



# Submission on the Reform of the Federation Discussion Paper

## Introduction

National Shelter welcomes the opportunity to provide input and comment regarding the Reform of the Federation, specifically responding to the Housing and Homelessness section of the final Discussion Paper, which we do within the context of broader comments about the nature of the federation and the issues of COAG and federal financial relations.

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 members Homelessness Australia, the Community Housing Federation of Australia, the National Association of Tenant Organisations, Jobs Australia and the National Council of St Vincent de Paul. National Shelter also cooperates closely with other national organisations such as the Australian Council of Social Service, and is a member of the Community Organisations Housing Alliance and Australians for Affordable Housing.

National Shelter advocates 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.

This submission responds to the content of the Discussion Paper in the light of these principles.

## Summary of main points

- Australia faces a number of significant housing issues, including an unacceptable level of homelessness, high levels of housing stress amongst low income households and especially renters, and declining affordability of home purchase in major cities.
- These various issues are closely interlinked and require coordinated intervention on a number of levels. Current government efforts are fragmented, split between various agencies at Commonwealth, State and Local Government levels. This

fragmentation is a greater issue than overlap or duplication, and requires greater cross-government collaboration to make a genuine impact.

- In housing assistance, the greatest issue is the inadequacy of levels of assistance. This inadequacy shows itself on social housing in the form of long waiting lists for assistance, while in Commonwealth Rent Assistance (CRA) it shows itself in the high proportion of households who are in housing stress despite receiving assistance. This inadequacy in both forms of support is a significant contributor to levels of homelessness.
- None of the three alternatives canvassed in the Discussion Paper offers any clear way of alleviating this inadequacy. Option 2 is essentially a “status quo” option, while Options 1 and 3 offer significant rearrangements of responsibilities. Both the reform options appear to have significant problems and drawbacks without appearing to solve any of the significant problems facing housing assistance.
- Housing programs present particular challenges both in relation to responses to Vertical Fiscal Imbalance (VFI) and approaches to Horizontal Fiscal Equalisation (HFE).

## What is the problem?

Australia faces a number of closely linked housing issues. These are summarised as follows.

### Housing supply is not keeping up with demand

In 2012 the National Housing Supply Council estimated a shortfall of approximately 228,000 dwellings, with this shortfall projected to increase to 369,000 in 2016-17 if nothing changes in our housing market.<sup>1</sup> For low income renters the situation is worse, with a shortfall of 539,000 rental properties affordable and available to low income renters.<sup>2</sup>

### House prices and rents are too high

A second key issue regarding housing in Australia is high dwelling prices relative to incomes. Australia ranks very high by international comparisons. National Shelter contends that our house prices are inflated due to a number of factors including:

- population growth outstripping dwelling supply;
- financial deregulation and insufficient prudential regulation;
- poor planning leading to insufficient supply and often the wrong kind or poorly located dwellings, all amplified by;
- poor Commonwealth tax settings (deductibility of loss and costs against any source of income and capital gains tax exemptions for both principal residence at 100% and for investment properties at 50%);

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<sup>1</sup> National Housing Supply Council, *Housing Supply and Affordability – Key Indicators*, 2012, p22-27.

<sup>2</sup> Ibid, 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.

- at the state level state stamp duties add an additional inflationary pressure, discourage labour mobility and create volatility in revenues for state governments.

These policy settings encourage over-investment in high priced property, fuelling demand without encouraging sufficient commensurate supply. Many institutions (Grattan, ACOSS) and economists (Eslake, Davidson, Gittins) have argued the impact of negative gearing as an inflationary contributor and Moody's rating agency estimates that it may have added 9% to house price inflation.<sup>3</sup>

The same affordability problem that affects home purchase affordability also affects rents. Between 2002 and 2012 average weekly rents across Australia increased by 75.8% for houses and 91.8% for other dwellings, while average earnings rose by 57%.<sup>4</sup>

### **Low income tenants struggle to afford private rental and home ownership**

Households in the lowest 40% of the income range are generally considered to be in "housing stress" if they pay more than 30% of their income in housing costs (rent or mortgage payments). In 2009-10, 60% of lower income tenants (those in the bottom 40% of the income range) were paying more than 30% of their income in rent, while 48% of home purchaser households in the bottom 40% were paying more than 30% of their income in housing costs.<sup>5</sup>

### **Housing assistance programs are inadequate to address housing issues**

Housing assistance is provided by two main methods – through Commonwealth Rent Assistance paid to lower income private tenants, and through the provision of social housing. Neither of these forms of assistance is currently adequate to meet the need.

Due to steadily reducing levels of funding over many years, the supply of social housing has not kept up with demand. Groenhardt and Burke have calculated that in real terms, Commonwealth expenditure on social housing has declined from just below \$4b per annum in 1981 to approximately \$1.3b in 2008 (in 2011 dollars).<sup>6</sup> This has led to large waiting lists. In 2013 there were over 200,000 households waiting for social housing across Australia. By contrast, only slightly over 33,000 new social housing tenancies were allocated across the country in 2012-13, down from over 38,000 in 2003-04.<sup>7</sup> At the same time, all of Australia's public housing authorities are struggling to meet their costs and adapt their housing stock to changing needs, with low levels of funding combined with low rental incomes and increasing maintenance costs.

While applicants for CRA can access assistance immediately, this assistance is not sufficient to raise them out of housing stress (defined as paying more than 30% of their income in

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<sup>3</sup> ABC, *7.30 Report*, 7 November 2014.

<sup>4</sup> National Housing Supply Council, 'Housing supply and affordability issues, 2012–13', 2013, p. 7.

<sup>5</sup> National Housing Supply Council, *Housing Supply and Affordability – Key Indicators*, pp42, 45.

<sup>6</sup> L Groenheart and T Burke, *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, 2014. Melbourne: Australian Housing and Urban Research Institute, p12.

<sup>7</sup> Australian Institute of Health and Welfare, *Housing Assistance in Australia 2014*, Supplementary Tables 4.1.

housing costs). The Report on Government Services reports that without CRA, 67% of recipients would have been in housing stress. However, with CRA this is only reduced to a little over 40%.<sup>8</sup> At current rates, CRA is not sufficient to deliver affordability for these tenants. The inadequacy of assistance is a key factor in many households becoming homeless. On census night in 2011 there were over 100,000 Australians homeless<sup>9</sup>, while in 2012-13 approximately 244,000 people used homelessness services across the country.<sup>10</sup> An adequate response to homelessness needs to begin with an adequate level of assistance to low income households.

## Response to the Discussion Paper

Early in the Discussion Paper the response of stakeholders to the process so far is described as follows.

“All agreed that any reallocation should not just be a ‘rearranging of the deck chairs’, or a theoretical exercise in changing what already exists. The overarching goal should be to ensure governments have the right incentives to continuously improve the services provided to Australians, which in turn will improve their wellbeing and standard of living.” (p5)

National Shelter strongly endorses this view and the comments that follow are provided in this spirit. It is our strong view that any reform of housing and homelessness programs should address the issues outlined in the previous section.

### Overall analysis of housing policy

In our view, the overall analysis of housing policy in the Discussion Paper suffers from a serious flaw in that it fails to recognise the inter-relatedness of various aspects of housing policy. On pp 75-76 it identifies a number of areas of housing policy, including urban planning, immigration, financial regulation, income security and taxation, and suggests there is limited overlap in these areas so they don’t need attention. While there is limited overlap within each of these areas of policy there is considerable overlap between them and their interaction has complex effects on the housing market. Their distribution amongst the three levels of government and between agencies at each level leads to fragmentation of policy and to a failure to address the complex issues that are behind Australia’s housing supply and affordability issues. This fragmentation, rather than overlap and duplication, is the key problem in housing policy.

The National Affordable Housing Agreement (NAHA) made some attempt to get to grips with this complexity by agreeing to a set of broad targets related to housing affordability and availability. However, its effectiveness was limited because the State and Commonwealth ministers responsible for the NAHA did not hold the key policy levers which could achieve these targets. It is Shelter’s view that a far higher level of coordination is required to make significant reform in this area, with housing policy needing to be driven

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<sup>8</sup> *Report on Government Services*, 2013-14, Table G24.

<sup>9</sup> Australian Bureau of Statistics, ‘Census of Population and Housing: estimating homelessness, 2011’, table 3.3, pp. 22–23.

<sup>10</sup> Australian Institute of Health and Welfare, ‘Specialist homelessness services, 2012–13’, 17 December 2013, p. 7.

by a high level, cross-government structure which can address issues of the tax treatment of housing, planning policy and financial regulation alongside issues of housing support for people on low incomes. This effort needs to be led by a senior minister at Commonwealth level with responsibility across all areas of housing policy.

## Housing reform

National Shelter endorses the paper's finding that there is a level of overlap between Commonwealth and State responsibilities on social housing and homelessness. The overlap is mainly in the areas of funding and policy development, in both the social housing and homelessness sectors – there is limited overlap in service delivery, with State Governments holding clear responsibility for direct service delivery and for managing the funding relationship with non-government service providers. It is less clear to what extent this overlap is a problem – for National Shelter's members and stakeholders it is generally viewed as a minor issue alongside the pressing policy challenges outlined earlier in this submission. This overlap is a long-term feature of Australian housing and homelessness policy, dating from the creation of the first Commonwealth-State Housing Agreement in the wake of the Second World War. This agreement, and those that followed it, recognised that only the Commonwealth Government had the financial resources to make a significant impact on the housing needs of low income families. Homelessness programs have also been jointly funded through enduring funding arrangements since the creation of the Supported Accommodation Assistance Program in the mid-1980s.

In housing, there is a strong case for reform of the current arrangements. While there have been progressive changes to the nature of the inter-governmental housing agreement in the past seventy years, most recently through the creation of NAHA in 2008, its basic structure has remained essentially the same. A fixed subsidy from the Commonwealth is matched by an extra 50% of this figure from the States and Territories. Up until recent years this amount was designated as a capital grant intended to grow the supply of housing, with the operation of the system funded from the rent paid by tenants.

The viability of the system has been steadily eroded since the 1970s by a number of changes. Social housing, which was originally targeted at lower income working families, has gradually shifted its focus to the most disadvantaged households including single people, older people and people with significant disabilities and health issues. This has led to a reduction in rental income and an increase in the cost of the provision of assistance. However, at the same time the level of Commonwealth and State subsidy has been steadily reduced as noted on page 5 above. This has led to increasing financial stress on the part of State Housing Authorities. As the discussion paper notes, this situation is not sustainable. However, the arrangement is not inherently unsustainable – rather, its sustainability depends on an adequate level of income and investment.

In recent years National Shelter and other peak housing organisations have proposed a number of measures to improve this situation. Fundamental to this is finding a way to inject significant new funds into the system. This could be done in a number of ways, including a simple increase in the level of funding under the NAHA, the creation of separate operational and growth funds, and the payment of Commonwealth Rent Assistance to all social housing tenants either as a payment to tenants (which can be captured by providers through rent increases) or as a direct block subsidy to housing providers.

Unfortunately, none of the options flagged in the Discussion Paper addresses these significant problems in the system. Hence in our view they fail the test of delivering significant improvement in service delivery.

The following sections provide brief comment on each of the main options.

## Assessment of the 3 options

### Option 1 - Split system manager

The first option effectively involves an exchange in which the Commonwealth would withdraw from direct funding of social housing and homelessness programs, leaving these as an exclusively State responsibility while extending eligibility for Commonwealth Rent Assistance to all social housing tenants. This option has been flagged in various forms by a number of reviews including the Commission of Audit and the McClure welfare review. In both these reviews it is linked to State and Territory governments shifting social housing rents to market level. However, the Discussion Paper suggests that this question would be a matter for State and Territory governments to decide. The Discussion Paper notes that this option would reduce overlap in responsibilities between Commonwealth and States, leaving the Commonwealth with exclusive responsibility for income support and the States with exclusive responsibility for funding and managing social housing and homelessness programs. It also notes three key criticisms of this option.

- “This option could improve the sustainability of social housing over the longer term, however, tenants may be worse off unless transitional arrangements are put in place.” p84
- “This option does not address broader housing affordability issues, which place pressure on housing assistance and homelessness services.” (P84)
- “Nor does it address concerns about cost and blame shifting. Decisions by one level of government—in either housing assistance and homelessness services, or in CRA and the broader social security system—could continue to have a financial impact on the other level of government.” (P85)

In our view, these stated drawbacks seriously understate the problems with this option.

While we do not have detailed figures, it is our understanding that the increased funds available to state housing departments from their tenants’ eligibility for CRA would be broadly comparable to the amount currently provided through the NAHA. As noted above, this amount is inadequate to meet the level of need or the costs of the system. In the absence of any other source of funds, this would leave State and Territory Governments with an unresolved financial problem. A number of points need to be made about this situation.

- Funds are currently at an historical low, and are below the amount needed to maintain the system.
- Over the history of the various Commonwealth-State agreements, levels of funds have fluctuated depending on economic circumstances and government priorities. Most recently, the Commonwealth Government made a substantial investment in the system from 2008-2011 through the Nation Building Social Housing Initiative and in this same period also committed substantial funds to the National Rental Affordability Scheme, providing a complementary source of funds to many non-government housing providers. The proposed division of responsibilities would

leave these types of initiatives in the hands of the State and Territory Governments, with no clear access to the needed additional funds for such programs.

- A shift to market rents could theoretically provide part of the solution to this financial problem. However, as noted above the current level of CRA is insufficient to lift a large proportion of recipients out of housing stress. This problem is amplified in social housing because of the levels of disadvantage experienced by social housing tenants. Recent analysis by National Shelter shows that even with a 30% increase in the maximum rate of CRA, market rents would leave a substantial proportion of tenants, including most single tenants (with or without children) in unaffordable housing. This policy approach would also render significant proportions of social housing (for instance, dense inner city high rise public housing estates) unusable by the intended target group, presenting State housing departments with a serious management challenge.

At the same time, the paper provides no obvious way to replace the funding currently provided by the Commonwealth Government for homelessness programs, which would be largely untouched by expanded CRA eligibility. This would place at risk the real gains made through the reforms of the past few years. In National Shelter's view, this option can only be successful in the context of a clear extra stream of funds for social housing over and above current (or even substantially increased) levels of CRA. In the absence of such a solution, this option appears to be more akin to the "shifting of deckchairs" which the stakeholder consultation urged governments to avoid.

### **Option 2 - Shared system manager**

This second option is essentially a continuation of current arrangements. It is National Shelter's view that of the three options considered this is the most viable, if only because it does not involve the expenditure of significant reform costs for little or no net gain.

However, it doesn't address the fact that the current arrangement is not delivering solutions to the long-standing and growing problems facing housing assistance. These problems require a significant reform of funding and delivery methods and will not be achieved without significant new investment. Any meaningful reform of the housing assistance system must address these issues as a matter of urgency.

### **Option 3 - States and Territories have full responsibility**

The final option shares the attributes of Option 1, with the additional change that the States and Territories would take on responsibility for the payment of housing assistance to private tenants. Our critique of Option 1 therefore also applies to Option 3.

There are two additional problems with this option.

Firstly, it asks States and Territories to take on significant extra financial responsibility with no obvious financial compensation. The Commonwealth's current annual expenditure on CRA as noted in the Discussion Paper is in excess of \$4b per annum, and this has been increasing steadily. As noted above this amount, already a significant potential hole in State and Territory budgets, is insufficient to resolve housing affordability issues for many low income tenants, and the Discussion Paper offers no solution to this problem.

The second significant drawback of Option 3 is that it creates a new area of duplication between Commonwealth and States. Currently income security payments, including CRA, are provided by the Commonwealth through a single system for processing applications,



assessing eligibility and enforcing payment conditions. Option 3 would require the States and Territories to establish parallel systems for processing housing assistance, leading to extra red tape both for governments and for low income tenants. It is not clear what extra benefit would result from this duplication.

## Other options

We note that the Discussion Paper also considers and dismisses the option of transferring responsibility completely to the Commonwealth. This option is dismissed as involving “significant structural reform”.

In our view, significant structural reform should not necessarily be dismissed out of hand, and we note that Option 3 also involves such reform. However, we concur that a transfer of responsibility to the Commonwealth would be a particularly complex change involving transfer of significant assets, and it is difficult to see what benefit would result.

## Federal financial relations

The final section of the Discussion Paper addresses questions of financial relations within the federation, focusing primarily on the questions of Vertical Fiscal Imbalance (VFI) and Horizontal Fiscal Equalisation (HFE). Given that the solution to the problems facing the housing assistance system requires significant new investment, however responsibilities are distributed between levels of government, financial issues are front and centre in this policy area.

We note that the structure of CRA as an entitlement-based program has led to investment in this form of assistance steadily increasing in response to an increase in the number of low income households eligible for assistance. By contrast, the system of rationing social housing through use of a waiting list has seen annual funding into this system gradually decline, with the primary way of funding increasing costs being to either sell assets or delay maintenance (effectively allowing asset values to depreciate). This dynamic has seen the balance of housing assistance shift steadily in favour of CRA over an extended period. This shift has never been an explicitly stated policy goal, and seems to be more a result of policy “drift” by both levels of government in the absence of a firm commitment to address problems in the housing system.

The Discussion Paper canvasses three options for addressing VFI.

- Option 1 – combining current tied grants into a single block grant from Commonwealth to States
- Option 2 – a number of options for increasing State access to tax revenue
- Option 3 – a significant reallocation of expenditure responsibilities to the Commonwealth.

National Shelter concurs with the overall view expressed in the Discussion Paper that “VFI is not necessarily a problem in itself”. It is more important to address specific financial and policy issues than to solve theoretical problems. In this spirit we would note that the various housing policy options flagged in the Housing and Homelessness section of the Discussion Paper have significant implications for strategies around VFI.

- Option 1 in Housing and Homelessness is broadly consistent with Option 1 for addressing VFI. However, as it would leave the States and Territories with sole responsibility for addressing the significant financial shortfalls in the social housing

system, these would require access to significant new revenue as envisaged under VFI Option 2.

- This broad analysis is also the case for Housing and Homelessness Option 3, but this option makes access to extra revenue a more urgent problem as an extra \$4b needs to be found by States and Territories purely to maintain the current (inadequate) status quo.
- None of the three VFI options appears to be compatible with Housing and Homelessness Option 2, which requires the continuation of tied Commonwealth funding.

Housing policy also has particular implications for HFE. This comes as a result of two issues.

1. Housing costs vary widely between States and Territories and between regions. There are significant variations in costs between capital cities, with Sydney in particular having much higher housing costs than other capital cities. At the same time, States and Territories such as Western Australia, Queensland and the Northern Territory have significant extra costs in servicing remote communities, including highly disadvantaged remote Aboriginal settlements. HFE needs to be sensitive to these widely differing costs of providing comparable services. It should be noted that these differences also impact on the effectiveness of CRA – in this case the extra costs are currently borne by low income tenants rather than by governments, leading to different outcomes for tenants in different communities.
2. The second issue comes from the fact that different States and Territories have different historical approaches to social housing. This means that some states and territories have substantially larger social housing portfolios in relation to their overall population – South Australia and ACT in particular have larger stocks of social housing relative to their populations. These histories impose different costs on governments which cannot be avoided in the medium term without significant displacement of high need tenants.

## Conclusion

This submission has outlined a number of long-standing issues in Australia's housing assistance systems. None of these issues are intrinsically linked with the structure of intergovernmental relations in the federation, and this means that changes in federal relations are not likely to play a significant role in solving them. This analysis is reinforced by the fact that none of the three Housing and Homelessness reform options provides a clear pathway to addressing these problems, while both Option 1 and Option 3, the options that involve more significant change, run a real risk of placing more pressure on an already-struggling system.