

# Rebuilding the Australian Dream A National Approach

## National Shelter Policy Platform - 2004



### National Shelter

National Shelter is the peak national body advocating on behalf of low-income housing consumers. National Shelter has been in operation since 1976 and cooperates closely with other national bodies working on housing related issues, such as homelessness and welfare. The work of National Shelter is directed towards the elimination of homelessness and housing related poverty, and towards ensuring that every person has access to affordable, secure, adequate and appropriate housing.

This Election Platform proposes policy changes that will improve housing outcomes for the ten million Australians at the bottom half of the income ladder. These are the people who are most affected by recent rapid increases in house prices, which have produced growing shortages of appropriate and affordable housing across the nation. This Platform identifies five key policy initiatives that are essential to making the right housing available at the right cost in the right place and at the right time. The five initiatives are:

1. A National Housing Minister
2. A National Housing Strategy
3. A National Approach for an Effective Social Housing System
4. A National Approach for an Effective Private Rental System
5. A National Approach for Effective Assistance to Home Purchasers



### 1. A National Housing Minister

At present, housing related policies and programs are administered by a range of Departments and directed by a number of Ministers. For instance, the Commonwealth State Housing Agreement (CSHA) is administered by the Department of Family and Community Services, Commonwealth Rent Assistance by Centrelink and the First Home Owners Grant by Treasury. In addition, policy decisions in areas like social security, employment and taxation can have a direct effect on housing provision and affordability, and there needs to be a research and policy capacity for responding to these.

The lack of coordination is a key factor in producing inconsistent and ineffective outcomes with regard to housing affordability and appropriateness. For instance, the First Home Owners' Grant aims to reduce the deposit gap faced by prospective home owners. However, negative gearing provisions encourage investment demand, thus putting upward pressure on house prices.

Placing responsibility for all housing related programs and incentives with a single Minister and Department is the best, if not the only, way to ensure that housing policies and programs are mutually consistent, and deliver optimal housing outcomes in a cost effective manner.

#### National Shelter recommends:

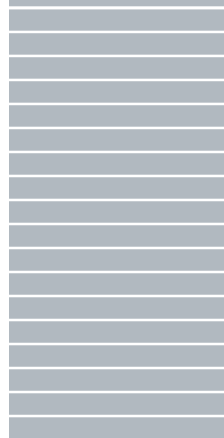
1. That a Commonwealth Housing Minister and Housing Department be established, with responsibility for all policies and programs related to housing.

### 2. A National Housing Strategy

Government intervention in the housing system lacks coherence and is disjointed and ineffective, although extremely expensive. Despite housing assistance and housing related tax exemptions valued at over \$25 billion per year, nearly 100,000 people are homeless, and housing affordability is at an historic low.

In addition, the housing conditions faced by Indigenous people remain appalling. Indigenous Australians in urban, regional and remote areas are more likely to suffer overcrowding and to live in substandard housing than other Australians. Against this backdrop, National Shelter is concerned about the recent announcement to abolish ATSIC without due consideration for the future governance of funding for Indigenous housing. At a minimum, the demise of ATSIC means

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that the commitments made in the *Building a Better Future: Indigenous Housing 2010* initiative need to be restated.

National Shelter believes that a National Housing Strategy is required to provide a framework for the development and review of a range of housing related policies and programs to ensure consistency and cost-effectiveness. For instance, in recent years affordable housing has emerged as a policy issue. A considerable amount of research has been undertaken and a range of proposals has been made to secure provision of affordable housing for low- to moderate-income earners, especially those trapped in the private rental market and unable to access either home purchase or public housing. In several states, a limited range of affordable housing projects has been commenced. However, in the absence of a National Housing Strategy, there is little in the way of a planned or co-ordinated approach to this, other than a CSHA imperative (with penalties for non-compliance) for states and territories to find ways to attract private investment into affordable housing. Clearly a national approach is required to ensure equity of access across the continent and to put in place policies and resources that will deliver agreed outcomes.

A National Housing Strategy should acknowledge that adequate availability of affordable, secure and appropriate housing is a key indicator for a range of social, health and economic issues.<sup>1</sup> It would provide the broad overview necessary to review all housing related grants and subsidies, identify policy and funding gaps, and develop a strategy to address otherwise intractable issues such as homelessness and Indigenous housing.

National Shelter emphasises that a National Housing Strategy can be effective only if it has broad support from all key stakeholders, including all levels of Government, industry, the community sector, and housing consumers. In addition, it needs to link with other relevant policies, such as the National Homelessness Strategy.

***National Shelter recommends:***

2. That a National Housing Strategy be developed in consultation with all stakeholders, in order to provide a broad national policy framework with costed and targeted outcomes.
3. That the National Housing Strategy include a financial commitment to improve the standard of Indigenous housing in urban, rural and remote areas.

### 3. A National Approach for an Effective Social Housing System

Social housing<sup>2</sup> provides an alternative for people who have limited access to the private sector. After a decade of neglect social housing stock has fallen from 6.1% of total housing stock (381,322 dwellings) in 1996 to 5.1% (377,379 dwellings) in 2003.<sup>3</sup> As a result, the number of new applicants accommodated in public housing has fallen from 52,483 in 1994/95 to 38,736 in 2000/01.<sup>4</sup> Public housing waiting lists, while not an accurate indicator of actual need,<sup>5</sup> have remained at more than 200,000 applicants throughout this period.

The decline in social housing can be attributed to two main factors. The first factor is the increased emphasis on 'targeting' since the early 1990s, i.e. a focus on the most disadvantaged people. Targeting has increased tenancy management costs, required a change of focus from housing supply to provision of support, and reduced rental revenues, but has not been accompanied by a corresponding increase in funding. As a result, "six out of nine State Housing Authorities in Australasia are running operating deficits which are not financially sustainable".<sup>6</sup>

The emphasis on targeting can be viewed as a community service obligation on the part of State Housing Authorities (SHAs), which has remained unrecognised and unfunded. As Hall and Berry argue, one "obvious alternative to the slow cannibalisation of the public housing stock, as dwellings are sold off to shore up a weak financial position, is for the community service obligation to be recognised and separately funded by government."<sup>7</sup> Another alternative is to broaden eligibility criteria, but require SHAs to house a minimum proportion of people with high needs.

The second factor contributing to declining social housing is falling funding. Most significantly, capital funding for social housing under the Commonwealth State Housing Agreement (CSHA) has fallen from \$1.50 billion in 1996/97 to \$1.28 billion in 2003/04: a fall of 27.6% in real terms.<sup>8</sup> The current (2003-2008) CSHA contains both a 1% 'efficiency dividend' and a 5% cut subject to performance requirements. This means that real funding for social housing in Australia will fall by at least another 4.9% by 2007/08, and could fall by as much as 8.9%.

A range of inquiries, from the 1993 Industry Commission Report on Public Housing to a 2002 study by the Australian Housing and Urban Research Institute,<sup>9</sup> has demonstrated that capital expenditure on public housing is a cost-effective way of delivering housing assistance. In order to make some inroads into housing

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needs, National Shelter believes that social housing must be increased to at least 6% of total housing stock. With total housing stock growing at around 2.5% per year, social housing will need to grow by just under 400,000 dwellings or around 3.5% per year to meet the 6% target by 2025.

Achieving this target requires implementing two key policy changes. Firstly, the policy of targeting needs to be fully funded or abandoned, in order to allow social housing providers to regain their financial viability. Secondly, assuming an average cost of \$150,000 per dwelling, State and Commonwealth capital funding for social housing under the CSHA needs to be increased by 50%, from \$1.3 to \$2.0 billion, in 2004/05 and then gradually increased to around \$6 billion in real terms by 2024/25.<sup>10</sup>

#### **National Shelter recommends:**

4. **That the Commonwealth and State Governments restore the financial viability of social housing by implementing the following measures:**
  - a. **Either recognise and fully fund targeting as a community service obligation, or abandon the policy in favour of a broader mix of tenants, with a minimum requirement regarding the proportion of high need tenants, and**
  - b. **Increase capital funding for social housing under the CSHA to \$2 billion per year in 2004/05, gradually increasing to \$6 billion in real terms by 2024/25, with a view to increase social housing to 6% of total housing stock by 2025.**

#### **4. A National Approach for an Effective Private Rental System**

One in five Australian households lives in private rental accommodation. While private rental housing has historically been a transitional tenure – a stepping stone towards home ownership – this is changing. Due to choice or necessity, 40% of private renters have now rented for more than ten years.<sup>11</sup> It is therefore of concern that the private rental sector suffers from two major shortcomings.

Firstly, the absence of minimum standards of accommodation in the private rental sector poses a real risk to the health and safety of a significant number of tenants, particularly those on lower incomes. National Shelter believes that specific minimum standards regarding both tenancy management and the physical condition of rental properties should be developed to protect tenants. These minimum standards should be consistent across all jurisdictions.

#### **Stamp Duty and Land Tax**

Some taxes and incentives are outside the direct control of the Commonwealth Government, but have an impact on housing affordability. For instance, all State and Territory Governments operate a range of taxes and charges related to home ownership, including stamp duty, conveyancing fees and land taxes. While the various States and Territories calculate stamp duty in different ways, there are a number of shared features. These include:

1. Stamp duty and conveyancing fees are payable when ownership of a property is transferred, while land tax is payable on an ongoing basis.
2. Land tax is charged at a constant rate, related to unimproved property values; owner occupiers receive a full exemption on land tax in all jurisdictions where it is payable.
3. The rate at which stamp duty is levied increases with property values and concessions are available for first home purchasers or people on low incomes in all States and Territories
4. Stamp duty levels have not been indexed in line with rapidly increasing property values. In other words, increases in housing prices in excess of CPI have resulted in real increases in State and Territory stamp duty revenues.

National Shelter agrees with the various critics that stamp duty adds to the cost of housing and, as such, constitutes a barrier to accessing home ownership, although, as the Productivity Commission notes, it is not a major factor in house price inflation. Several States have recently amended their stamp duty rates, with a view to reducing barriers to home ownership for people with lower incomes. National Shelter applauds these initiatives, but believes that full exemptions should be available to all low income earners.

Finally, National Shelter is concerned that the value of the concessions will be eroded as housing prices rise. In fact, it appears that the current housing affordability crisis “derives ultimately from the failure to develop a coherent policy on land. Uniform land taxation could make a major contribution to housing affordability” as it is “likely to be the most effective general means of taking the ‘heat’ out of the inflationary processes affecting housing affordability”.\*

National Shelter believes that all States and Territories should investigate ways in which taxes on property transactions can be used to assist housing affordability. They should consider a range of alternatives, including the replacement of stamp duty with a broad uniform land tax.

\* Frank Stilwell and Jennifer English, *Housing Affordability, Stamp Duty and Land Tax*, ECOP2004-2, School of Economics and Political Science, University of Sydney, April 2004

Secondly, there is a shortage of rental accommodation that is affordable to people on low incomes, even though vacancy rates at the top end of the rental market are high.<sup>12</sup> These shortcomings highlight the failure of both supply and demand intervention in the rental market. With regard to demand intervention, a recent study by National Shelter and ACOSS found that Commonwealth Rent Assistance (CRA) is poorly targeted. CRA is the Commonwealth Government’s major form of housing demand assistance, but delivers affordability for only around one third of recipients.<sup>13</sup> In addition, some groups who experience housing stress are unable to access CRA. For instance:

- Single young people have to spend in excess of 25% of their Youth Allowance on rent before they receive a single dollar of CRA due to the impact of the rental threshold, below which no assistance is payable,
- Working families on low incomes are not eligible for CRA, and
- CRA payments take no account of regional variations in rent levels. This can make a substantial difference, as low-income earners have literally been priced out of the rental market across

the entire metropolitan area of major centres like Sydney and Melbourne.

Negative gearing is the Government’s principal measure aimed at stimulating investment in housing, and therefore the supply of private rental accommodation. While the value of negative gearing provisions for investors is not known, a recent study by the Reserve Bank found that tax considerations played a major role in decisions about the purchase of investment properties.<sup>14</sup> As a result, negative gearing has been a key factor in fuelling the recent housing market boom in Australia. Despite this, negative gearing provisions have failed to reduce the shortage of affordable private rental housing. Instead, because it encourages investment in properties with a higher rental value, negative gearing has contributed to over-investment and high vacancy rates at the top end of the rental market.

National Shelter believes that the best way to increase the supply of affordable rental housing is to provide a direct subsidy available only for investment in low-cost rental dwellings, for instance via a tax credit. In addition, Commonwealth Rent Assistance should be made available to all people on low incomes, and be redesigned to take into account regional variations in rent levels.





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**National Shelter recommends:**

5. That the Commonwealth Government introduce a tax credit for investment in low-cost rental housing.
6. That the Commonwealth Government develop and codify specific minimum standards regarding both tenancy management and the physical condition of rental properties.
7. That the Commonwealth Government adjust the policy parameters of the Commonwealth Rent Assistance program so that it delivers affordability to recipient families, including:
  - a. removing the rental threshold below which no assistance is payable,
  - b. targeting payments towards tenants who experience housing stress, including the 'working poor', and
  - c. further investigation of a 'zoning' model taking account of geographical variations in rents.

**5. A National Approach for Effective Assistance to Home Purchasers**

For many years, high rates of home ownership underpinned by high employment levels and an adequate income support system ensured that most Australians were well housed. In the past two decades, however, the scene has changed significantly. Poorly designed policies have allowed the Australian dream of home ownership to slip out of the reach of all but the highest income earners, as the average Australian home loan now exceeds \$200,000.<sup>15</sup> Since July 2000, the Commonwealth Government has spent around \$4.4 billion on the First Home Owners Grant (FHOG), while tax concessions available to home owners have been estimated at between \$17 billion and \$21 billion per year.<sup>16</sup> National Shelter is concerned that neither the FHOG nor the tax concessions are targeted towards people on lower incomes. For instance, around 80% of First Home Owner Grants are spent on established homes and most grants are allocated to people in the top two income quintiles.<sup>17</sup> As a result of the lack of targeting of these policies, high-income owner occupiers are far more heavily subsidised than any other sector of the housing market.<sup>18</sup>

In addition, there are some internal inconsistencies between these measures. For instance, the FHOG has stimulated demand for existing dwellings, putting upward pressure on prices. Increased prices have reduced the effectiveness of the FHOG in bridging the deposit gap faced by first home buyers. The solution is to introduce a set of measures aimed specifically at people on low incomes. In particular, National Shelter believes that eligibility for the FHOG should be limited to first home buyers in the bottom half of the income distribution.

**National Shelter recommends:**

8. That housing related grants and tax incentives be reviewed in order to ensure their effectiveness in facilitating access to home ownership.

**Footnotes**

- <sup>1</sup> These issues are explored in detail in National Shelter's 2001 Report, *Creating the Links between Housing, Employment and Income Support*.
- <sup>2</sup> Social housing consists of public housing (provided by Government) and community housing (provided by non-profit organisations).
- <sup>3</sup> Steering Committee for the Review of Government Service Provision, *Report on Government Services*, Productivity Commission, Canberra, 1997 and 2004.
- <sup>4</sup> Australian Council of Social Service, *Public & Community Housing: A Rescue Package Needed*, October 2002
- <sup>5</sup> Social housing waiting lists become particularly inaccurate as indicators of housing needs when income eligibility criteria are not adjusted for a period of years, and when social housing is narrowly targeted to people with high and complex levels of need.
- <sup>6</sup> Jon Hall & Mike Berry, *Sustainable Financing for Public Housing Authorities*, AHURI Research & Policy Bulletin 41, Australian Housing and Urban Research Institute, April 2004
- <sup>7</sup> Jon Hall and Mike Berry, *Operating Deficits and Public Housing: Policy Options for Reversing the Trend*, Australian Housing and Urban Research Institute, March 2004, p.viii. In fact, in "all other corporatised government services the difference between the commercial price and the amount paid by the recipient of a concession is recognised as a Community Service Obligation (CSO) and, is fully funded ... and is normally provided as a Treasury payment to the authority concerned." (p.116)
- <sup>8</sup> Steering Committee for the Review of Government Service Provision, *Report on Government Services*, Productivity Commission, Canberra, 1997 and 2004
- <sup>9</sup> Jon Hall and Mike Berry, *Risk Management and Efficient Housing Assistance Provision: Stage 2*, Australian Housing and Urban Research Institute, 2002 found that public housing was between 17 times (Melbourne) and 20 times (Sydney) more efficient than CRA.
- <sup>10</sup> Assuming a 2.5% per year real increase in housing costs.
- <sup>11</sup> M.Wulff & C.Maher, *Long term private renters in the Australian housing market*, Housing Studies, Vol. 13, No. 1, pp. 97- 112, 1998.
- <sup>12</sup> A seminal study conducted in 2001 found a shortage of 150,000 affordable dwellings: Maryann Wulff and Judith Yates with Terry Burke, *Low Rent Housing In Australia 1986 to 1996*, Australian Housing Research Fund, March 2001
- <sup>13</sup> National Shelter and Australian Council of Social Service, *Rent Assistance: does it deliver affordability?*, September 2003. A third of CRA recipients received the payment even though they were not in housing stress without it. Another third remained in housing stress after receiving the payment. CRA was effective in eliminating housing stress for the remaining third of recipients.
- <sup>14</sup> Reserve Bank of Australia, *Residential Property Investors in Australia*, Reserve Bank of Australia Bulletin, May 2004
- <sup>15</sup> AMP / REIA, *Home Loan Affordability Report*, Joint Quarterly Survey no. 78, March Quarter 2004
- <sup>16</sup> Judith Yates, *A distributional analysis of the impact of direct and indirect housing assistance*, Australian Housing and Urban Research Institute, April 2003. This figure only includes the non-taxation of capital gains (\$9 billion to \$13 billion depending on the valuation method) and the non-taxation of imputed rents (\$8 billion).
- <sup>17</sup> Productivity Commission, *First Home Ownership*, Report no. 28, Melbourne, June 2004: in 2000/01, 25.1% of first home buyer households were in the top income quintile and 29.7% in the fourth quintile.
- <sup>18</sup> See Judith Yates, *A distributional analysis of the impact of direct and indirect housing assistance*, Australian Housing and Urban Research Institute, April 2003.