



11 March 2016
Canberra ACT 2600

Vicki Wilkinson,
Division Head,
Social Policy Division,
The Treasury
via email: affordablehousing@treasury.gov.au

CC:

The Hon Malcolm Turnbull MP; The Hon Scott Morrison MP, The Hon Christian Porter MP; The Hon Mike Baird MP, The Hon Daniel Andrews MP, The Hon Colin Barnett MP, The Hon Anna Palaszczuk MP; The Hon Jay Wetherill MP, The Hon Will Hodgman MP, Andrew Barr MLA, The Hon. Adam Giles MLA

Dear Ms Wilkinson,

Re: Federal Financial Relations Affordable Housing Working Group – Innovative financing models issues paper

Thank you for the opportunity to respond to the Issues Paper on Innovative Financing models, released by the Federal Financial Relations Affordable Housing Working Group on 2 February 2016.

The national network of Councils of Social Service in Australia collaborate to achieve our vision of a fair inclusive and sustainable Australia. We are committed to seeking the best outcomes for people who are affected by poverty, disadvantage and inequity.

We welcome COAG's policy interest in innovative financing models to support the growth of affordable rental housing stock and congratulate the Commonwealth, State and Territory treasurers for supporting the establishment of the Affordable Housing Working Group.

ACOSS and the State and Territory Councils of Social Service support the development of effective mechanisms to attract investment into affordable rental housing at scale. With the

right incentives in place, institutional investors could play an important role in providing affordable, accessible and stable housing to those on low incomes.

The Working Group's Issues Paper outlines a number of 'innovative financing models' to improve housing affordability. These are:

1. Housing loan/ bond aggregators
2. Housing trusts
3. Housing cooperatives
4. Impact investing models including social impact bonds

While each of the options could have a role to play in improving housing affordability in Australia, we believe that the housing loan/bond aggregator model is the most viable for attracting institutional investment at scale and providing greater stability in the rental housing market. Housing trusts and cooperatives could play a role in complementing a bond aggregator model but would be unlikely to deliver the scale required in themselves, while impact investing models are better adapted to funding housing services and supports than raising capital investment.

Any new financing model should be underpinned by a long-term government commitment to ensure investor confidence. It should be adaptable to different locations and diverse housing needs, including household size and accessibility requirements.

While we believe institutional financing vehicles have an important role to play, we are strongly of the view that these mechanisms will only be effective in improving housing affordability if they are seen as a complement to the core role of governments, and form part of a broader national affordable housing strategy. All governments have a role to play in ensuring access to affordable housing. The Commonwealth has a unique role to play due to its responsibility for the tax and transfers system, with direct impacts on the regulation of housing markets and the affordability of housing for those on lower incomes. Commonwealth leadership and funding is vital, supported by cooperative intergovernmental relationships.

We are currently faced with the legacy of decades of underinvestment in affordable housing stock. The impacts of this legacy include extremely long public housing waiting lists, high levels of rental stress and unacceptable levels of homelessness. Major structural reform of the housing system supported by significant direct government investment is needed to address this challenge. ACOSS, working with national housing and homelessness peak bodies, has developed a set of affordable housing policy recommendations to grow the stock of affordable rental housing, reduce distortions in the housing market, and relieve

rental stress. These recommendations are directed to Commonwealth, State and Territory governments. While private investors have a role to play, governments must not outsource responsibility for the provision of housing to low income and vulnerable people to the private sector.

Our reform proposals are intended to form part of a national affordable housing strategy, underpinned by targets to halve homelessness by 2020, to halve the shortfall in affordable housing available *and* affordable to the bottom 40% of households by 2025; and to meet this shortfall by 2035. Key recommendations can be summarised as follows:

- Reform housing tax arrangements, including negative gearing, to reduce speculative investment in the housing market and associated price inflation.
ACOSS' proposal is to limit deductions for expenses related to passive investments in housing, shares, collectables and similar assets to offset income received from those assets, including capital gains realised on subsequent sale. Assets acquired before that date would be 'grandfathered' so that deductions can still be claimed under the present rules;
- Use part of the revenue saved from reform of negative gearing to introduce an investment incentive (tax offset) for new housing dwellings whose construction costs fall below a relatively high value;
- Undertake coordinated state tax reform to replace stamp duties with a broad based land tax to improve equity and the predictability of tax revenue;
- Establish an affordable housing growth fund to increase the supply of affordable rental housing, including addressing the backlog of unmet demand;
- Conduct a review of the adequacy of Commonwealth Rent Assistance, including indexation arrangements, and an immediate increase to the maximum rate of 30% to relieve acute housing stress;
- Over the longer-term, develop new national partnership agreements on housing and homelessness which improve transparency and accountability, provide longer-term funding certainty and include appropriate indexation which reflects real cost drivers;
- Create a financial intermediary as the first step in the development of an institutional financing mechanism (e.g. a housing finance corporation);
- Enhance state and territory land use planning systems to better support the development of affordable housing.

These proposals are explained in more detail in the attached policy papers: *An Affordable Housing Reform Agenda*, developed by ACOSS with the national housing, homelessness and tenant peak bodies in 2015 and ACOSS' recent *Budget Priorities Statement 2016-17*.

We are well aware of the growing pressures on Federal, State and Territory budgets, due to declining revenue, population ageing and advances in health care. For this reason, we have been active in debates about taxation and fiscal policy to ensure that governments are able to fund services into the future and to fill some gaping holes in the safety net. Creating space in government budgets to increase funding to affordable housing programs must be a priority in this context.

We look forward to continuing to work with Commonwealth, State and Territory governments to deliver structural reforms to the tax system and secure the investment needed to improve access to affordable housing for low and moderate income households around the country.

Yours sincerely,



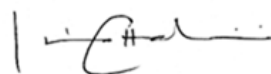
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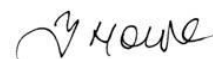
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