



# Australian Council of Social Service

25 March 2014

Senator Mark Bishop  
Chair  
Senate Economics References Committee  
Inquiry into Affordable Housing  
PO Box 6100  
Parliament House  
Canberra ACT 2600

By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Senator,

Australia is facing a housing supply and affordability crisis which requires a coordinated national response. The Federal Government is uniquely placed to lead this response, working with State, Territory and local governments to maintain momentum and cooperation to address this critical social policy challenge.

ACOSS supports the Federal Government's drive to achieve economic growth through infrastructure investment, but we believe that the goal should be inclusive growth and that investment should include social and community infrastructure. Housing infrastructure is undeniably our most urgent social infrastructure challenge. Minister Andrews identified the problem at the National Housing Conference late last year, stating: 'there has been an absence of national leadership by government in driving a solution to the housing supply crisis that is looming.' The National Housing Supply Council estimated the shortage of housing relative to underlying demand as 228,000 dwellings in 2011. The supply shortage is a key driver of price inflation in the home owner and rental markets. Further, as you know, the recent upward trend in price movements has in part been driven by investor interest in existing dwellings, with little being delivered for new home owners or for increased supply of affordable housing stock.

Housing, affordability and location are integral to enabling population growth, and labour mobility, supporting improvements in participation rates and improving productivity. The housing and construction industries are also key drivers of economic activity, and associated jobs growth. Adequate housing is also a basic necessity and human right which impacts on education, health and employment outcomes, as well as the overall wellbeing of the population. Having a private place to be which is decent and over which we have some real control is fundamental to the wellbeing of every one of us as individuals and communities. In this sense, affordable housing is both vital economic and social infrastructure.



Housing supply and affordability is critical to Australia's inclusive growth agenda. To achieve the scale required, we must mobilise private and institutional investment which delivers new and affordable supply.

I have enclosed for the Committee's consideration the Affordable Housing section from the ACOSS 2014-15 Budget Priorities Statement, which was published in January. It outlines ACOSS' key policy recommendations to improve housing affordability and reduce homelessness. These include overdue reforms to housing taxation to ensure that tax settings are directed to achieving efficiency and affordability in the market.

Of most urgent concern is current uncertainty about the future of funding currently provided under the National Partnership Agreement on Homelessness, which is due to expire on 30 June 2014. The community sector and investor community is also looking for certainty about the future of the National Rental Affordability Scheme which has delivered 14,575 dwellings with 23,884 dwellings in progress in the five years to 30 June 2013. A sustained commitment to NRAS is consistent with the Government's stated commitment to an infrastructure agenda, providing as it does an efficient vehicle for private financing of infrastructure and cost-effective affordable housing program.

Thank you again for the opportunity to participate in this Inquiry. I would welcome the opportunity to appear before the Committee to provide further evidence in person.

Yours faithfully,

Dr Cassandra Goldie  
Chief Executive Officer, ACOSS



## **Appendix 1: Extract from ACOSS Budget Priorities Statement 2014-15**

### **Improve access to affordable housing**

Despite significant policy and funding commitments to improve the availability of affordable housing and reduce homelessness in recent years, Australia is facing a housing affordability crisis. High housing costs are the biggest source of financial stress in many households, particularly those on low incomes. Decades of rent and mortgage increases above the rate of inflation have left more than a million people on low incomes experiencing housing stress, with housing costs exceeding 30% of household income.<sup>1</sup> The majority of those in housing stress are in private rental, with 60% of people on low incomes who are in private rental experience housing stress, and 25% spending over half of their income on rent.<sup>2</sup>

Housing markets are complex and the solutions are not simple, but the Commonwealth Government wields key policy levers that impact on the availability of affordable housing, not least through the tax system. ACOSS advocates a comprehensive affordable housing strategy which includes reform of housing taxation; direct investment in the growth of affordable housing stock and incentives for private sector and institutional investment in affordable housing; an increase in financial support to low income renters; and sustained support for homelessness services.

### ***Reform housing taxation***

Tax concessions for housing purposes are, at least in theory, designed to improve housing affordability. In practice they often have the opposite effect. They often inflate home prices and rents by encouraging over-investment in existing housing stock.

Analysis by the Australian Housing and Urban Research Institute (AHURI) suggests that total tax expenditures for owner occupied housing totalled \$45 billion and investor housing totalled \$8.3 billion in 2006.

While deductions for investment expenses are a well-established and legitimate feature of the income tax system, deductions for 'negatively geared' investments in assets that yield capital gains (including property, shares and collectables) are not properly matched (in timing or in value) with the related income stream. Taxpayers receive immediate deductions at their current marginal tax rate against future income that mainly takes the form of capital gains

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<sup>1</sup> Ryanti Miarant and Binod Nepal (2008) *Housing Stress in Australia 2007* National Centre for Social and Economic Modelling, University of Canberra.

<sup>2</sup> National Housing Supply Council (2012) *Housing supply and affordability, key indicators, 2012* Commonwealth Government of Australia, Canberra.



and is taxed at only half their normal marginal rate. As the Henry Report noted, this mismatch distorts investment decisions and can be exploited for tax avoidance purposes.

The tax benefits of ‘negative gearing’ are heavily skewed, providing ten and a half times the benefits to the top 20% of households (around \$3,800 a year) than they do to the lowest 20% (around \$364 a year).<sup>3</sup> Moreover, over 90% of investment in negatively geared housing stock applies to existing properties, thereby inflating housing costs and fuelling speculative booms in the housing market. This tax concession also skews investment in housing towards individual investors (rather than institutions) and towards investments yielding capital gains (rather than a stable rental income stream).

Deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2015 should be quarantined to offset income received from those assets, including capital gains realised on their subsequent sale. This is a first step to improving housing market outcomes and reducing the fiscal and social cost of this tax break. The proposed policy change would have a gradual impact on housing investment, as it would not apply to assets purchased before Budget night 2014. Further, we recommend that half of the revenue savings be earmarked for the introduction of an Affordable Housing Growth Fund and proposed expansion of the NRAS in order to promote fresh investment in affordable housing to help ease the affordable housing shortage.

### ***Grow affordable housing stock, including through private sector investment***

To ensure the financial viability of low-rent housing, the Government should establish an Affordable Housing Growth Fund to increase the supply of affordable housing, through direct government investment. It should also ensure that current funding under the National Affordable Housing Agreement is indexed appropriately to ensure future adequacy.

The Government should also encourage private sector and institutional investment in affordable housing stock, by maintaining and expanding the NRAS into the future and exploring other innovative models to leverage private investment (e.g. housing bonds). From 2009, when the first NRAS properties were delivered, up until June 2013, 14,575 low-rent properties have been completed, with over 38,000 projected to be delivered by April 2017.<sup>4</sup> The program has been consistently and dramatically over-subscribed, with high demand from potential investors. While the program is funded through to 2015-15, investors are looking

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<sup>3</sup> Yates, J. (2009) *Tax expenditures and housing* Australian Housing and Urban Research Institute, Melbourne.

<sup>4</sup> Department of Social Services (2013) *NRAS monthly performance report – June 2013* Australian Government, Canberra.



for certainly from Government now about the future of NRAS and a clear commitment is needed to maintain and expand the program beyond the forward estimates.

As noted above, the costs of this investment should be offset by the savings generated through reform of negative gearing.

### ***Increase financial assistance to low income renters***

CRA provides important assistance to low-income residents of private housing markets but has failed to keep pace with steep rental inflation, leaving many struggling to cope with high private rental costs. CRA should be increased to provide immediate relief to renters on low incomes, pending a review of the adequacy, indexation and impacts of CRA on housing sub-markets.

### ***Maintain the level of funding to homelessness services***

Notwithstanding recent investment and policy innovation, homelessness remains a serious social problem in Australia. Additional investment in homelessness services under the previous Government achieved a reduction in the number of rough sleepers, but with a growth in the number of people living in overcrowded dwellings, overall homelessness figures have remained the same. Further, an increasing number of older Australians are experiencing homelessness.<sup>5</sup>

The Transitional National Partnership Agreement on Homelessness (NPAH) is due to expire after June 2014. The lack of certainty around the NPAH is putting pressure on homelessness services' ability to plan for coming years and to reduce the instance and severity of homelessness. Unless the Commonwealth commits (at a minimum) to maintaining the current level of funding for homelessness services, we risk going backwards in our national efforts to end homelessness.

### **Recommendation 24: Quarantine deductions for expenses relating to passive investments**

Quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2015 to offset income received from those assets, including capital gains realised on their subsequent sale.

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<sup>5</sup> *Submission to Inquiry into the opportunities for participation of Victorian seniors* (2011) Council to Homeless Persons.



Earmark half the revenue savings for the proposed expansion of the NRAS program and Affordable Housing Growth Fund.

Revenue: \$500 million (\$1,000 million in 2015-16)

### **Recommendation 25: Establish a long term Affordable Housing Growth Fund**

An Affordable Housing Growth Fund should be established with a commitment of \$750 million in the first year, growing to \$6,000 million over 5 years. This funding should be strictly designated for expanding the stock of affordable housing.

Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: \$750 million in 2014-15 (\$900 million in 2015-2016)

### **Recommendation 26: Review Commonwealth Rent Assistance and increase the maximum rate of CRA**

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2014 by 30% (approximately \$19 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$880 million in 2014-15 (\$920 million in 2015-16)<sup>6</sup>

### **Recommendation 27: Maintain current funding for homelessness services and index to CPI**

That the Commonwealth commit to maintain the level of funding currently provided under the NPAH, to be indexed to the CPI or the Wage Price Index, whichever is higher.

Cost: \$160 million in 2014-15 (\$170 million in 2015-16)<sup>7</sup>

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<sup>6</sup> Calculated on the basis of the number of current recipients multiplied by the increase, and indexed to CPI, estimated at 2.5%.

<sup>7</sup> This calculation is based on the funding for 2013-14 under the transitional agreement, indexed to CPI at 2.5%.



**Recommendation 28: Improve the adequacy of National Affordable Housing Agreement (NAHA) indexation**

That funds allocated under the NAHA be indexed to the level of the CPI on an ongoing basis.

Cost: \$20 million 2014-15 (\$30 million 2015-16)<sup>8</sup>

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<sup>8</sup> This calculation is based on the difference between 2013-14 budget projections and CPI indexation, estimated at 2.5%.