National Shelter 2020-21 Budget Analysis

Overview

The 29-year run of GDP growth in Australia has now ended with the 2020 recession. While much of the growth run was driven initially by productivity gains and micro and macro-economic reforms, over the past decade it's been driven more by population growth. This is significant for housing because our house price inflation, high prices, rental pressure and housing stress is partly a function of population growth.

The 2020 budget shows net overseas migration falling from around 154,000 additional persons in 2019-20 to 72,000 fewer persons in 2020-21 and 22,000 fewer in 2021-22. A drop of nearly 100,000 people compared to recent growth of between 250,000 per annum. Victoria is expecting 400,000 fewer people as they lose residents to other states. When we factor in the loss of foreign students and temporary visa holders the impacts are greater. Estimates range from a population drop of between 600,000 to 1 million.

These numbers have serious implications for the level of housing construction activity in the private sector. We have also noticed recent trends of population movements out of cities and into regional and rural communities. How, where, why and for who we build now becomes a more serious consideration.

National Shelter was not in the budget lockup this year due to limited numbers, locations of lockup events with no lockup for non-media representatives in Brisbane. Powerhousing Australia was the only NGO housing representative in a Canberra Lockup.

We had, with CHIA and Homelessness Australia, developed the Social Housing Acceleration and Renovation Program (SHARP) building on calls from unions and industry groups, as well as leading economists, for a social housing investment package.

In a budget with massive spending and tax measures, including major tax cuts and $110b in infrastructure spending, the lack of a spending announcement on social housing is a profound disappointment, if not a thumbed nose, to the 150,000 households on waiting lists and the growing number of people for whom access to home ownership or affordable rental housing in private markets is out of reach.

Where we had been hopeful of an announcement due to the impact of COVID we now fear the proximate cliff of jobseeker cuts and jobkeeper reductions causing increased evictions in private rental (despite the moratoria extensions in some jurisdictions), increased housing stress, homelessness and the associated trauma and increased costs to health, policing, corrections, community safety, education and household budgets which inevitably attends this.

At a time when state governments have been providing supports to house rough sleepers, keep renters in place, provide rental relief, eviction controls, increased spending on social housing we expected the commonwealth to contribute, match or exceed the measures of states, to maintain housing for people who will increasingly find the marketplace for housing a brutal experience.

At the other end of the spectrum most economists, the RBA included, predict a fall in house prices ranging from 5-40% of current values. This has implications not just for home ownership but also for rental housing as most rental housing is highly leveraged and falls may leave owners in negative equity and forced to sell. This would put further downward pressure on prices. Lower prices would, if rents are maintained at current levels significantly improve rental yield.

The upside of this is that rents may fall in line with price falls and home ownership may be able to recover as investors would only be able to sell to owner occupiers, unless we see a shift to more institutional investment. This might also lower the government's exposure to negative gearing and capital gains tax expenditures, while not generating any revenue it would cost less in discounts and loss claims. It will be something to watch in future budgets.

At the state level it will also mean lower revenues from land tax and stamp duties, perhaps providing more impetus for a broader tax reform agenda.

Machinery of Government Changes

A number of Machinery of Government changes were also announced in Budget paper 4 some with quite significant consequences for housing, others with consequences for the clients of housing and homelessness services and important population groups. I've picked out these:

- transfer of responsibility for housing affordability from the Social Services portfolio to the Treasury portfolio

Is very welcome and we will need to investigate the extent of this in terms of impacts on programs and funding. We have long argued for housing to be based within a central agency or an infrastructure portfolio. In checking with the DSS Minister's office programs like NRAS and the NHHA remain with DSS so this reflects the broader role around housing affordability rather than affordable housing programs.

Some of these significantly increase the role of Treasury on infrastructure, population and project financing, others place significant responsibilities under the Home Affairs portfolio and overall we see a loss of responsibility from Social Services.

- transfer of Indigenous functions from the Department of Prime Minister and Cabinet to the National Indigenous Australians Agency
- transfer of responsibility for population policy from the Infrastructure portfolio to the Treasury portfolio

- transfer of responsibility for infrastructure and project financing from the Infrastructure portfolio to the Treasury portfolio
- transfer of settlement services for refugees and humanitarian migrants from the Social Services portfolio to the Home Affairs portfolio
- transfer of responsibility for whole of government service delivery from the Prime Minister and Cabinet portfolio to Services Australia

Tax Cuts

The Treasurer's centrepiece in budget 2020 will bring forward Stage two of the Personal Income Tax Plan by two years. From 1 July 2020:

- the low income tax offset will increase from $445 to $700;
- the top threshold of the 19 per cent tax bracket will increase from $37,000 to $45,000; and
- the top threshold of the 32.5 per cent tax bracket will increase from $90,000 to $120,000.

The Government will also provide additional targeted support to low- and middle-income Australians. In 2020-21, low-and middle-income earners will receive a one-off additional benefit of up to $1,080 from the low and middle-income tax offset (LMITO).

The LMITO was to be removed with the commencement of Stage two, but the one-off additional benefit in 2020-21 will provide support to households and stimulus to the economy.

Bringing forward Stage two and providing the additional LMITO predicts more than 11 million Australian taxpayers will get a tax cut, with effect from 1 July this year.

Additionally, for businesses:

Businesses with a turnover of up to $5 billion will be able to immediately deduct the full cost of eligible depreciable assets acquired from 7:30pm (AEDT) on 6 October 2020 and first used or installed by 30 June 2022.

To complement this full expensing, the Government will also temporarily allow companies with a turnover of up to $5 billion to offset tax losses against previous profits on which tax has been paid.

This will provide a targeted cash flow boost to businesses across the country.

Normally, businesses would have to return to profit before they can use their losses.

Losses incurred to June 2022 can be offset against prior profits made in or after the 2018-19 financial year.

Our analysis

Tax cuts will help to drive economic activity but most analysts estimate about 50% of those receiving a tax cut will bank or repay debt rather than spend it on consumption. Direct payments to low income households are more effective in driving consumption and economic activity as low income households typically spend rather than having a capacity to save.

As most of the benefits of tax cuts flow to higher income earners there could be a flow on to future budgets by the extent to which higher income earners are less able to reduce their earnings by negatively gearing assets. Negative gearing may become less useful to higher income earners to offset tax bills and therefore the basis for much of our rental supply may be affected.

The business right offs and write backs (against past profits) assume businesses have the cash to spend now to recoup depreciation in the same year. We would have preferred direct supply side investments in housing which would have created jobs, economic activity, and homes for those who need them.

Housing and Homelessness

Housing and homelessness spending is static in Budget 2020 with the Specific Purpose Payments on housing essentially as they were in previous years. The NHHA continues to be indexed at the low wage cost indexation 1 which means it will continue to erode as costs of provision continue to outstrip its level of indexed growth.

Table 2.7: Payments to support state affordable housing services

$million	2020-21	2021-22	2022-23	2023-24
National Housing and Homelessness Agreement	1,594.5	1,553.2	1,571.9	1,593.9
National Partnership payments				
HomeBuilder	680.0	-	-	-
Northern Territory Remote Aboriginal investment				
Remote Australia strategies component	3.7	3.7	-	-
Remote housing	237.2	185.0	110.0	-
Social Impact Investments				
Vulnerable priority groups	0.5	1.1	0.5	0.5
Youth at risk of homelessness	0.5	1.1	0.5	0.5
Total National Partnership payments	921.9	190.8	111.1	1.1
Total	**2,516.5**	**1,744.1**	**1,682.9**	**1,595.0**

National Housing and Homelessness Agreement

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	489.3	414.6	327.6	170.3	110.9	34.5	27.1	20.2	1,594.5
2021-22	485.3	399.0	320.7	163.4	107.1	33.1	25.7	19.0	1,553.2
2022-23	490.1	405.2	325.4	165.0	107.9	33.4	26.0	19.0	1,571.9
2023-24	496.0	412.7	330.5	166.7	108.8	33.7	26.3	19.1	1,593.9
Total	**1,960.7**	**1,631.5**	**1,304.2**	**665.4**	**434.7**	**134.7**	**105.1**	**77.3**	**6,313.5**

The NHHA reduces payments in 20-21 to all jurisdictions. This relates to the cessation of payments for the Equal Remuneration Order. In an email exchange with Assistant Minister Howarth's office this is consistent with the way NHHA was negotiated with the SACS agreement but the DSS papers suggest there may still be room for negotiation. In a further clarification with Minister Ruston's office DSS has prioritised committing to ERO in areas where they have a direct responsibility, like NDIS, but may still able to negotiate meeting ERO contributions to indirect programs like Specialist Homelessness Services in negotiating with states and territories.

Our analysis

It is clearer now than in previous budgets that in the absence of any boost to NHHA and recent comments from the Treasurer, the Commonwealth has relinquished responsibility for improving social housing and homelessness service provision, leaving it up to state and territory governments. National Shelter acknowledges the additional money states and territories have provided since COVID 19 and had hoped at the least for a matching response from the Commonwealth.

However, we will not give up the goal even if the strategy may need adjustment. We have now joined with private sector peak bodies and the ACTU and ACOSS in forming the National Affordable Housing Alliance. This group will continue to engage the commonwealth and it may be that as states and territories consider their own COVID responses that they do include more support for social and affordable housing and specialist homelessness services.

We are also experiencing population decline and a likely corresponding reduction in demand for private housing construction. We know that housing construction has a large economic multiplier and is a driver of jobs and apprenticeships and if the demand for private housing construction continues to decline then governments may want to encourage housing construction by other means, social and affordable housing construction become more important in this scenario.

Commonwealth Rent Assistance (CRA)

CRA will continue to rise but remains inadequate as a measure helping affordability for renters. National Shelter argued that the maximum rate of CRA (payable to those on the lowest incomes) should increase by 50% to maintain its historic value and to protect against poverty with reductions to Jobseeker and Jobkeeper. CRA is not a replacement for a national strategy to directly increase the supply of social and affordable housing. CRA was established to maintain a permanent level of commonwealth support to renters in the (mostly) private rental market which it continues to do. It was always intended to be complementary to direct supply programs not a replacement for them.

Cash projections for Rent Assistance (a)

Cross-Program - Rent Assistance

	2019-20 Estimated actual $'000	2020-21 Budget $'000
DSS: A New Tax System (Family Assistance)(Administration) Act 1999		
Family Tax Benefit	1,874,911	1,941,906
DSS: Social Security (Administration) Act 1999		
Age Pension	905,820	929,943
Austudy	38,428	45,840
Bereavement Allowance	66	–
Carer Payment	130,102	138,605
Disability Support Pension	737,629	758,076
Newstart Allowance	721,716	–
JobSeeker Payment	–	1,361,355
Parenting Payment (Partnered)	1,446	1,801
Parenting Payment (Single)	34,378	40,522
Partner Allowance	16	10
Sickness Allowance	5,102	–
Special Benefit	7,812	10,263
Widow Allowance	5,402	3,214
Widow Pension B	3	–
Wife Pension (Age)	517	–
Wife Pension (Disability Support Pension)	622	–
Youth Allowance	178,101	234,551
DSS: ABSTUDY (Student Assistance Act 1973)	18,674	19,549
Department of Veterans' Affairs: Veterans' Entitlements Act 1986 (b)	26,737	24,170
Total cash projections	**4,687,482**	**5,509,805**

(a) Rent Assistance is not a discrete sum of money separately payable under the law, but is a supplementary payment included in the calculation of the primary income support payment, Family Tax Benefit or service pension. This table provides cash projections for the Rent Assistance component included in the primary income support payment, Family Tax Benefit or service pension.

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

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

Our analysis

Renting continues to rise as a tenure in Australia and while National Shelter remains tenure neutral it is becoming apparent that CRA no longer performs the function of addressing affordability in our private rental markets. It does maintain a permanent commonwealth expenditure to help renters and cost to the Commonwealth continues to rise due to the growing number of renting households and increased exposure to CRA from transfers of social housing to community housing providers.

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

Infrastructure

The Government's infrastructure investments add $10b to those announced in 2019 creating a 10-year infrastructure pipeline of $110 billion.

The measures see $14 billion in new and accelerated infrastructure projects. The Budget will fund major projects across each state:

- The Singleton Bypass and Bolivia Hill Upgrade in New South Wales
- The upgrade of the Shepparton and Warrnambool Rail Lines in Victoria
- The Coomera Connector in Queensland
- The Wheatbelt Secondary Freight Network in Western Australia
- The Main South Road Duplication in South Australia
- The Tasman Bridge Upgrade in Tasmania
- The Carpentaria Highway Upgrades in the Northern Territory
- The Molonglo River Bridge in the Australian Capital Territory.

The Budget also includes a $2 billion investment in road safety upgrades.

Funding for these shovel ready projects will be provided on a use it or lose it basis.

Our analysis

The great missing piece of infrastructure in Budget 2020 is the absence of a social housing investment.

Other Measures

National Shelter Welcomes the following measures announced in the budget:

- National Housing Finance Investment Corporation (NHFIC) Government Guarantee for the Australian Affordable Housing Bond Aggregator raised from $2 billion to $3 billion;

Our analysis

The NHFIC government guarantee being lifted from $2b to $3b is a welcome initiative however without a capital injection from either the commonwealth or states it won't result in new affordable housing being built. The NHFIC operates as a banker to the community housing sector providing lower cost finance by raising bonds then offered to community housing providers (CHPs) to refinance existing debts. The extent to which that lower repayment adds to new housing construction is limited to the equity held by CHPs and the leverage this affords them to construct new housing. The current $2b guarantee is not yet fully subscribed and without new equity, which could come from further transfers or capital injections, it won't translate into much growth in the supply of affordable housing. It is important architecture for the system of community housing but without capital components remains limited in its ability to generate new supply.

- $150 million Indigenous Home Ownership Program created to construct new homes in regional areas to provide shared equity ownership outcomes

This is a welcome initiative but limited in scope. We hope it successfully builds confidence in further injections to assist First People's home ownership.

- Extending the first home loan deposit by 10K places in 20/21

We remain sceptical about the utility of the first home loan deposit scheme, while NHFIC promotes significant savings to recipients we find the eligibility is pitched at incomes that are too high and question the inflationary affect of all first home grant schemes. It is also very limited in scope and creates a kind of lottery windfall for the successful applicants while doing little to improve either first home ownership in proportion to others or affordability in the overall market.

- $1.6 billion for an additional 23,000 home care packages.

This is a welcome boost for the ability of older Australians to age in place. Some commentators have suggested it too is too small to really make a significant difference

HomeBuilder[a]

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	~	~	~	~	~	~	~	~	680.0
2021-22	-	-	-	-	-	-	-	-	-
2022-23	-	-	-	-	-	-	-	-	-
2023-24	-	-	-	-	-	-	-	-	-
Total	~	~	~	~	~	~	~	~	**680.0**

(a) State allocations for 2020-21 are not available as this is a demand-driven program.

Homebuilder has been the government's principal housing response during COVID to increase housing construction activity. It is a modest program that largely assists eligible households to undertake renovation or purchase properties. It is questionable that it has enhanced building activity and is too short term to be of lasting benefit to construction activity.

Our view

Homebuilder would have been better allocated as a capital component to complement the additional loan guarantee administered by NHFIC.

Remote housing

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	-	-	100.0	-	-	-	-	137.2	237.2
2021-22	-	-	-	-	-	-	-	185.0	185.0
2022-23	-	-	-	-	-	-	-	110.0	110.0
2023-24	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**100.0**	**-**	**-**	**-**	**-**	**432.2**	**532.2**

The additional funding for Queensland in 20-21 is welcome following the cessation of the national remote housing agreement. The continued funding for the NT is also welcome over the next three years. National Shelter will continue to advocate for a new National First People's housing program including rebuilding the community housing capacity and utilising the "Indigenous Estate" to promote a new approach based on building community control, wealth based, ownership and long term programs to build both remote and urban housing for First Peoples.

Northern Territory Remote Aboriginal investment — remote Australia strategies component

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	-	-	-	-	-	-	-	3.7	3.7
2021-22	-	-	-	-	-	-	-	3.7	3.7
2022-23	-	-	-	-	-	-	-	-	-
2023-24	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7.3**	**7.3**

The remote Australia strategies component provides funding to improve public housing in remote communities by investing in housing works and removing asbestos from community buildings. This funding will also support a sustainable, professional and accredited Indigenous interpreter service.

This funding complements the funding provided under the National Partnership on remote housing.

COVID-19 Domestic Violence Support

The Australian Government will provide funding to ensure the safety of women and their children experiencing, or at risk of experiencing, domestic, family and sexual violence during the COVID-19 pandemic.

COVID-19 Domestic Violence Support

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	30.8	24.4	19.7	10.6	7.0	2.1	1.6	1.2	97.5
2021-22	-	-	-	-	-	-	-	-	-
2022-23	-	-	-	-	-	-	-	-	-
2023-24	-	-	-	-	-	-	-	-	-
Total	**30.8**	**24.4**	**19.7**	**10.6**	**7.0**	**2.1**	**1.6**	**1.2**	**97.5**

Social impact investments

Vulnerable priority groups[a]

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	~	~	~	~	~	~	~	~	0.5
2021-22	~	~	~	~	~	~	~	~	1.1
2022-23	~	~	~	~	~	~	~	~	0.5
2023-24	~	~	~	~	~	~	~	~	0.5
Total	**~**	**~**	**~**	**~**	**~**	**~**	**~**	**~**	**2.7**

(a) State allocations from 2020-21 have not yet been determined.

The Australian Government will provide funding to state governments to trial social impact investments which aim to assist vulnerable priority groups.

Youth at risk of homelessness[a]

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	~	~	~	~	~	~	~	~	0.5
2021-22	~	~	~	~	~	~	~	~	1.1
2022-23	~	~	~	~	~	~	~	~	0.5
2023-24	~	~	~	~	~	~	~	~	0.5
Total	**~**	**~**	**~**	**~**	**~**	**~**	**~**	**~**	**2.7**

(a) State allocations from 2020-21 have not yet been determined.

Pay equity for the social and community services sector

$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2020-21	-	-	-	33.3	-	-	-	-	33.3
2021-22	-	-	-	-	-	-	-	-	-
2022-23	-	-	-	-	-	-	-	-	-
2023-24	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**33.3**	**-**	**-**	**-**	**-**	**33.3**

The Australian Government is funding its share of the wage increases arising from the Fair Work Commission's 2012 decision to grant an Equal Remuneration Order for the Social, and Community and Disability Services Sector. This includes funding for the Australian Government's share of the wage increases for in-scope programs funded through existing National SPPs and National Partnership payments.

Conclusion

Budget 2020 was an opportunity to provide a major boost to social housing via a major investment at a time when the nation will need more social housing and has a major shortfall of it. Over the past 6 years Australia has been confronted with budget messaging that we are in ‘crisis’ that spending cuts were needed for ‘budget repair’ while tax cuts have been offered to businesses and high-income earners. The message this year was COVID required a massive spending program and that we can afford the debt because of previous sound economic management. Tax cuts are again the answer to every question.

There are some welcome elements of budget 2020 but more missed opportunities. It was a chance to improve equality and fairness but has essentially been a budget of sugar hits with little substance or ongoing strategy. To say the missing infrastructure that could have been a major boost to social housing is profoundly disappointing is a severe understatement.