Somewhere to call home: briefing information

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Introduction

This document is a collection of short papers that were prepared as stand-alone documents, as briefs or factsheets, to resource Shelter NSW's 'Somewhere to call home' campaigns in 2008-09.

The 'Somewhere to call home' campaigns will focus on a specific matter within a number of priority policy areas. Those areas from which a campaign matter will be chosen are:

- increased supply/expansion of social housing
- increased private supply/expansion of private rental housing for low rental
- responsive public housing services by Housing NSW
- sustainable home ownership for low-income households

In addition, a campaign matter will be chosen and campaigned for from a select number of other policy areas, namely:

- homelessness and its links with housing unaffordability
- state environmental planning policies (SEPPs) and affordable housing
- barriers to housing assistance for humanitarian entrants to Australia

A number of consultative workshops were planned to assist in the development of the seven campaigns. The first four of the papers in this collection were specifically written as briefs for those workshops.

The fifth paper in this collection, on the National Affordable Housing Agreement, was prepared separately, as a stand-alone factsheet.

Increased supply of social housing

The supply of social housing is dependent on a subsidy from someone other than the direct provider because the main source of revenue for social housing – tenants' rents, is inadequate to cover operational costs and the long-term management of the dwellings as an asset.[1] Tenants' rents are set at a submarket value to promote affordability. The subsidy of social housing could come from nonprofit agencies or private firms for charitable or philanthropic reasons, but in practice, it is governments that are the major subsidizers of social housing in New South Wales.

Housing NSW manages the major part of the social housing sector: it provides and manages most dwellings for social rental (as 'public housing'), it manages over two-thirds of the dwellings owned by the Aboriginal Housing Office, and it subsidizes those providers of community housing participating in its community housing programs. It collects rents from tenants of public housing and of the Aboriginal housing it manages, but that rent revenue provides under half of its operating revenues. The state government does not expect Housing NSW to make a surplus, and classifies it as a 'noncommercial public trading enterprise', like buses and trains. The government makes grant to it from the state budget.

Some of the subsidy allocated through the state budget is sourced by grants from the Commonwealth government. Those made up 57% of the state budget subsidy and 25% of the revenues of Housing NSW in 2006-07. The size of the Commonwealth subsidy is the reason the proposed National Affordable Housing Agreement, to be settled in December, is important. The Commonwealth subsidy to housing assistance programs under the Commonwealth-State Housing Agreement fell by 16.7% in real terms from 1997-98 to 2006-07.[2]

The state budget subsidies have been used in New South Wales to keep the public housing business operating at a roughly similar level, in terms of number of dwellings, over the last ten years. The number of social housing dwellings has

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[1] Social housing is a rental housing product whose defining characteristic is that it is priced to the consumer (tenant) at a submarket price (rent) for noncommercial reasons. The owner of the dwelling may be a private firm/individual, a nonprofit nongovernment organization, or a government agency. The property and tenancy management of the dwelling might be done by a nonprofit nongovernment organization, a government agency, or – in principle– a private firm/individual (though we do not have many models of this in Australia, unlike, say, Germany). Because the submarket rent affects the economic viability of maintaining the dwelling, its management requires an operating subsidy from an entity who might not be either the owner of the dwelling or the provider of housing services, the subsidy being given for distributive or philanthropic reasons – typically by a government agency but also by nonprofit nongovernment organizations. It is not a defining characteristic of social housing that it be allocated to tenants in particular income bands, e.g. very low income people, or on 'better' terms (e.g. more security of tenure) than provided by private providers of rental housing – though social housing providers have generally sought to rent dwellings to lower-income tenants, in a physical condition that is better than normal market standards, and with more secure occupancy rights than in rental housing markets generally.

[2] Steering Committee for the Review of Government Service Provision, *Report on government services 2008*, Productivity Commission, Melbourne, 2008, p.16.5.

remained much the same in that period, at 143,503 in 1989-99, and 147,880 in 2008-09.[3]

One result of limited revenue and the decision by Housing NSW to keep the stock numbers steady was a deterioration in condition of the dwellings, with the development of a 'maintenance backlog'. This backlog was costed at $650 million in 2001, at which point only 35% of the department's properties were maintained to the department's own standards.[4] A commitment to address the maintenance backlog was a core element of the 'NSW government's plan for reshaping public housing' announced in April 2005. The Housing NSW budget for 2008-09 includes $165.4 million in 2008-09 for general and backlog maintenance, to be financed from rent revenue and other internal funds.

Another result of reduced revenue, from all sources, has been a limited capacity to grow the total number of dwellings in social housing. The government subsidies that have been going into the social sector in New South Wales have been used to cover costs for a similar number of dwellings, as costs have gone up and as the other major revenue source, rent revenue from tenants, has dropped as a proportion of total revenue (down from 66% in 1999-00 to 51% in 2006-07).

While the overall state of the sector appears pretty static, there have been changes in public, community and Aboriginal housing. The number of public housing dwellings is slightly down, largely as a result of transfer of property and tenancy management to nongovernment providers (community housing). The number of social housing dwellings under property and tenancy management by nonprofit nongovernment organizations is slightly up. The number of Aboriginal housing dwellings is pretty static, primarily because of a need to address the conditions of dwellings and to upskill Aboriginal community organizations in governance and property and tenancy management.

The proportion of NSW households in social housing remained the same between 2001 and 2006 censuses, at 5.3%. The proportion in public housing fell from 4.8% in 2001 to 4.4% in 2006 (a trend mirroring the Australia-wide trend, where the proportion of households in public housing fell from 4.9% in 2001 to 4.0% in 2006).

Why are we concerned?

The lack of growth in social housing stock has led to the government, when determining eligibility criteria for allocations, to give priority to people who are most in need, particularly those who are poor and with compounding complex needs. This means that many low-income households who, in the past, might have been expected to be eligible for social housing are now unable to access it. Not everybody who needs housing at an affordable price or who is who eligible for

[3] These figures include dwellings leased from private owners, which comprise about 6% of the social housing stock, and do not include crisis accommodation program dwellings.
[4] NSW Audit Office, 'Performance audit report: follow-up audit – maintenance of public housing', 2005.

social housing, wants social housing or applies for it. Bu we are concerned that social housing is not an available or realistic option for many who would choose it. Notwithstanding tight income eligibility, the number of applicants for social housing is some 67,380 (down from 125,603 in 2001).[5]

There are many reasons people who are eligible for social housing might not apply for it. These include stigma, the lack of choice and autonomy, and the lengthy waiting time that might make an application seem futile.[6] However, it is also the case that the stability of housing provided by social housing providers who offer continuous tenancies or 'lifelong' tenancies can help tenants achieve a better quality of life (nonhousing outcomes). These associations show up in health status and, for children in social housing households, in school performance.[7]

What is being done?

Smart thinking on the use of government subsidies for affordable rental housing is that whatever or however much government money there is or will be, it should be made to go further by matching it with money from other sources, being private firms, nonprofit organizations, or other spheres of government ('leveraging').

The most important new initiative along these lines is the National Rental Affordability Scheme (NRAS), launched by the Commonwealth government in July. The 50,000 additional dwellings hoped to be built under this scheme will each be financed by: (a) a Commonwealth subsidy of $6,000 a year for 10 years; (b) a state government subsidy of at least $2,000 a year for 10 years; and (c) resources in the form of capital or borrowings brought in by nonprofit or commercial developers of the dwellings – the contribution of these parties will be much higher than the governments' subsidies.

A similar approach had been used in New South Wales under Housing NSW's affordable housing debt-equity program, where certain community housing associations could apply for a grant to help build or acquire new dwellings linked to a capital contribution of their own and to borrowing from a financial institution.

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[5] The figure of 67,380 is at 30 June 2007. The 2001 figure is at 30 June of that year. These data are from the Australian Institute of Health and Welfare data reports on CSHA programs. Social housing here refers to public housing, community housing, and (Aboriginal Housing Office) Aboriginal housing. The figures involve duplicates because, for example, an applicant for community housing might also be an applicant for public housing.

[6] In an Australia-wide study of private renters in receipt of Commonwealth rent assistance and not on the public housing waiting list, 45% were not interested in public housing and another 31% said they would consider it only as a last resort (Terry Burke, Caroline Neske and Liss Ralston, 'Entering rental housing', AHURI, Melbourne, 2004, p.10).

[7] The data on improvement of employment outcomes is problematic. While there are positive outcomes on employment after allocation to public housing, the most recent major study on this matter said this could be attributed to either a welfare lock effect – applicants stay out of employment to maintain eligibility for public housing – or to a housing stability effect – once applicants get a secure address from which they can look for jobs (Alfred Dockery, Rachel Ong, Stephan Whelan and Gavin Wood, 'The relationship between public housing wait lists, public housing tenure and labour market outcomes', AHURI, 2008). 'A positive impact of public housing on employment is identified, and this can be either because disincentive effects are weaker for tenants than applicants, or because of the enabling effect of stability of housing.' (p.68).

That scheme has now been wrapped up with the establishment phase of the National Rental Affordability Scheme, as 'NRAS A' – under which 7 community housing providers selected as 'growth providers' may apply for a grant worth up to 40% of a housing project's costs.

The rationale for favoring community housing providers is that they can make a government subsidy go further. This is because they have capacities that government providers of social housing do not: (i) They may go into debt (i.e. borrow from private financiers). (ii) They can use their income-tax exempt charity status to avoid goods and services tax on building construction and supply of services. (iii) Their very-low income tenants are eligible for Centrelink rent assistance, enabling the providers to factor that supplement to tenants' income when setting rent. (iv) They have a capacity (unless constrained by government funding programs in which they participate) to lease to tenants from a range of incomes, allowing for 'cross-subsidization' of the service and for higher rent revenues.

The state government has two other initiatives aimed at encouraging community housing providers to build or acquire new dwellings using leveraging.

It has given a number of community housing providers, including the 'growth providers', St George Community Housing and Affordable Community Housing, long-term leases, i.e. leases for 35 years, on 600 dwellings that they sublease from Housing NSW. The idea is that the providers will be able to use the greater surety of a revenue stream from tenants' rents to borrow money from financial institutions, to build or buy dwellings of their own: the government expects those providers will raise more than $11 million in loans from the private sector.[8]

The government is introducing legislative-based regulation of community housing providers, which is intended to (among other things) 'give the community housing sector the certainty it requires to partner with other not-for-profit organisations, local government and the private sector on affordable housing projects' and to encourage investment from the private sector in community housing.[9] This regulation will take the form of secondary legislation (Regulation) under the Housing Amendment (Community Housing Providers) Act 2007. This regulation will apply not just to those community housing providers that wish to do property development, but to all of the 500 or so community housing providers that get assistance from Housing NSW in the form of a dwelling, land, or grants.

In relation to public housing, the government has adopted the mechanism of a public-private partnership for the redevelopment of a public housing estate, Bonnyrigg, in southwestern Sydney.[10] A public-private partnership involves the

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[8] Cherie Burton MP, Minister for Housing, 'Iemma government will invest more than $230 million to deliver more affordable rental housing', media release, 20 March 2007.

[9] Matt Brown MP, Minister for Housing, agreement in principle speech, Housing Amendment (Community Housing Providers) Bill 2007, *Hansard: Legislative Assembly*, 25 September 2007, p.2251.

[10] Department of Housing, 'Public private partnerships', fact sheet, December 2004. In the case of Bonnyrigg, the public-private partnership is not being used to build or acquire additional social housing. Rather, it is about densification of the site by 150% and upgrading an existing estate,

continues over ..

creation of a new asset through financing, ownership control, and service delivery by the private firm. The resources brought into the venture by the private sector are added to those provided by the government, e.g. land, capital works, or risk sharing.[11]

The government's rationale for considering private financing arrangements is to get 'superior value for money over traditional methods of Government delivery', enabling savings to be used to improve or expand other services. [12] To assess whether the arrangement would be better value for money, the NSW Treasury uses a tool called a 'public sector comparator', which compares the cost of delivering the services by government financing with the cost of delivering them by private financing.[13] In the case of Bonnyrigg redevelopment, the government estimates the cost of the facilities and services of $368 million over 30 years will be 6.3% lower than had the redevelopment been undertaken by the government itself.[14]

Housing NSW is also looking at ways it can unlock the value of sites where it has dwellings that need renewal or realignment to changing needs and where the site allows for greater densities.

In the Southern Redevelopment Projects (encompassing 5 sites in Bulli, Bowral, Batemans Bay and Narooma), Housing NSW has called for expressions of interest from builders to demolish 31 existing social housing dwellings and provide 31 new social housing dwellings, with the builder able to keep or sell new market dwellings they build on the sites, greater densities on the sites being allowed by the development controls.[15]

At Riverwood North in Sydney, Housing NSW has called for expressions of interest from developers to demolish 150 existing social housing dwellings and provide a minimum of 150 new social housing dwellings, with the developer able to keep or sell new market dwellings they build on the site, which can take up to 600 dwellings.[16] In this case (being different from the Southern Redevelopment Projects), Housing NSW might also contribute funds to the redevelopment, as well as the land.

Housing NSW is using a similar approach in Villawood in Sydney. In this case, Housing NSW has a vacant site had 111 social housing units (now demolished). It has called for expressions of interest from developers to provide a minimum of 120 new social housing dwellings, with the developer able to keep or sell new market

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involving a loss of some 130 social housing dwellings on the site and a fall in proportion of social housing dwellings from 90% to 30% of the total dwellings.

[11] NSW Treasury, *Working with government: guidelines for privately financed projects*, Sydney, 2006, p.1.

[12] NSW Treasury, p.53, 1.

[13] NSW Treasury, pp.53-56.

[14] NSW Department of Housing, 'Bonnyrigg "Living communities" public private partnership project: summary of contracts', ed. Catalyst Communications, Chatswood, n.d. (c.2007), p.2.

[15] Housing NSW, *The Southern Redevelopment Projects: registration of interest, September 2008*, Sydney, 2008.

[16] Housing NSW, *Riverwood: expression of interest, August 2008*, Sydney, 2008.

dwellings they build on the site, which could take about 427 dwellings.[17] In this case (as with Riverwood North), Housing NSW might also contribute funds to the redevelopment, as well as the land.

What could be done?

The NSW government has made a financial commitment to the National Rental Affordability Scheme for the 2-year establishment phase only (2008-09 and 2009-10). It has capped the number of dwellings it is prepared to make a matching contribution of $2,000 (for 10 years) to 3,000 out of a potential 11,000 dwellings Australia-wide. This contribution of some $22 million is being financed from within the housing portfolio, not with an additional allocation from the state budget.

In the case of 'NRAS A' subsidies available to 'growth' community housing providers, the total amount of grants available is $18.5 million. Again, this money is available only for the scheme's establishment phase. Furthermore, the money is 'off budget' in that it does not come from a state budget allocation, but consists of part of a one-off grant to Housing NSW from the Rental Bond Board.

Should the state government allocate money to Housing NSW through the state budget to allow it to participate in the National Rental Affordability Scheme in the expansion phase of the scheme (2010-11 to 2012-13)?[18]

The government's 2007 decision to pilot long-term leases with some community housing associations can be seen as a rejection of an argument that some of the public housing dwellings managed by those associations should be given to them to own. This transfer of title would give them an asset against which they could borrow money for new housing development projects. In the Australian Capital Territory, the government is supporting the main community housing provider, CHC Affordable Housing, by transferring ownership of 135 properties worth $40 million.[19] Should Housing NSW transfer ownership of a small proportion of its stock (say, 3,000 dwellings) to registered community housing providers?

Something that does not seem to have been tried yet in Australia is what the Americans call a 'community land trust'. This is a nonprofit nongovernment organization that buys land and then either rents it out to homebuilders or to nonprofit rental housing providers. Since the community land trust is not profit-motivated, its land holdings can counter the trend to high land prices in favored locations. It contributes to housing affordability by taking the cost of land out of the equation for developers and builders of affordable housing. The organization does

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[17] Housing NSW, *Kamira Court urban renewal project: expression of interest, August 2008*, Sydney, 2008.

[18] This would involve a state budget allocation of at least $61 million over the first 3 years of the expansion phase, creating a liability of at least $640 million over the 12-year course of the expansion phase and phase-out; this is in addition to the minimum $53 million committed as a result of participation in the establishment phase (NRAS B).

[19] ACT Government, 'Innovative affordable housing solutions', updated 22 August 2008, <www.actaffordablehousing.com.au/innovative_affordable_housing_solutions.html>, viewed 26 September 2008.

not necessarily have to be a property developer or provider itself. The community land trusts in the USA have been set up independently but have been assisted with government grants, donations of land by local councils, etc.[20] Would a community land trust be a useful contributor to supply of new affordable rental housing in New South Wales?

In New South Wales and South Australia, resourcing bodies engaged with rental housing cooperatives are looking at how to expand the number of dwellings under cooperative, tenant management. This is currently a very small sector with less than 500 dwellings across the state. The expansion options involve pooling of the ownership and asset management of the dwellings into a state-wide 'common equity' cooperative, able to undertake property development using its assets as a lever. The local cooperatives would keep responsibility for tenancy management. At the moment, the local cooperatives lease Land and Housing Corporation dwellings. This initiative would require transfer of ownership of those dwellings managed by those cooperatives to the new body, for those dwellings where the cooperatives that agree to participate in the new property-holding body. Would a common equity cooperative be a useful contributor to supply of new affordable rental housing in New South Wales?

With public housing, the public-private partnership model has only been used to redevelop an existing housing estate, not to increase the supply of social housing. In estates where it would suit, such as those well-placed near urban and civic services and amenable to densification, is this model one that could be used to increase the supply of social housing?

16 October 2008

[20] JE Davis and R Jacobus, *The city-CLT partnership: municipal support for community land trusts*, Lincoln Institute of Land Policy, Cambridge MA, 2008; National Community Land Trust Network (USA) <www.cltnetwork.org>.

Increased supply of private rental housing

Private providers of rental housing are an extremely important group of providers of low-rent housing in New South Wales. But the supply of low-rent private housing is insufficient for the number of lower-income people who live, or want to live, in that housing tenure type.

Authoritative studies have found there is a serious shortage of stock (dwellings) in the private rental sector available to lower-income earners. When demand generally for private dwellings to rent is high, lower vacancy rates means that competition for those dwellings that do become free for rent is greater. In this situation, rents might be set higher that they otherwise would. Also, middle-income renters might compete with lower-income renters for the lower-rent dwellings.

Any rent asked for a dwelling in the private rental market is a 'market rent'. But the rent asked for, or set, by a landlord or their agent will vary by location, type of dwelling, number of bedrooms, and its condition, etc. Within the range set, it is those dwellings at the lower end of the range, the 'low market-rent' dwellings, which lower-income households are more likely to seek.

There were 201,000 low market-rent dwellings in Australia in 2001, defined as dwellings rented out for less than $112 a week.[21] There were, at that time, some 212,000 low-income households – defined as those earning less than $335 a week – in the private rental market. This means there was a shortage of some 11,000 low-rent dwellings affordable for low-income private renters to rent.

However, some of the 201,000 low-rent dwellings were rented by households who could have paid more in rent without having to pay more than 30% of their income in rent (i.e. without being in 'housing stress'). There were 123,000 dwellings in this situation. So the shortfall in dwellings affordable at low-rents and available was 11,000 plus 123,000, a total of 134,000 dwellings.

Across Australia as a whole, a shortage of lower-rent dwellings is more acute in metropolitan areas than in country areas, and in inner suburbs rather than outer suburbs of the larger cities.

A healthy rental market would have a vacancy rate (being the proportion of rental dwellings available for rent) of about 5%. The smaller the rate the 'tighter' the market, and the harder it is for prospective tenants to find housing, and the greater incentive there is for landlords to increase rents. Vacancy rates vary across the state. In Sydney, it was 2.9% in June 2008.[22]

The profile of providers of private rental housing in Australia is largely that of 'mums and dads'. Three-quarters on investors in residential property only own one,

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[21] These data are from Judith Yates, Maryann Wulff and Margaret Reynolds, 'Changes in the supply of and need for low rent dwellings in the private rental market', AHURI, Melbourne, 2004.
[22] SQM Research estimate; see <www.sqmresearch.com.au/graphs/terms_vacancy.php>.

or part of one, property. The cheaper (lower-rent) properties tend to be owned by people who are themselves low-moderate income earners. Some small businesspeople have a collection of dwellings they own but the return on their assets to these investors in the form of income is marginal.

For investors to get good returns on the dwellings they buy, they will want to rent the dwellings out on rent levels that make the dwellings unaffordable to low-income households. When there was significant investment in private rental housing, in the early 2000s, this was mostly at the upper segments of the market. The cost of housing in high-demand locations means that it is not possible for private investors to get a sufficient return from low-income tenants; indeed, any rental housing let at submarket rents would need a government subsidy for the provision to be sustainable.

The private rental housing market has some submarkets with dynamics that are distinct from 'mainstream' private rental housing. Two of these are caravan park accommodation and boarding and lodging houses. The number of large caravan parks (defined as having 40 or more powered sites and dwellings) in New South Wales has halved since 2000, when there were 164.[23] The number of boarding and lodging houses also seems to be in decline. Part of this submarket consists of boarding houses licensed by the Department of Ageing, Disability and Home Care because it accommodates people with a disability, and it is fairly stable in size. The other part ('unlicensed') has traditionally been a key source of affordable rental housing for very-low income and transient people, especially in inner suburbs of Sydney. This market has seen two trends, a decline in supply over the last few decades, as inner-city suburbs have 'gentrified', and – more recently – a small movement of low-moderate income earners into it.

Why are we concerned about this?

A loss of low-rent private rental housing reduces choice of types of affordable housing for low-income people.

What is being done?

The Commonwealth government has a number of measures in its taxation system that encourage or assist investment in residential property (rental housing). Those tax concessions are:

- an ability to claim some costs in providing it against their income for income-tax assessment purposes;
- an ability to include some costs in the capital base of the property and claim depreciation against their income for income-tax assessment purposes;
- an ability to write off the value of the initial construction cost of a leased dwelling at the rate of 2.5% a year over 40 years; and
- an ability to claim a deduction for the full amount of rental expenses against their rental and other income (e.g. such as salary, wages or business income) the

[23] Andy Marks, *Residents at risk: stories of 'last resort' caravan park residency in NSW*, St Vincent de Paul Society, 2008.

property is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on borrowings; in 2005-06, 66% of individual taxpayers with net rental income were thus 'negatively geared'. Financial analysts suggest this investment strategy is more suited to top income earners; however, most of the taxpayers negatively gearing investment dwellings are low-moderate income earners – 70% of individual taxpayers who reported a negative income from rental properties had overall taxable incomes of less than $63,001 (2005-06).

None of those measures targets rental housing for low-income renters. However, the Commonwealth introduced a new scheme in 2008, the National Rental Affordability Scheme (NRAS), which aims to increase the supply of affordable rental housing. The scheme comprises a Commonwealth subsidy to additional housing that would be rented for at least 10 years at a rent that is no more than 80% of the median market rent in the area where the house is built. To be eligible for a tenancy in these dwellings an applicant for a tenancy who is a single person would not have an annual income over $39,251 – so, the income eligibility is more liberal than current public, community and Aboriginal housing in New South Wales ($22,880 for a single person). The new stock would therefore be available to a broader range of people (while not precluding lower-income tenants), producing higher rent revenues and assisting sustainability (profitability) for providers.

The Commonwealth government's intention is to encourage the production of 50,000 additional dwellings by 2012. The dwellings would be owned by the bodies financing their development, e.g. privately-owned property developers, financial institutions, or nonprofit housing/welfare organizations, not by the government. The dwellings assisted with the subsidy would have to be used for the purpose of the scheme for the duration of the subsidy (i.e. 10 years). The idea of the subsidy is to partly fill the gap

The scheme involves a Commonwealth subsidy of $6,000 a year for 10 years to each dwelling produced, and a state government matching subsidy of $2,000 a year for 10 years to each dwelling produced. The Commonwealth estimates its contribution will be some $622 million over four years. A number of commentators have questioned whether the amount of the combined subsidy over the 10-year period, which could be around $90,000 (depending on the start date and indexation of the subsidy), will be enough of an incentive to make the housing projects profitable to providers and attractive to investors. This is particularly the case in more overpriced housing markets such as in New South Wales.

The Commonwealth government guidelines for the scheme allow for the property and tenancy management of the new dwellings to be undertaken by – among others – private businesses (e.g. real estate agents). This means it has potential to directly contribute to a supply of private rental housing let at submarket rents (though not necessarily low-market rent, though this would be at the discretion of the tenancy manager). It could indirectly assist low-income earners access low-rent dwellings by relieving some of the pressure (competition) for the low-rent stock in the market.

The scheme might work differently in New South Wales, however. Housing NSW will give priority in assessing proposals for incentives under the scheme to

proposals where the property and tenancy management of the new dwellings is done by registered community housing providers, with a preference for 'growth' community housing providers. This is so for both Housing NSW's 'NRAS B' subsidy of $2,000 per dwelling for 10 years (for which any type of housing developer or provider may apply), and for its 'NRAS A' subsidy of up to 40% of project costs for a housing development (for which only registered community housing providers may apply).[24]

The NSW government does have a number of small programs that encourage supply (or discourage withdrawal of supply) of private rental housing. It gives an exemption from land tax for:

- land used and occupied primarily for low-rent accommodation in inner Sydney (within a 5 km radius from the Sydney GPO) – this is worth less than $1 million a year;
- boarding houses where at least 80% of the accommodation is let to long-term boarders at low rents; this is worth $6 million a year;
- residential parks and retirement villages primarily occupied by retired people – this is worth some $97 million (2008-09).

Also, Housing NSW gives small grants to owners of boarding houses where 80% of the accommodation is let to long-term boarders at low rents, to assist providers to undertake work to meet fire safety standards e.g. sprinkler systems. The grant is also available for new boarding houses and extensions to existing ones. Boarding houses that are licensed by the Department of Ageing, Disability and Home Care are eligible. The grant limit is usually $50,000 per boarding house. The Boarding House Financial Assistance Program has a state budget allocation of $200,000 in 2008-09.

What can be done?

The sustainability of private providers in these housing markets catering to very low-income renters, often 'at risk' circumstances, is something that government could ignore. Market forces will work something out, but massive loss of that supply would put additional pressure on crisis accommodation and social housing programs. So the public and consumer interest is likely to be best promoted by selective use of actions that slow down the loss of privately-supplied low-rent housing and, better, encourage some growth. That is what is already, currently happening. The tools being used are financial subsidies, either in the form of grants or tax concessions.

Looking at tax concessions, the Commonwealth government's National Rental Affordability Scheme involves a $6000 (per dwelling for 10 years) tax credit to private bodies developing additional housing for rental at submarket rents.

The state government gives concessions on land tax. There are arguments that the more exemptions and concessions there are in a tax system, the more inefficient and

[24] Housing NSW, 'National Rental Affordability Scheme: NSW program requirements round 1', n.d. (2008), p.11; Housing NSW, 'NSW affordable housing priorities', n.d. (2008).

complicated it becomes.[25] So, we might consider whether this is a better course of action, compared with grants.

The current exemption from land tax for land used and occupied primarily for low-cost accommodation is confined to land in inner Sydney. Should it be expanded to the inner and middle ring suburbs, where land and housing property price are also high? Should any extension be confined to property owners owning three or more properties – to benefit the small businesses in this market rather than the 'mum and dad' investor-owners of only one residential investment property?

Before the last state election the Opposition announced it would give a concession on transfer duty of $4,000 to buyers of dwellings for investment purposes where those dwellings were valued up to $500,000 and were let out to residential tenants for at least a 5-year period. However, the proposal did not explicitly tie the concession to provision of the rental housing at low-market rents.

Looking at grants, the one state government subsidy scheme that is targeted to private providers of housing to low-income consumers is the Boarding House Financial Assistance Program. Should the budget allocation be increased from the annual $200,000? Should the scheme be expanded in its scope to cover building work to improve habitation standards, or to improve environmental sustainability?

The state government also has responsibility for regulation of the terms on which providers and consumers (tenants) trade in the private rental market. Given the large numbers of people in that market who do not want to or are unable to move into either homeownership or social housing, some housing advocates have raised the introduction of long-term leases as an option for greater flexibility and choice for tenants.[26] The Office of Fair Trading has discussed the introduction of a regulatory arrangement to encourage leases of 10 years or more[27], but reported opposition from many landlord and real estate agents since they feared being stuck with unwanted tenancies and with rent levels that could fall behind market trends. This matter is relevant to supply of additional rental housing if such an arrangement, with the security it implies in terms of rental income, made investment in residential property more attractive to long-term and institutional investors. Of course, such an arrangement alone, in isolation, is unlikely to be sufficient motivation for such investment. Because there was no consensus among key lobby groups on this matter following an 2005 options paper – given a range of tenants' rights and landlords' rights implications it raises – the Office's 2007 directions paper simply said the matter should be subject to 'further examination and consultation'. Should a system of long-term leases be introduced to encourage stability in tenancies and rents for landlords, and so make investment in this market more attractive?

3 October 2008

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[25] Independent Pricing and Regulatory Tribunal, *Review of state taxation: draft report*, June 2008.
[26] Judith Yates and Vivienne Milligan, 'Housing affordability: a 21st century problem', AHURI, Melbourne, 2007.
[27] NSW Office of Fair Trading, 'Residential tenancy law reform: options paper', 2005; NSW Office of Fair Trading, 'Residential tenancy law reform: a new direction', 2007.

Sustainable homeownership

Purchase of a dwelling to live in as an owner-occupier is difficult for low-income earners in New South Wales. This is because of the high prices for dwellings in the coastal zones of the state and, within the metropolitan area of Sydney, Newcastle and Wollongong, in suburbs close to the coast and to the commercial centres that are a key source of better-paid jobs.

The cost of a dwelling is comprised of a number of elements:

- acquisition cost of the land
- construction cost of the dwelling itself (materials, labor in design, labor in building)
- taxes associated with construction, e.g. goods and services tax
- taxes associated with provision of urban infrastructure, e.g. roads, sewerage, electricity
- taxes associated with the purchase transaction, e.g. purchaser transfer duty (i.e. conveyancing stamp duty), conveyancing fees

In addition, the builder and seller of a property will want to cover costs of financing the construction, and get a return on their capital (i.e. make a profit – they will not want to sell at cost).

The price paid by the homebuyer will be affected by upward (or downward) movements in any of these factors. It will also depend on the location of the dwelling, since some land has more attraction than others. There is a 'location premium' for land closer to the coast or to places of scenic attraction, where demand is greater. There is a locational 'negative premium' on major highways, or in towns where work opportunities and populations are declining.

The unaffordability of dwellings in favored locations is a problem for low-income homebuyers in two ways:

- It presents a barrier for first homebuyers to enter the owner-occupier housing market since a homebuyer is normally expected to contribute some portion – usually between 5% and 20% – of the value of the dwelling when they buy, i.e. put down a deposit. The more expensive the dwelling, the larger the amount of deposit that is expected by the finance institution that is lending money to them. The deposit and other upfront charges of making a purchase (e.g. legal fees, mortgage insurance) can deter potential homebuyers.
- It creates ongoing stress as homebuyers make repayments on their mortgage loan, to pay back the loan and the interest being charged on it by the lender. By stress, we mean a situation where the homebuyers who have incomes in the bottom 40% of the income ranges of the population are paying more than 30% of their gross income on repayments on their mortgage loan. Paying more than 30% reduces the amount of money they have for groceries, utilities, clothing, etc. This stress is likely to be 'front-ended', i.e. it is likely to be greater earlier in the homebuyer's housing career when their debt is higher; however, some older homebuyers who lose their jobs or get forced into retirement might also fond themselves with mortgages that, while repayments are lower than in previous

years, are harder to meet on much smaller incomes. Housing costs are generally lowest for households who own their dwelling outright and greatest for those who have a mortgage.
For those households who cannot afford to buy a dwelling outright, they will have costs associated with taking out a loan. Since most loans for home-purchase have variable interest rates, the lenders' interest rate and the official Australian interest rate, set by the Reserve Bank, are critical to ongoing affordability.

Thirty-six percent of lower-income homebuyers in Sydney, and 24% of lower-income homebuyers in the rest of New South Wales, are in housing stress, using that '30/40' measure.[28]

Homeownership rates in Australia remain high by international standards, with over two-thirds of households in this tenure. There is no evidence of significant decline in the power of this tenure.[29]

However, high house prices have had an impact on access to this housing tenure, especially for younger buyers. Younger people are entering the homeownership market later than they used to a few decades ago. The average age of first homebuyers increased from 30 to 33 over the 1990s and early 2000s.[30]

House prices rose sharply in the early 2000s. They started to fall in a number of capital cities across Australia in late 2005, and, since then, trends in prices of dwellings have shown more diversity across the country.

For low-income homebuyers, high prices might put them at risk of default on their mortgage repayments, with potential loss of their dwelling (security of tenure), etc.

Why are we concerned about this?

Homeownership gives residents significant benefits that are not necessarily available – or available to a lesser extent – in the various rental markets. Those benefits are economic and non-economic.

The economic benefits are about the wealth expressed in the dwelling as an asset (assuming it is not located in an area where prices are diving, which can lead to 'negative equity'). A key benefit is the nontaxation of capital gain arising from the sale of a dwelling where it is the principal place of residence. Another benefit is the drop in the amount of money that needs to be spent on recurrent housing costs as the owner's mortgage loan is reduced and paid off completely.

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[28] Judith Yates and Michelle Gabriel, 'Housing affordability in Australia', AHURI, Melbourne, 2006, p.11. The data are for 2002-03.
[29] Judith Yates, Hal Kendig and Ben Phillips, 'Sustaining fair shares: the Australian housing system and intergenerational sustainability', AHURI, Melbourne, 2008, p.12.
[30] Yates, Kendig and Phillips, p.18.

The non-economic benefits are about the improvement in wellbeing that can come from stability and greater control over one's residence (e.g. its physical condition, amenity and appearance).

A concern for social equity suggests that these benefits should not be available only to higher-income people, but that lower-income people should be able to access them, too. Likewise, a concern for 'intergenerational' equity suggests that younger homebuyers need to be able to have a chance of buying a dwelling, if they want to.

Housing unaffordability can also promote social polarization, with concentrations of home ownership (associated with wealth) in particular suburbs and concentrations of rental housing in 'less desirable' – and possibly stigmatized – suburbs. Homeownership rates are high in affluent suburbs and low in poorer suburbs dominated by public housing, in Sydney. Lower-income families living in lower-priced dwellings tend to be more distant from employment sites, and from public transport.

What is being done?

Home purchasers are assisted by the Commonwealth government in a number of direct ways. Indigenous Business Australia provides loans to buy land, buy dwellings, and meet a deposit gap. The Commonwealth government has also established a Housing Affordability Fund, a grant scheme for local governments to assist with the cost of providing new urban infrastructure and reduce local government development charges, with the expectation that savings will be passed on to homepurchasers in lower dwelling prices.

In addition, a First Home Saver Account, a special account with a superannuation fund that will assist purchase of a first-home for owner-occupation by helping eligible persons save for a deposit, will be launched in October.[31]

In New South Wales, the First Home Owner Grant (FHOG) scheme provides a grant of $7,000 to eligible first homebuyers. First homebuyers may also get an exemptions or concessions on purchaser transfer duty for dwellings or land (First Home Plus). For dwellings, there is an exemption for dwellings valued up to $500,000 and a concession for dwellings valued between $500,000 and $600,000. For vacant residential land, there is an exemption for land valued up to $300,000 and a concession for land valued between $300,000 and $450,000. The take-up of these exemptions and concessions has been strongest in western Sydney and the Central Coast. The Commonwealth government is topping up this grant for a time-limited period beginning October 14.[32] This top-up, called First Home Owners Boost, consists of an additional $7,000 for dwellings that are already built (making for a total grant of $14,000) and an additional $14,000 for dwellings that are newly-built (making for a total grant of $21,000). These top-ups will apply only to contracts for homepurchase entered into by 30 June 2009.

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[31] See <http://homesaver.treasury.gov.au/content/default.asp>, and for a critical assessment, Alex Tilbury, 'Kevin Rudd's affordable housing policy falters', *Herald Sun*, 12 September 2008.
[32] Kevin Rudd and Wayne Swan, 'Economic security strategy', media release, 14 October 2008.

The state government also, in the early 2000s, backed cooperative housing societies in 5 regional centres for home loans they gave to low and moderate income earners (Perfect Start Home Loans). The government provided a guarantee of the societies' loans to the Commonwealth bank, and provided a limited indemnity to the societies on each loan.

For low-income households already in homeownership and who get into problems meeting their loan repayments, there is a Mortgage Assistance Scheme. This provides an interest-free loan of up to $20,000 to eligible homeowners who are experiencing temporary difficulties with their mortgage. The money is paid to the loan lender, the mortgagee (not to the mortgager). The loan is seen as a 'last resort' for mortgagers in great stress who cannot resolve their stress some other way. This scheme is available only to households with a gross household income of $90,000 a year and who have loan repayments greater than 36% of their income. This scheme was enhanced in April this year, to broaden eligibility criteria and to increase the amount of money available for loans.

The state government also assists homeowners through an exemption from land tax on the principal place of residence.

What else could be done?

In relation to the Mortgage Assistance Program, are there other ways in which this scheme could better assist low-income mortgagers in stress?

One of the costs a borrower might take on is mortgage protection insurance. This insurance is optional (unlike lender mortgage insurance, which the borrower takes out to protect the lender from the borrower defaulting on the loan, and is usually required by major finance lenders). A homepurchaser might want to take it out to cover their mortgage repayments for a period of time if they are otherwise unable to meet those repayments, for example, because of disability, trauma, unemployment, or death. Is there a way the state government could assist low-income mortgagers pay for mortgage protection insurance?

New South Wales is the only state or territory that does not have a government-sponsored loan scheme for home-purchase. Do you think it should?

Three jurisdictions with home loan schemes have a feature that allows consumers to buy a portion of the new dwelling and bring in the state housing authority as a partner (shared equity).[33]

The Northern Territory government's HomeNorth Xtra Shared Equity Loan allows low-income people to buy a dwelling worth up to $350,000 (Darwin and Palmerston, with lesser values in other towns), together with the territory housing

[33] See Simon Pinnegar, Vivienne Milligan, Dana Quintal, Bill Randolph, Peter Williams and Judith Yates, 'Innovative financing for home ownership: the potential for shared equity initiatives in Australia', positioning paper, AHURI, Melbourne, 2008.

authority. If they buy a dwelling, rather than build it themselves, it will be a dwelling on the open market and the buyer chooses it and arranges the conveyancing themselves (i.e. they do not buy a government-built dwelling). The loan scheme allows the borrowers of a home loan with the government's home loan agency (Territory Insurance Office) to buy between 70-99% of a dwelling; the territory housing authority buys the remaining portion to a maximum of $70,000. An applicant must provide a minimum deposit of 2%. The lending agency charges a variable interest rate for the loan. The housing authority, as part-owner, does not charge rent for the portion of the dwelling it owns; the borrower pays for repairs, maintenance, insurance, local government property rates, body corporate fees, etc. The borrower may buy out the authority's share when they can, in part (minimum increments of 5%) or whole. The value of the authority's share is the market value, not including the value of any capital improvements (i.e. structural alterations or additions) made by the owner/borrower. If the resident sells the dwelling while the authority is still holding equity, the authority's share of the sale is based on a current valuation.

The Western Australian government's First Start Share Equity loan scheme is similar to the Northern Territory scheme. It allows low-income borrowers under the government's Keystart loan scheme to buy or build a dwelling worth up to $375,000, together with the state housing authority (Department of Housing and Works). If they buy a dwelling, rather than build it themselves, it will be a dwelling on the market and the buyer chooses it and arranges the conveyancing themselves (i.e. they do not buy a government-built dwelling). The loan scheme allows the borrower to buy a minimum 60-70% of a dwelling (depending on the number of adults, dependents, and assessable income), with the department owning the remaining share. The Keystart agency charges a variable interest rate for the loan. It does not charge lenders mortgage insurance or account-keeping fees. The department, as part-owner, does not charge rent for the portion of the dwelling it owns, or interest; the resident pays for repairs, maintenance, insurance, local government property rates, etc. The borrower may buy out the department's share when they can, in part (minimum increments of 5%) or whole. The value of the department's share is the market value, not including the value of any capital improvements made by the owner-occupier. The owner-occupier may sell the dwelling at any time, with the department having first option to purchase.

A variant shared-equity product, the Access Home Loan, is for low-income people with a disability or their low-income carers. It allows the borrower to buy a minimum 70% of a dwelling, with the Department of Housing and Works owning the remaining share. The dwelling may be priced no more than $450,000 and the borrower needs to contribute a deposit of $2,000 or 2% of the purchase price. The borrower may buy out the department's share when they can.

The South Australian government's HomeStart Breakthrough loan allows borrowers in the government's HomeStart loan scheme to borrow more money than they might normally be eligible for, without increasing the size of their loan repayments, in exchange for a share in the capital appreciation of the dwelling when the borrower/owner sells it (in the future). This approach is called a 'shared appreciation mortgage' to differentiate it from the 'shared equity mortgage' of the Northern Territory and Western Australian schemes (though, in those two

jurisdictions, if the borrower sells the dwelling, the government loan agency will benefit from any appreciation in the value of the dwelling).

The shared-equity schemes in those three jurisdictions are linked to a home loan product provided by a government agency (for which there is no equivalent in New South Wales).

Those shared-equity schemes are government backed and differ from innovative financing products being developed in the private sector, such as rent-to-buy products (e.g. Easy Houses, Rent to Buy Your House, Rent to Own Home) and equity release or reverse mortgage products (these latter being of primary interest to existing homeowners).

A US model for facilitating affordable homeownership that has not yet been used in Australia is that of a 'community land trust'.[34] This is a nonprofit nongovernment organization that buys land and then rents it out to either homebuilders or nonprofit rental housing providers. Where the land is rented to homebuilders or, where there is an existing dwelling, to homepurchasers, affordability is promoted by them not having to purchase the land. If the homeowner sells the dwelling, the community land trust has an option of buying it. If the homeowner sells the dwelling to another private household, the community land trust can put conditions on the resale price, which provide the seller with a return on their investment but also give access to a new homeowner at a submarket purchase price. Since the community land trust is not profit-motivated, its land holdings can counter the trend to high land prices in favored locations. The community land trusts in the USA have been set up independently but have been assisted with government grants, donations of land by local councils, etc.

1 October 2008

[34] John Emmeus Davis and Rick Jacobus, 'The city-CLT partnership: municipal support for community land trusts', Lincoln Institute of Land Policy, Cambridge MA, 2008.

A state environmental planning policy to enable local affordable housing schemes

Those NSW local government councils that might want to encourage provision of affordable housing in their area by requiring a certain proportion of new housing to be built or provided as affordable housing are unable to do so. This is because, even though the Environmental Planning and Assessment Act in principle allows them to do so, the state government minister for planning has not introduced an appropriate state environmental planning policy (SEPP).[35] This is necessary because, while that Act has provisions that would allow a local government council to require a certain proportion of new housing to be built or provided as affordable housing, it does so with provisos – and a key proviso is that there is a state environmental planning policy that validates the council's processes.

Why are we concerned about this?

Local governments potentially have powers – under the relevant law, the Environmental Planning and Assessment Act – to encourage provision of affordable housing in their area by requiring a certain proportion of new housing to be built or provided as affordable housing. This housing could be required where there is a new housing estate or a multi-unit development (flats), if the development is likely to lead to a loss of affordable housing or a need for affordable housing. Or it could be where there is a rezoning.

A council can only use those provisions of the Act (which are sections 116Y-116ZB) in certain circumstances:

- It must have a local environmental plan that authorizes it to impose conditions on developers to provide a contribution for affordable housing. Councils' local environmental plans are made by the minister for planning on the advice of the relevant council, and he does not have to accept their advice.
- It must have a local environmental plan that sets out or adopts a scheme for dedications or contributions (i.e. a local government affordable housing scheme) that authorizes those conditions.
- It must get the minister for planning to include a statement in a state environmental planning policy that makes requirements about imposing conditions and that identifies a need for affordable housing in the council's local government area.

Of course, not all local governments are interested in production of affordable housing. Provision of housing assistance is a core state government responsibility and many local governments are thinly stretched to provide the current services they have responsibility for. Nevertheless, where local conditions have called for it,

[35] A state environmental planning policy is an environmental planning instrument, i.e. a policy document that deals with a matter of environmental planning. It is made by the NSW Governor, on the advice of the minister for planning, and its legal basis is the Environmental Planning and Assessment Act 1979.

some councils have developed affordable housing strategies and some (though not many) have developed affordable housing schemes.

The easiest legal mechanism available to councils to get contributions for affordable housing from developers is by negotiating a 'planning agreement' with the developer under which the developer *voluntarily* offers land, money or dwellings to the council. This mechanism has been used by a handful of councils in inner Sydney (Waverley, Randwick, Canada Bay).

This mechanism is rather ad hoc, since it involves one-by-one and case-by-case negotiation between a council and developers, about whether a developer wants to offer some affordable housing units and what it expected back from the council. Waverley council is working to make its scheme more systematic by linking it to density bonuses on multi-unit development.

The other mechanism, referred to above, has a broader sweep, and could apply to all developments of a certain size, whether new blocks of flats or new private housing estates. This mechanism is used, in similar ways but with local variations, in only two parts of the state – the City of Sydney and Willoughby local government areas. In those two areas, the local affordable housing schemes are validated by a state environmental planning policy, State Environmental Planning Policy no. 70 – Affordable Housing (Revised Schemes). The government has refused to amend this SEPP, introduced in 2002, to allow new schemes in other council areas.

What can be done?

The state government (Department of Planning) is currently reviewing two state environmental planning policies, State Environmental Planning Policy no. 10 – Retention of Low-cost Rental Accommodation, and State Environmental Planning Policy no. 70 – Affordable Housing (Revised Schemes). No public information is available on this review apart from the fact it is happening. It possible the Department of Planning might release an options paper for consultation. A new draft SEPP will have to go on public exhibition.

It is possible the Department of Planning will propose the amalgamation of SEPP 10 and SEPP 70 and the introduction of a new State Environmental Planning Policy (Affordable Housing). If so, this will raise questions like:

- Will the protection that State Environmental Planning Policy 10 currently offers to affordable rental housing in the private housing sector be retained?
- Will the enabling function that State Environmental Planning Policy 70 currently offers to affordable housing schemes in the City of Sydney and Willoughby be readily applicable to schemes in other local government areas?
- If the new Policy is heralded as a reform, what 'stings in the tail' will there be, given the Government's reluctance to allow local governments to use their planning and development assessment powers to promote affordable housing?

Would this work?

The affordable housing schemes in parts of inner Sydney have generated a small, but welcome, contribution to the supply of affordable rental housing managed by nonprofit providers.

Councils who want to be able to use section 116Y of the Environmental Planning and Assessment Act to implement affordable housing schemes based on developer contributions should be assisted by a state environmental policy that is enabling, not obstructive.

30 September 2008

National Affordable Housing Agreement

The Commonwealth Government will end the Commonwealth–State Housing Agreement (CSHA), which has been the main mechanism for Commonwealth and state cooperation on housing assistance programs for Australians disadvantaged in housing markets since 1945. The state and territory governments have agreed to this change. In its place, there will be a new agreement that covers the Commonwealth government's specific purpose payments to the states and territories for housing assistance programs, to be called the National Affordable Housing Agreement.

The National Affordable Housing Agreement is expected to encompass the programs that were covered by the Commonwealth–State Housing Agreement, as well as some that were not, in particular the Supported Accommodation Assistance Program.

The current Commonwealth–State Housing Agreement ran for a 5-year period from 2003 to 2008, formally expired at the end of June, and has been rolled over until the end of December – by which time the National Affordable Housing Agreement is expected to have been agreed to and signed by the governments.

Specific-purpose payments

The National Affordable Housing Agreement will be one of the 5 or 6 agreements between the Commonwealth and state and territory governments that provide for a Commonwealth government funding contribution towards programs of the states and territories.

The National Affordable Housing Agreement will replace the Commonwealth-State Housing Agreement, and will incorporate funding arrangements for programs not currently covered in the CSHA, such as the Supported Accommodation Assistance Program (SAAP). It will possibly not incorporate funding arrangements for housing and settlements for Indigenous Australians in remote locations (but will include funding for Indigenous housing for programs that ran under the Commonwealth-State Housing Agreement).

The Agreement is important to the states and territories because the Commonwealth funding contributes an important proportion of the money they spend on housing assistance to low-income people disadvantaged in housing markets. For example, in New South Wales, that funding comprized 25% of Housing NSW's total revenue in 2006-07.[36] Commonwealth funding under various programs contributed 54% of the Aboriginal Housing Office's budget in 2007-08.[37]

The National Affordable Housing Agreement will not cover supported accommodation for people with a disability. That will be covered by a separate, specific purpose agreement on disability services.

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[36] Department of Housing, Annual report 2006-07.
[37] NSW state budget papers.

The National Affordable Housing Agreement is likely to include these matters:

- roles and responsibilities of the various spheres of government (Commonwealth and the states/territories)
- objectives and outcomes for the Commonwealth payments to the states and territories
- funding arrangements (including amount of money to each state/territory)
- reporting process
- review process (for the Agreement as a whole)

The development of the National Affordable Housing Agreement is working on this timeframe:

- October 2008 – COAG to consider the proposed approach for a new intergovernmental agreement on financial relations and to consider drafts of each new specific purpose payment and proposals for National Partnership payments
- December 2008 – COAG to finalize funding arrangements as part of settling the new intergovernmental agreement on financial relations
- January 2009 – new financial arrangements and SPP/NP payments begin

Federal fiscal arrangements

The changes to the Commonwealth–State Housing Agreement partly come about because of dissatisfaction with the terms and operation of the agreements in recent decades – dissatisfaction that had been expressed in various quarters, including the nongovernment welfare sector. But more importantly, they are part of a process of reviewing the taxing and spending arrangements of, and between, the Commonwealth and state/territory governments.

One aspect of that process is a Commonwealth government review of federal and state taxes. A background paper was released in August.[38] Its report is due at the end of this year.[39]

Another is the streamlining of specific purpose payments (SPPs), the Commonwealth government's payments to the states for purposes that it specifies – a power given to the Commonwealth under section 96 of the Australian Constitution. The money comes from the income tax paid by individuals and businesses to the Government, and which the Commonwealth is able to dispose of as it sees fit. This money is separate from the revenue raised by the Commonwealth from its goods and services tax (GST), which revenue is given to the states and territories on an 'untied' basis.

The Commonwealth government aims to rationalize more than 90 specific purpose payments into 5 or 6 omnibus specific purpose payments. The 5 or 6 specific purpose payments will be supported by new national agreements. The policy and

[38] Australian Treasury, *Architecture of Australia's tax and transfer system*, Barton ACT, 2008.
[39] See the Commonwealth Treasury website, <http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/home.htm>.

service areas to be covered are healthcare, early childhood development and schools, vocational education and training, disabilities services, and affordable housing.

The Commonwealth says that these new model specific purpose payment arrangements will be less prescriptive, and will have a 'more rigorous focus on the achievement of outcomes'.

This reform process was agreed to by the Council of Australian Governments (COAG) on March 26. The new framework for federal financial arrangements will start on 1 January 2009.

It will also include new payment arrangements, called National Partnership payments, for specific Commonwealth activities in the various states. These will be in addition to the specific purpose payments.

The Commonwealth's former Community Housing Infrastructure Program for Indigenous housing will reincarnate as a National Partnership payment for Indigenous housing and infrastructure in remote areas, the Australian Remote Indigenous Accommodation program (ARIA).

The 'A place to call home' (Homes for the homeless) program might also be a National Partnership payment.

Commonwealth government funding for housing assistance

The overall funding arrangements for the new specific purpose payments, and for National Partnership payments, will be negotiated as one package by state and Commonwealth treasurers, with endorsement by the COAG. The Commonwealth has indicated that its overall funding to the states will not be reduced.

The Commonwealth budget for 2008-09 gives some indication of how much the Commonwealth government thinks it will be paying to the states through these arrangements over the next few years.

The total specific purpose payments (all policy areas) to New South Wales will be $45 billion over four years, with yearly allocations being $10.63 billion in 2008-09, $11.06 billion in 2009-10, $11.38 billion in 2010-11, and $11.99 billion in 2011-12. This is a growth of 13% over that period (on current dollar values). The NSW share of the Commonwealth's specific purpose payments to all state and territories would remain the same, at 32% of the total.

Looking just at the housing specific purpose payments over five years, including the previous financial year, the Commonwealth payment to the states and territories would increase by 8% (on current dollar values). See Table 1.[40]

[40] Commonwealth of Australia, 'Australia's federal relations: Budget Paper no.3, 2008-09', May 2008, p.34.

TABLE 1: COMMONWEALTH SPECIFIC PURPOSE PAYMENTS FOR HOUSING, 2008 TO 2012

Estimates		Projections (forward estimates)		
2007-08	2008-09	2009-10	2010-11	2011-12
$1,158 m	$1,567 m	$1,613 m	$1,645 m	$1,252 m

The housing payments in Table 1 include Commonwealth-State Housing Agreement/National Affordable Housing Agreement payments, National Partnership payments for Indigenous housing and infrastructure, the 'A place to call home' scheme, and the NSW social housing subsidy scheme.

The Commonwealth budget for 2008-09 anticipates Commonwealth expenditure on housing will grow 12% over the next four years (on current dollar values). See Table 2.[41] The growth will largely come from new measures, and also from increasing demand for dwellings provided by Defence Housing Australia.

TABLE 2: COMMONWEALTH GOVERNMENT HOUSING EXPENSES, 2008 TO 2012

Estimates		Projections (forward estimates)		
2007-08	2008-09	2009-10	2010-11	2011-12
$1,695 m	$1,856 m	$1,974 m	$2,000 m	$2,092 m

In relation to the programs under the National Affordable Housing Agreement, the Commonwealth budget for 2008-09 anticipates Commonwealth payments to the states and territories will increase by 6% over 4 years on current dollar values, over the current combined CSHA and SAAP allocations. See Table 3.[42]

TABLE 3: COMMONWEALTH SPECIFIC PURPOSE PAYMENT FOR NAHA PROGRAMS, 2008 TO 2012

Estimates		Projections (forward estimates)		
2007-08	2008-09	2009-10	2010-11	2011-12
$1,156 m	$1,174.4 m	$1,193.9 m	$1,209.5 m	$1,225.2 m

The housing payments in Table 3 include Commonwealth-State Housing Agreement base funding, CSHA community housing funding, CSHA crisis accommodation program funding, CSHA Aboriginal rental housing program funding, Supported Accommodation Assistance Program funding, and (from January 2009) National Affordable Housing Agreement payments.

[41] Commonwealth of Australia, 'Budget strategy and outlook: Budget Paper no.1, 2008-09', May 2008, p.6-23.
[42] Commonwealth of Australia, 'Australia's federal relations: Budget Paper no.3, 2008-09', May 2008, p.47.

Table 4 gives a breakdown of the NAHA and non-NAHA payments.[43]

TABLE 4: COMMONWEALTH PAYMENTS TO SUPPORT STATE HOUSING SERVICES, 2008 TO 2012

	Estimates		Projections		
$ million	2007–08	2008–09	2009–10	2010–11	2011–12
National Affordable Housing Agreement		587.2	1193.9	1209.5	1225.2
CSHA block assistance	765.2	388.3			
CSHA community housing	67.5	34.3			
CSHA Crisis Accommodation Program	41.8	21.2			
CSHA housing for Indigenous people	96.0	48.7			
SAAP	185.8	94.7			
NPP: Indigenous housing/infrastructure	-	363.4	392.6	408.5	-
NPP: A place to call home	-	25.0	25.0	25.0	25.0
Additional first home owners scheme	-	2.4	-	-	-
Social housing subsidy program	2.0	2.0	2.0	2.0	2.0
	1158.4	1567.2	1613.5	1645.0	1252.2

Commonwealth government funding to New South Wales

In relation to the programs under the National Affordable Housing Agreement, the Commonwealth payment to New South Wales will increase by 6%, on current dollar values, over the current combined CSHA and SAAP allocations. See Table 5.[44]

TABLE 5: COMMONWEALTH PAYMENTS TO SUPPORT NSW HOUSING SERVICES, 2008 TO 2012

Estimates		Projections (forward estimates)		
2007-08	2008-09	2009-10	2010-11	2011-12
$365.4 m	$371 m	$377.2 m	$382.2 m	$387.1 m

The housing payments in Table 5 include Commonwealth-State Housing Agreement base funding, CSHA community housing funding, CSHA crisis accommodation program funding, CSHA Aboriginal rental housing program funding, Supported Accommodation Assistance Program funding, and (from January 2009) National Affordable Housing Agreement payments.

The Commonwealth budget for 2008-09 indicates the Commonwealth government's expectations and intentions in early 2008. Whether it will contribute more to the states, and how payments will be made, will be influenced by negotiations with the states.

[43] Commonwealth of Australia, 'Australia's federal relations: Budget Paper no.3, 2008-09', May 2008, p.47.
[44] Commonwealth of Australia, 'Australia's federal relations: Budget Paper no.3, 2008-09', May 2008, pp.108-110.

Commonwealth government initiatives on housing assistance

During the federal election campaign in 2007, the Labor party made a number of commitments, which it has been implementing since its election to government. The Commonwealth budget for 2008-09, which was delivered on May 13, provided funding for them.

Housing affordability

The National Housing Supply Research Council will publish an annual 'state of supply report' to analyze the adequacy of land supply and dwelling construction for the next 20 years.

Its chairperson was announced on April 23 and the membership announced on May 2.

The total amount allocated to it over the next four financial years, and with some costs associated with the previous financial year, is $10.2 million.

The Housing Affordability Fund will offset local and state government regulatory costs to the development of new dwellings:
(a) the cost of developing new infrastructure such as water, sewerage, transport, and parklands (local government infrastructure charges are ultimately paid by the new home buyer), and
(b) the 'holding costs' associated with planning and approval delays such as interest, land taxes, council rates and staff costs, which are ultimately paid by the new home buyer; the Fund will pay $30 million to roll out electronic development assessments and online tracking services to streamline development consents on dwellings.

The Fund was announced on March 3, and a consultation paper released on June 11.

Money from the Fund will be allocated to local governments (and possibly state governments). The budget allocation is $512 million over the next five financial years.

The First Home Savers Accounts are a 'superannuation-style', low-tax savings account to help first homebuyers save a deposit for purchase of a dwelling. The first $5,000 per year saved in such an account will attract a 17% government contribution, and interest on the accounts will be taxed (for income-tax assessment purposes) at a flat rate of 15%.

The budget allocation is $1.03 billion over four years.

The scheme was announced on February 8, with a discussion paper released on that same day. It is expected to start on October 1. The scheme has its own website, at <http://homesaver.treasury.gov.au/content/default.asp>.

Affordable rental housing

The National Rental Affordability Scheme will give grants or tax credits to proponents of intermediate rental housing (i.e. affordable rental housing allocated to low-moderate income households with income eligibility higher than that which is typical for eligibility for public, community and Indigenous housing). The scheme is a Commonwealth initiative, and was endorsed by the state and territory governments through the COAG in March.

The Commonwealth contribution is an annual grant or tax credit valued at $6,000 a year per dwelling for 10 years. The budget allocation is $622.6 million over four years. The scheme requires state government contributions of $2,000 a year per dwelling.

The scheme was announced on March 3, with a technical paper released on May 2 and a prospectus released July 24. The submission deadline for a 1st round of proposals is September 4, with a 2nd round expected to be called in October.

In New South Wales, Housing NSW is supporting the scheme in the 'establishment' phase (July 2008 to June 2010) with two subsidies:

- Organizations (e.g. private investors, private developers, aged/disability care providers, registered community housing providers) seeking an NRAS tax credit or grant from the Commonwealth will be eligible for $2,000 for each eligible dwelling for 10 years in accordance with the Commonwealth requirements. Housing NSW is calling this subsidy arrangement 'NRAS B'.
- Registered community housing providers – only – who are part of bids for NRAS funding will be eligible to seek a grant of up to 40% of the total project costs, subject to meeting conditions such as contributing equity to the project and borrowing. This grant funding and associated requirements were already available through the Centre for Affordable Housing's 'debt equity affordable housing program' under its Social Housing Innovations Fund. That program's subsidies are now being linked to the NRAS scheme as a state contribution. Housing NSW is calling this subsidy arrangement 'NRAS A'.

There is more information on this scheme:

- on the FaHCSIA website, at <www.facs.gov.au/internet/facsinternet.nsf/housing/nras.htm>
- on the Housing NSW website, at <www.housing.nsw.gov.au/Centre+For+Affordable+Housing/NRAS/>

Homelessness

The 'A place to call home' program involves funding to acquire up to 600 new dwellings for allocation to homeless people. After 12 months of support, tenants will not have to exit from their dwellings when the dwelling is transferred to the pool of public housing. The program is aimed at delivering on a commitment of the Council of Australian Governments to 'halve the number of homeless people who are turned away from shelters within five years'.

This program is a new specific purpose payment (SPP) program, and the Commonwealth government will seek a matching subsidy from state and territory governments, to be negotiated as part of a National Affordable Housing Agreement. This program is separate from the Crisis Accommodation Program, a component of the Commonwealth-State Housing Agreement.

The budget allocation for the 'A place to call home' program is $150 million over five years.

Of the national allocation of $150 million, New South Wales will get $38.75 million. Of the 600 dwellings to be acquired, New South Wales will get 155.

The main program for homeless people toward which the Commonwealth contributes is the Supported Accommodation Assistance Program (SAAP), a specific purpose payment program. The Commonwealth subsidy in 2008-09 will be $178.65 million, compared with an estimated $175.6 million in 2007-08.

The Commonwealth government is also preparing a white paper on homelessness, due in September. The submission deadline on a green paper was June 27.

Indigenous Australians

The Commonwealth budget for 2008-09 anticipates features a new outcome area called 'Closing the gap', which is designed to improve the quality of life of Indigenous Australians. Housing issues and programs for Indigenous Australians in urban and regional areas come under the umbrella of the Commonwealth-State Housing Agreement, so the Commonwealth is targeting the various programs branded as 'Closing the gap' to remote settlements, especially in the Northern Territory. The budget allocation for remote Indigenous housing is $1.6 billion over four years.

It is likely that the new National Affordable Housing Agreement will include matters affecting housing of Indigenous Australians in mainstream public and community housing as well as in state-owned and managed Indigenous housing. The relation of the Australian Remote Indigenous Accommodation program (a National Partnership payment program) to the National Affordable Housing Agreement is not clear at this stage.

For more information

These websites have useful and up-to-date information:

- Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs <www.facs.gov.au/internet/facsinternet.nsf/housing/nav.htm>
- Council of Australian Governments <www.coag.gov.au/guide_agreements.htm>

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