working with a Cities and Built Environment Ministry, Treasury, States and the NfP Housing Associations and peak bodies like National Shelter, The Community Housing Industry Association (CHIA) and ACOSS.

The reform could move Australia away from a narrowly targeted welfare housing system to a broader National Affordable Housing system, using a combination of private finance for scale investment aligned to NfP advantages to renew and grow the low base of social and affordable housing, currently mainly provided by state governments.

This requires broadening the base of households in affordable housing systems, establishing a range of rents, according to need and amenity, in a supply chain using combinations of land (existing public housing, community owned, private) and government incentives (tax incentives, direct subsidies, CRA) to attract scale private and institutional finance to build new, targeted affordable housing to relieve the stress on both the current public housing supply and the private rental market.

This would also impact the overall housing market, keeping pressure off house prices and making house purchase more affordable over time. Significant percentages of such a program would target key worker populations struggling to rent close to employment and other opportunities as well as addressing the low supply of housing for high needs households, disability housing and other specific targeted household types.

It requires ongoing subsidy.

The National Housing and Homelessness Agreement (NHHA)

The NHHA is currently under construction and will combine 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 is being established with legislation introduced in late 2017 and has a commencement date at Jul 2018. 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. There are still 3 problems we identify with the proposed 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 share has gradually fallen from 5.1% to 4.7%.

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[7].

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

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7 hiips://www.theguardian.com/australia-news/2017/apr/10/scott-morrison-says-housing-agreement-a-one-way-atm-that-has-failed-to-boost-supply

estimate that the additional explicit subsidy required to fund the current difference between tenant rent contributions and market rent is $945m per annum."[8]

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.

The current arrangements and proposals in the NHHA legislation may cause a delay or non payment to states if "credible" housing plans are not negotiated.

It seems incompatible with the nature of the agreement to withhold funding which is destines to assist low income households so perhaps a different approach would be to withhold GST funds as a more general penalty. This would provide a direct incentive to states to increase their supply of affordable and social housing more powerful that that within a specific purpose payment.

Outcomes and measurement:

The NAHA 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

Capital Gains and Negative Gearing

Tax concessions, including the exemption of owner-occupied housing from capital gains tax and land tax, discounts on capital gains tax for investment properties, and negative gearing (the ability to offset the costs of owning investment properties against other income), are detrimental to housing affordability. Many of these tax concessions are counter-productive. They encourage people to build larger houses than they need to tie up their savings in 'tax-free' residential home-ownership that is non-productive and environmentally wasteful, restricts diversity in smaller types of built form and contributes to inflated prices and rents (TaxWatch, 2010).

National Shelter is concerned about the impact of negative gearing, in combination with capital gains exemptions, on house prices. Julian Disney, Director of the Social Justice Project at the University of New South Wales recommends that, like most other OECD countries, taxation policy in Australia should be modified so that interest and other housing investment expenses to the owner are deductible only against income from the property investment, and not from other sources such as an executive salaries or stocks and shares (Disney, 2009).

The taxation benefits of negative gearing itself are heavily skewed, providing ten and a half times more benefit to the top 20 per cent of income households (Yates, 2009). This effect of negative gearing is potentially becoming significant, and inflating prices for low and moderate income earners, as figures indicate 36% of all property owned by individuals, and 47% of all property other than owner-occupied dwellings, is owned by households in the top 20% of the income distribution (ABS, 2013). Brody and McNess (2009) found that people in the top income quintile are able to access up to $15,000 every year in tax concessions related to housing. This is up to nine times the tax concessions accessed by people in the lowest income quintile.

ACOSS (2015) published a report, 'Fuelling the fire: negative gearing, capital gains tax and housing affordability'. National Shelter supports its findings that negative gearing and capital gains tax discounts for investors together encourage over-investment in existing properties and expensive inner city apartments which lifts housing prices and does little to promote construction of affordable housing. The report states:

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[8] hiips://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

- Over half of individual taxpayers with geared rental housing investments are in the top 10% of personal taxpayers (earning over $100,000 in 2011) and 30% earned over $500,000.
- Over 90% of investor borrowing is for existing rental properties, not new ones, so investors are bidding up home prices without adding much to the supply of housing.
- These tax breaks encourage speculative investment with an eye to capital gains, not patient investment with an eye to rental yields.
- They reinforce the bias in favour of housing investment by small investors with one or two properties, when we need more investment by institutions such as super funds to stabilise the rental property market and give tenants more secure tenure.
- They fuel speculative housing price booms that destabilise the economy and make it harder for the Reserve Bank to reduce interest rates when needed. With lending for investment properties rising by 150% in Sydney in the last three years, the Reserve Bank warns that investment housing bears close monitoring for signs of speculative excess.

Adjusting tax policy to encourage affordable housing supply

Taxation policies can be effective tools to promote the supply of suitable housing and encourage investment in affordable housing. National Shelter believes that shifting taxation policies away from individual households, who are seeking short term capital gains, to overall institutional investment, will be of benefit to those living in rental accommodation.

National Shelter recommends that the Australian Government continue to explore the savings income discount recommended by the Henry Review as an alternative to (among other things) negative gearing of rental income. Part of the revenue savings could be used to strengthen tax incentives for investment in new affordable rental housing through a program such as a National Rental Affordability Incentive, revising the National Rental Affordability Scheme.

National Shelter also supports the view of ACOSS, Disney and others that negative gearing should be "quarantined" against the same income source. Tax deductions for 'losses' on new investments should not be claimable against an individual taxpayer's other income, including wages. To protect people who made investment decisions under the existing rules, existing investments should not be affected: the current rules would still apply until the property is sold (ACOSS, 2015)

National Shelter also believes there is merit in better targeting tax measures on housing to new supply of affordable housing, rather than allowing these to be focused on existing dwellings. Channelling investment into new construction will lead to better affordability outcomes.

Vacancy Taxes

National Shelter welcomed the intiative 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 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 some categories of Centrelink payment.

National Shelter recommends that the Australian Government increase the maximum rate of Commonwealth Rent Assistance by 30% (approximately $15 per week for those receiving maximum allowance), that this amount be indexed to the rental component of CPI from 2012 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. That said, along with other measures, rent assistance can provide an important add-on in the financial viability of community housing providers and any changes to CRA will need to be evaluated for their impact on this sector.

National Rental Affordability Incentive

The National Rental Affordability Scheme (NRAS) was designed, in part, to contribute to the supply of affordable rentals and alleviate housing stress for a sub-set of the population (i.e. those over income for social housing but still unable to access affordable accommodation in the private rental market).

As proposed by the National Affordable Housing Summit an incentive was required (either as a form of tax credit or a grant to community housing providers) to leverage private sector investment to the task of building a supply of affordable rental housing. This proposal (75% C'wealth and 25% state) argued for tranches of incentives (up to 1000) to be issued to approved providers at a national level.

The incentive would last 10 years to providers meeting specified minimum criteria (x proportion of 1,2, bedroom, x proportion of outer, inner, regional) at specified levels of affordability (at least 20% below market) and could be complemented by capital from state public housing investment, land from states or community providers, or other enhancements to enable private and eventual institutional investors to contribute to the task of building the scale supply of affordable rental housing. States could top up incentive payments for outcomes desired in their jurisdictions.[9]

The resulting National Rental Affordability Scheme (NRAS) proceeded along a different direction in relatively small tranches which were location specific, with duplicated and inefficient approval processes and administration which also allowed some loopholes and allocation problems not in the proposed incentive.

NRAS nonetheless added to the supply by 35,000 properties by the end of its reduced provision of incentives. National Shelter recommends reinstating a redesigned National Rental Affordable Incentive (NARI) to deliver 15,000 additional affordable rental dwellings per annum 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. Once this is completed and program improvements are made, National Shelter recommends extending a NARI by an additional 50,000 incentives over a further 10 year program and investigating a lower incentive to maintain existing NRAS properties as affordable rentals.

[9] hiip://www.australianreview.net/dig est/2007/election/disney.html

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 is not a identified as a discrete component in the NHHA except for the NPAH funding
- Both social housing and Specialist Homelesness 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.

In the Report on Government Services 2016, the Productivity Commission reveals that 34% 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)[10].

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 (NPARI), 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.

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 (NRS), 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.

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 $750 million 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

[10] Productivity CommissionROGS 2016 table 17A.15

Partnership Payment to the states and territories for capital funding of social housing.

Cost: $750 million in 2018-19 ($1000 million in 2019-2020)

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: Review and reinstate a National Rental Affordability Incentive
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 $100 million in 2016-17 (120m in 2019-2020)[11]

Recommendation: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

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 2016 by 30% (approximately $22 per week) for low income households currently receiving the highest rate of CRA.

Cost: $750 million in 2016-17 ($770 million in 2019-2020)[12]

Recommendation: Improve the adequacy of NAHA indexation

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 10 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.

Saving: $500 million ($1,000 million in 2017-18)

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

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[11] Calculated based on NRAS 2013 payments plus CPI

[12] Calculated using Stinmod and indexed to growth in CRA expenditure.

- Establish a Cabinet Minister for Housing within an Urban and Regional Development or Infrastructure portfolio to drive reform and use all the levers available;
- Utilise 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;
- 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 a dedicated housing and homelessness peak body or 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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