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2016

5 REFORMS

to deliver more
affordable housing
and end homelessness

Why we need reform

For decades, Australia has been failing to meet the housing needs of its lowest income residents, and the situation has been getting steadily worse.

- One in ten Australian households – approximately 850,000 – are in housing stress, paying over 30% of their income on housing costs.
- The Rental Affordability Index developed by National Shelter, SGS and Community Sector Banking in 2015 found that “although average rental affordability remained below 30% across all states, those households falling into the lowest 40% of income consistently face ‘severely’ and ‘extremely’ unaffordable rents. This is the case in all regions of Australia – including all cities and all regional areas – with non-family households suffering the most.”¹
- There is a shortfall of over 500,000 rental dwellings affordable and available to households in the lowest 40% of incomes.
- There are over 100,000 people homeless on any given night, and each year more than 200,000 people seek help from homelessness services.

The Commonwealth and State Governments have a number of programs in place to address these issues, but they are proving inadequate to the task.

- The social housing system is struggling to cope with demand, with over 200,000 households on the waiting list for social housing in 2013 but only 33,000 new allocations in that year.
- Commonwealth Rent Assistance (CRA), which is designed to alleviate poverty in the private rental sector, is inadequate, and as a result 40% of CRA recipients remain in housing stress despite receiving CRA.
- Homelessness services are also unable to keep up with demand – in 2012-13 over 230 people each day had to be turned away from homelessness services.

Meanwhile tax and planning policies continue to push housing prices beyond affordable levels and inhibit effective supply responses. Deep and sustained reform is needed on a number of fronts to address these critical issues.

There is no better opportunity than the present to make positive changes. Serious tax reform is on the table for the first time in decades. Governments are looking closely at the relative roles and responsibilities of the Commonwealth and the States and Territories. Strong, innovative non-government organisations are coming up with new, more effective ways to do business.

The task will not be easy because there are many challenges. Despite increased levels of new supply over the past 2-3 years our market responses have failed to meet housing demand or to deliver affordable homes to the households who need them most.

Solutions to these problems are difficult, but not impossible. This paper outlines practical measures which will start Australia moving in the right direction.





A coherent national strategy to deliver more affordable housing and end homelessness

The Federal Government currently has policy settings, like housing taxation, that make housing more unaffordable, and fails to use policy levers, like urban or regional planning to improve affordability.

The current National Affordable Housing Agreement has ambitious goals to increase overall housing affordability, but has relatively few levers at its disposal to achieve these goals and is inadequately funded. Likewise, the National Partnership Agreement on Homelessness has too few resources, and is trying to reduce homelessness, while other policy reforms, like cuts to social security payments contribute to increased homelessness.

Parties should commit to developing a coherent 10-year strategy to get all federal and state policies pulling in the same direction to address housing affordability and end homelessness.

A strategy should incorporate the initiatives outlined in this election platform as well as coordinating state and territory responses on issues such as urban and regional planning and the regulation of the private rental market. This plan should be:

- driven by a Cabinet-level Minister for Housing with authority to coordinate the efforts of the various Departments which will contribute to the plan
- supported by an active Ministerial Council on Housing under the auspices of COAG
- informed by high quality research from bodies including the Australian Housing and Urban Research Institute and the Australian Institute of Health and Welfare, and
- developed and implemented in partnership with adequately funded national peak housing and homelessness bodies that can coordinate non-government input to the implementation of the plan, and can support and resource non-government partners to improve service delivery practices.

The following five reforms are our top priorities for inclusion in this national plan.

1

REFORM 1:

Significant growth in public and community housing and other affordable options

Australia has a shortfall of over 500,000 rental dwellings that are affordable and available to households in the lowest 40% of incomes. Public and community housing and other affordable options, which are targeted to those on lower incomes, are a critical part of the response needed to end homelessness and adequately house all Australians. Any reform program needs to take growth in affordable housing seriously and provide a long-term, consistent pipeline of capital funding to support it.

Parties should commit to developing an Affordable Housing Growth Fund starting with \$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. A number of parameters should guide its operation. These include:

- It should provide an ongoing pipeline of capital funding to grow the supply of social and affordable housing in the public and community sectors, with matched funds from the states and territories. Parties should continue to support tenancy and asset transfers from state housing authorities with appropriate safeguards for tenants.
- It should be deployed in tandem with strategies to attract private investment into the affordable housing sector, with the precise means for this to be informed by the current policy process being managed by the Affordable Housing Working Group. These strategies would involve working alongside an increasingly sophisticated community housing sector to support providers' ability to leverage private finance, spreading risk by aggregating borrowing or investment across the sector, and providing incentives that are tailored to the type of housing being provided and the cost structures of local housing markets.

- It should recognize that Aboriginal and Torres Strait Islander peoples face the highest levels of housing stress, overcrowding and homelessness of any segment of the Australian community. This means that a significant proportion of the growth funds need to be earmarked to increase the supply of designated housing for Aboriginal and Torres Strait Islander people in urban, regional and remote areas, and linked to local employment and training plans to ensure that Aboriginal and Torres Strait Islander people are engaged in construction and in carrying out ongoing maintenance and repairs.



2

REFORM 2: National Homelessness Strategy and Plan

In a prosperous nation like Australia there are adequate resources to ensure everyone has a home. Yet we have unacceptably high, and growing, rates of homelessness. Each day more than 400 people are turned away from homelessness services without the support or accommodation they need.

Parties should commit to a renewed plan to end homelessness by 2025, which addresses the drivers of homelessness, rapidly rehouses people who are homeless, and provides adequate and flexible support for those needing help to sustain housing.

A recommitment to this target for reducing homelessness, should be integrated not only with the housing strategy but with key national strategies such as the Closing the Gap strategy for Aboriginal and Torres Strait Islander communities, strategies for improving youth employment, the NDIS, aged care reforms and efforts to combat domestic and family violence.

This strategy should include the following elements:

- National Partnership on Homelessness funding is secured and is part of the ongoing funding for homelessness services as part of the overall National Affordable Housing Agreement. It is vital to end the cycle of uncertainty over funding that has dogged the homelessness sector in recent years and hampered efforts to improve services.
- Expand prevention and early intervention services to “turn off the tap”. These should include strategies aimed at identified risk factors and population groups including women and children escaping domestic and family violence, young people leaving care, and older people in the private rental market.
- Continue pilot programs such as Reconnect that have proved effective and take these to scale.

3

REFORM 3: Reform the tax treatment of rental housing

Rental housing currently receives tax subsidies in the form of investors being able to write off losses from rental investments against other income, and significantly reduced capital gains tax compared to other investments. These tax settings have a number of negative consequences for rental housing, including:

- encouraging speculative investment in loss-making assets, driving up housing prices across the market.
- making rental housing unattractive to institutional investors such as superannuation funds as these are unable to take advantage of the negative gearing opportunities.

Over the years a number of respected figures have highlighted the need for reform in this area. In 2015 the Reserve Bank of Australia told a Parliamentary Inquiry into home ownership that “there is a strong case for reviewing negative gearing, but not in isolation”.² Even the current Prime Minister, Malcolm Turnbull, canvassed the need to consider reform of the negative gearing and capital gains tax treatment of rental housing, arguing that they have contributed to a significant “property bubble”.³

Parties should commit to limit the offsetting of losses on investments in rental properties purchased after a specified date to income in later years from those assets, rather than the investor’s other income. Investments before this date should continue to be taxed in the current way. This gradual transformation would take the pressure of speculative investment out of the housing market without dramatically reducing returns on existing investments. This will allow housing values to fall slowly in relation to incomes without forcing recent home owners into negative equity.

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.

Combined with reduced CGT discount, savings are estimated to rise slowly to \$1b per year, helping to offset the costs of other initiatives in this reform package.

4

REFORM 4: Increase Commonwealth Rent Assistance

The current level of Commonwealth Rent Assistance (CRA) is inadequate with 40% of recipients still in housing stress after receiving the payment. Its real value has declined over time as rents have risen faster than inflation.

In order to reduce the number of CRA recipients in housing stress, the maximum rate of payment should be increased by 30%, and it should be indexed to the rental component of the CPI. This would equate to an average increase of approximate \$22 per week for tenants on the maximum payment, and would cost the Government approximately \$750m per year.

There is also an urgent need to review the structure of the payment. Given that rents vary widely from place to place it may be appropriate to vary the level of payment according to the average rental cost in each location, ensuring that recipients can afford housing wherever they live.



5

REFORM 5: Address the shortfall of appropriate, affordable housing for people with disabilities

The National Disability Insurance Scheme (NDIS) is designed to support the aspirations of people with disability for independence and control over their lives. However, a major barrier to this independence is a shortfall of affordable housing dwellings which are appropriate for and available to people with disabilities. Estimates of the scale of this shortfall vary, but a recent report by the Disability Housing Futures Working Group estimates that of the 110,000 people who will seek to move from their existing housing in the first 10 years of the operation of NDIS, somewhere between 35,000 and 55,000 are likely to struggle to find appropriate affordable housing.

In order to address this issue, the Commonwealth and State Governments need to work with the community housing sector to develop a ten year plan to:

- deliver 16,000 new units of specialist disability housing for people with high support needs, to meet the anticipated demand for such housing in the first decade of NDIS
- improve the capacity of the community housing sector to develop and manage this specialist housing, including developing sector-wide development and management capacity to support local housing organisations as they enter this business
- evaluate the housing aspects of the roll-out in various trial sites in 2016 and beyond, and modify plans, practices and funding strategies accordingly
- negotiate with states to introduce targets and processes to ensure universal housing design elements are lifted in the private market.

Along with these specific reforms, it will be important to promote and possibly to legislate the adoption of universal design standards in private market housing to ensure that mainstream housing is physically accessible to people with disabilities.

Endnotes

¹ *Rental Affordability Index: RAI Release Report*, Community Sector Banking, National Shelter and SGS Economics & Planning, November 2015, “Summary of Findings”

² <http://www.smh.com.au/business/the-economy/reserve-bank-takes-aim-at-negative-gearing-20150715-gics1k.html>

³ Malcolm Turnbull MP, *Tax reform in Australia: Why we need it, how we pay for it*, Queensland University of Technology, 20 October 2005, p17

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