

National Forum on Affordable Housing

**Achieving a National
Affordable Housing Agreement**

Background Paper 1

A National Approach to a
National Problem

July 2006

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Introductory Note

This Background Paper has been prepared at the request of the Steering Committee of the Forum in order to assist discussion.

The Paper draws on a range of ideas from many different sources. Except where stated, it does not seek to represent the settled views of any or all of the hosts of the Forum or of any other organisation.

A NATIONAL APPROACH TO A NATIONAL PROBLEM

INTRODUCTION

1. Affordable housing is crucial to a country and its people. Without it, people are impoverished, families and communities eroded, jobs lost, the economy weakened, and the environment damaged. During the last 20 years or so in Australia, and especially over the last decade, these impacts have become increasingly apparent.

2. A number of key factors have contributed. They include huge rises in house prices and debt, deteriorating access for lower-income households to low-rent housing, changing patterns of employment and urban development, and broader aspects of economic policy.

3. During the last decade or so,

- average house prices relative to income have almost doubled;
- the proportion of first homebuyers has fallen by about 20%;
- average monthly payments on new loans have risen by about 50% (\$500);
- the proportion of low-rent homes has fallen by at least 15%;
- opportunities to rent public housing have fallen by at least 30%.

4. As a result, at least three-quarters of a million lower-income households are paying housing costs which exceed the commonly accepted affordability benchmark of 30% of income. In addition, many households have had to accept unsuitable housing in order to avoid having to meet unaffordable rent or mortgage payments.

5. Despite some recent cooling in the housing market, prices are continuing to rise in many areas and elsewhere have fallen very little. Even a fall of, say, 20% would remain well short of restoring adequate levels of affordability (and, of course, would create other severe adjustment problems). Rents in many areas are now rising substantially and vacancy rates are very low, except for some higher-rent units where an over-supply developed in recent years.

6. The problems are not just cyclical and are worse than in many other developed countries. The likelihood of further interest rate rises emphasises their gravity and the need for vigorous corrective action. Failure to act will severely affect economic development and competitiveness, urban development and transport, fertility rates and family cohesion, retirement security and intergenerational equity, and the economic and social strength of local communities.

THE NEED FOR A NATIONAL APPROACH

7. The affordability crisis requires a national response from governments. This includes action at the Commonwealth level; cooperation between the Commonwealth and State levels, and between States; and engagement at regional and local levels.
8. Commonwealth Government policies in areas such as the macro-economy, immigration, taxation, employment and regional development greatly affect needs and responses in the area of affordable housing. Its programs of rent assistance and home purchase assistance are also highly relevant, of course.
9. Cooperation between the Commonwealth and States, and between the States, has a major impact on low-cost rental housing through the Commonwealth-State Housing Agreement (CSHA). It would also be essential, for example, for developing a sufficient scale of affordable housing opportunities to attract major investment by financial institutions and sufficient growth in large non-profit housing entities.
10. Local governments' planning and development decisions can substantially reinforce or retard affordable housing initiatives from other levels. Their contribution of grants or other assistance can also be combined with Commonwealth or State subsidies to achieve viable affordable housing programs in their areas.
11. The need for stronger national action led to the convening of a National Summit on Housing Affordability in 2004 by the Housing Industry Association, Australian Council of Social Service, Australian Council of Trade Unions and National Housing Alliance in conjunction with the Australian Local Government Association. It was attended by 200 invitees from the housing sector, community groups, government and other experts.
12. Shortly after the Summit, the principal hosts published *A Call for Action* (an extract from which is in the Appendix) that contained proposals including
 - a *National Housing Plan* with specified targets for improving affordability by specified dates;
 - a *National Tax Reform Package* to improve the equity and efficiency of the impacts of taxation on housing affordability;
 - a *National Strategy for Land and Infrastructure Planning* with a special fund to improve land supply and infrastructure for affordable housing.
13. The hosts later called for affordable housing to be a major item on the agenda of the Council of Australian Governments. Many of the key issues clearly require decisions on economic and fiscal policy in which the Prime Minister, Premiers and Treasurers would need to be closely involved as well as housing ministers.

A NATIONAL AFFORDABLE HOUSING AGREEMENT

14. A centrepiece of the proposals in *A Call for Action* is a *National Affordable Housing Agreement* to rationalise and strengthen government assistance for affordable housing. The Agreement would be for an initial period of five years, taking effect upon the expiry of the current CSHA in 2008.
15. The proposed Agreement would seek to maximise effective investment in the full spectrum of affordable housing across Australia. This includes investment by
 - governments at the Commonwealth, State and local levels;
 - financial institutions and other private investors;
 - non-profit organisations.

16. Several distinctive features of the proposed Agreement would symbolise and implement a regeneration of government activity in contrast with the deteriorating commitment and creativity of the CSHA in recent times.

17. First, it would cover a wider range of affordable housing options. In particular, it would include home purchase and private rental, as well as innovative forms of provision by non-profit organisations.

18. Second, it would cover a wider range of government policies that closely affect housing affordability. In particular, it would cover assistance provided in the form of rent assistance, tax benefits and other subsidies that are not currently included in the CSHA but may involve much greater cost and impact.

19. Third, it would focus especially on ways of attracting private investment into affordable housing.

20. Fourth, it would involve local government representatives in negotiations about the Agreement. Amongst other possible benefits, this could encourage supplementary agreements being made between State and local governments.

21. These features would enable the new Agreement to cover a wider range of housing needs, implement a wider range of action to meet these needs and mobilise greater resources. It would also rationalise and integrate the provision of assistance and improve coordination and transparency in that provision.

22. The proposed Agreement would establish key criteria and benchmarks which provide as much clarity and national consistency as is necessary on headline issues but allowing as much local flexibility as possible within the specified parameters. It would also include advisory guidelines or models on aspects of eligibility for assistance, rent setting, planning rules etc.

23. Possible key elements of a National Affordable Housing Agreement are the subject of the following Background Papers for the Forum:

- Background Paper 2: *Key Terminology and Indicators*
- Background Paper 3: *Key Goals, Targets and Strategies*
- Background Paper 4: *Core Packages of Assistance*

PUBLIC FUNDING FOR A NATIONAL AGREEMENT

24. The Background Papers identify a number of measures which could involve additional government expenditure, whether as direct payments, tax benefits or in some other way. Possible sources of funding for this expenditure include

- existing government revenue;
- public borrowing;
- redirection of current tax expenditures.

25. The Summit hosts called for about \$1 billion of additional spending through the new National Affordable Housing Agreement, to be split between the Commonwealth and State governments. This would constitute a small fraction of 1% of current Budget revenues.

26. Some expenditure under the Agreement would be used to attract much higher levels of private investment in affordable housing, thereby reducing future demands on public revenue. This is especially relevant when superannuation funds, in particular, are seeking ways of investing their rapidly increasing assets. Attracting 0.1% of these assets would provide over \$1 billion of investment in affordable housing.

27. Most expenditure under the Agreement is likely to be long-term investment of a kind that is widely recognised by public finance experts and credit rating agencies, as well as by the general public, to be valid and responsible use of public borrowings. Current levels of public debt in Australia are exceptionally low by comparison with other developed countries. They could increase very considerably before reaching the average level amongst those countries.

28. A substantial amount of expenditure could be funded by redirecting some of the large amounts of housing assistance that are currently provided in the form of tax exemptions or concessions relating, for example, to capital gains tax and land tax.

APPENDIX

EXTRACT FROM "A CALL FOR ACTION"

The following is an extract from *A Call for Action*, a communique issued by the principal hosts of the National Summit on Housing Affordability in 2004.

PRIORITIES FOR ACTION

1. A NEW MINISTRY AND MINISTERIAL COUNCIL

Appoint a Commonwealth Minister for Housing, Urban and Community Development at Cabinet level and establish a corresponding National Ministerial Council.

- The Minister should chair the new Ministerial Council.
- The new Council should encompass roles of the current Commonwealth-State Ministerial Councils on Housing and Local Government and Planning.
- The Minister and Council should cooperate in the establishment of a major national data base of housing-related statistics and other information that is reliable, up-to-date and publicly available.

2. A NATIONAL HOUSING PLAN

Develop a five-year *National Housing Plan* for achieving specified affordability benchmarks for home purchasers and renters by specified dates.

- The Plan should be developed by the Commonwealth Minister in close consultation with the Ministerial Council and identify the respective roles of Commonwealth, State/Territory and local governments. It should be reviewed and renewed after the initial five-year period.
- It should focus especially on developing a framework of specific affordability benchmarks for people with below-average incomes or other substantial disadvantages ("affordable housing") and on specifying government action to help achieve those benchmarks.
- Key elements of the Plan should include
 - a new inter-governmental agreement on assistance for affordable housing (3. below)
 - greater public investment in affordable housing and related infrastructure (4. below)
 - an integrated national package of tax reform to promote affordability (5. below)
 - a national strategy for land and infrastructure planning (6. below).

3. A NATIONAL AFFORDABLE HOUSING AGREEMENT

Negotiate a five-year *National Affordable Housing Agreement* between Commonwealth, State/Territory and local governments to integrate, rationalise and strengthen government assistance for affordable housing.

- The Agreement should incorporate the current Commonwealth-State Housing Agreement and could establish a framework for complementary Affordable Housing Agreements between State/Territory and local governments.

- It should encompass all major forms of government assistance for providers or consumers of affordable housing, including capital grants, rent assistance, fee or debt relief and tax measures.
- The Agreement should include a specific benchmark for substantially expanding the supply of housing that is either owned or managed by a public authority or appropriate non-profit organisation (ie, public or community housing) and allocate the necessary resources for that purpose.

4. INCREASED PUBLIC INVESTMENT

Establish a five-year program for increasing annual Commonwealth Government expenditure on provision of affordable housing by an initial amount of at least \$500 million and rising over subsequent years, complemented by corresponding increases in State/Territory government expenditure.

- The increase should be specified in the National Affordable Housing Agreement and expended in accordance with that agreement.
- The main items of new expenditure should be
 - an *Affordable Housing Innovations Fund* to facilitate private sector and local government investment in provision of affordable housing
 - a *Public Housing Renewal Fund* to help strengthen the effectiveness and sustainability of government-owned housing by broadening the range of locations, tenants and cooperation with community housing organisations.
- Substantial increases should be especially ear-marked to improve indigenous and emergency housing, reduce homelessness and improve accessibility for people with disabilities.

5. A NATIONAL TAX REFORM PACKAGE

Introduce an integrated package of Commonwealth, State/Territory and local tax reforms to improve the equity and efficiency of their impact on housing affordability and on financing necessary investment in affordable housing.

- An *Independent Inquiry* should be established by the Commonwealth, State/Territory and local governments to make recommendations for this purpose within a period of twelve months.
- The Inquiry should consider the equity and efficiency impacts of current direct and indirect taxes, as well as other public charges, which affect the provision and affordability of housing.
- Special priority should be given to reforms aimed at assisting first home purchase, promoting investment in affordable housing, and enhancing inter-generational equity.

6. A NATIONAL STRATEGY FOR LAND AND INFRASTRUCTURE PLANNING

Establish a national framework and fund for strengthening regional and local development initiatives that will improve the availability of appropriate land for affordable housing and provide related economic and community infrastructure.

- The framework should be developed by the new Minister and Ministerial Council in accordance with the National Housing Plan. It should include guidelines for enhancing planning systems and resources, especially at regional levels, and for achieving regional and local affordability benchmarks under the Plan.
- A *Regional Development Fund* should be established under the Plan to strengthen government investment in affordable housing and in associated economic and community infrastructure projects. It should focus especially on improving the supply of affordable housing in high-growth areas, both regional and metropolitan, together with timely provision of necessary infrastructure.
- The Commonwealth Government should commit at least \$1 billion to the Fund each year, supplemented by matching funds from State and Territory governments.