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National Housing Assistance Policy: Trends and Prospects

April 2023

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We pay our respects to the First Nations Peoples, past and present, and acknowledge their stewardship of Country over thousands of years.

SGS Economics & Planning

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Overview

The Albanese Labor Government has made housing affordability a priority issue. Its initiatives to date include the establishment of a $10 billion Housing Australia Future Fund (HAFF), the yield on which is slated to generate 30,000 new social and affordable homes by 2027.

The Government has brokered a *Housing Accord* with the States and Territories, institutional investors, developers and local government to advance a range of measures to further boost social and affordable housing supply. This includes an additional $350 million investment from the Commonwealth to produce another 10,000 units over 5 years.

The remit of the National Housing Infrastructure Facility, administered by National Housing Finance and Investment Corporation (now rebadged and re-missioned as 'Housing Australia') has been expanded, potentially freeing up some $575 million for deployment in social and affordable housing delivery models involving institutional investors and other partners.

This new focus on housing affordability is being supported by a range of governance changes including establishment of a National Housing Supply and Affordability Council, the revamp of Housing Australia as mentioned, commissioning the Department of Social Services to lead the preparation of a National Housing and Homelessness Plan and foreshadowing the need to renegotiate the Commonwealth-State/Territory agreement covering funding for social housing and homelessness services.

All this projects a commendable and challenging ambition, notwithstanding that even full success in meeting the Government's objectives will only be a start in clawing back Australia's monumental deficit in social and affordable housing.

How might the HAFF represent a step change in Commonwealth housing policy and establish a new system of collaboration with the States, Territories, Community Housing Providers, investors and developers to embed a long-term rebuild of Australia's vital affordable housing infrastructure?

This paper explores opportunities to capitalise on this renewed national leadership on housing affordability. We do so against the background of Australia's changeable 70-year history in approaching social housing policy.

The paper starts by delineating the scope of Commonwealth housing policy. While we recognise the importance of Commonwealth measures to ensure equitable access to home ownership, our focus in this paper is on housing assistance for low and moderate-income renters.

We then move to the economic case for re-invigorating Commonwealth policy on housing assistance. Central to this discussion is a recent cost benefit analysis compiled by the not-for-profit organisation '*Housing All Australians*'.[1]

Having explored the rationale for a major national effort on affordable and appropriate rental housing, we endeavour to contextualise current opportunities by looking back at how Commonwealth policy in this area has evolved over the past six decades.

We complement this with, firstly, a brief discussion of key financial principles attached to the cost-effectiveness of different housing assistance models. These include one or a mix of income support for tenants, traditional social housing procurement and leveraging of private capital through subsidies or tax credits.

Secondly, we provide a sketch of the Australian housing assistance system, outlining the roles of various agents from across the government, not-for-profit, investor and regulator sectors.

The concluding sections of the paper canvass ideas for how rebuilding Australia's social and affordable housing infrastructure might be funded. This includes discussing how the Commonwealth might best achieve its target of 30,000 social and affordable housing units over the next five years.

1SGS Economics and Planning, 2021, 'Give me Shelter: Cost Benefit Analysis Report', Housing all Australians, https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning_Give-Me-Shelter.pdf

What is social and affordable housing policy?

Housing performs three inter-related functions for households. Firstly, it provides accommodation services for all households, such as shelter and access to neighbourhood facilities and opportunities further afield, including employment, schooling, training, health care, culture and leisure. Secondly, housing provides a store of wealth in the form of home ownership for about two thirds of Australians who are home owners with or without mortgages. Finally, housing provides a further investment opportunity for some households who are landlords in their own right, or through various corporate vehicles.

Commonwealth policy impinges on all three of these functions. In terms of affordable rental services, the Australian Government operates significant programs in income support to low and moderate income renters (Commonwealth Rent Assistance) and funding transfers to the states and territories to support the provision of social and affordable housing (for example, the National Housing and Homelessness Agreement (NHHA)).

Regarding home ownership, the Commonwealth assists first-time buyers through deposit assistance, guarantee schemes and, more recently, shared equity programs. Meanwhile, households investing in rental housing benefit from the Commonwealth Government tax policy on negative gearing and capital gains tax exemptions.

More than three decades ago, Flood and Yates (1989) showed that the Commonwealth's greatest fiscal exposure regarding housing tenure policy was in supporting home ownership. The principal cost to Government is exempting owner-occupied housing from capital gains tax and similarly exempting owner-occupiers from paying tax on imputed rent.

Together, these foregone taxes outweigh, by a considerable margin, the savings to Government in not allowing tax deductibility for mortgage interest.

Other than noting in passing that there may be scope for rebalancing Commonwealth Government fiscal effort across the various tenures, we now set this overarching issue aside. Our focus in this paper is on affordable rental services.

The housing continuum

The housing continuum exists along a spectrum distinguished by security of tenure, from the experience of homelessness through to home ownership. Various degrees of assistance are available at each stage of the housing spectrum. This paper is concerned with social housing provision through the public and community housing sector. Our focus does not address specialist homelessness or transitional accommodation assistance, nor does it provide assessment for improving pathways to home ownership.

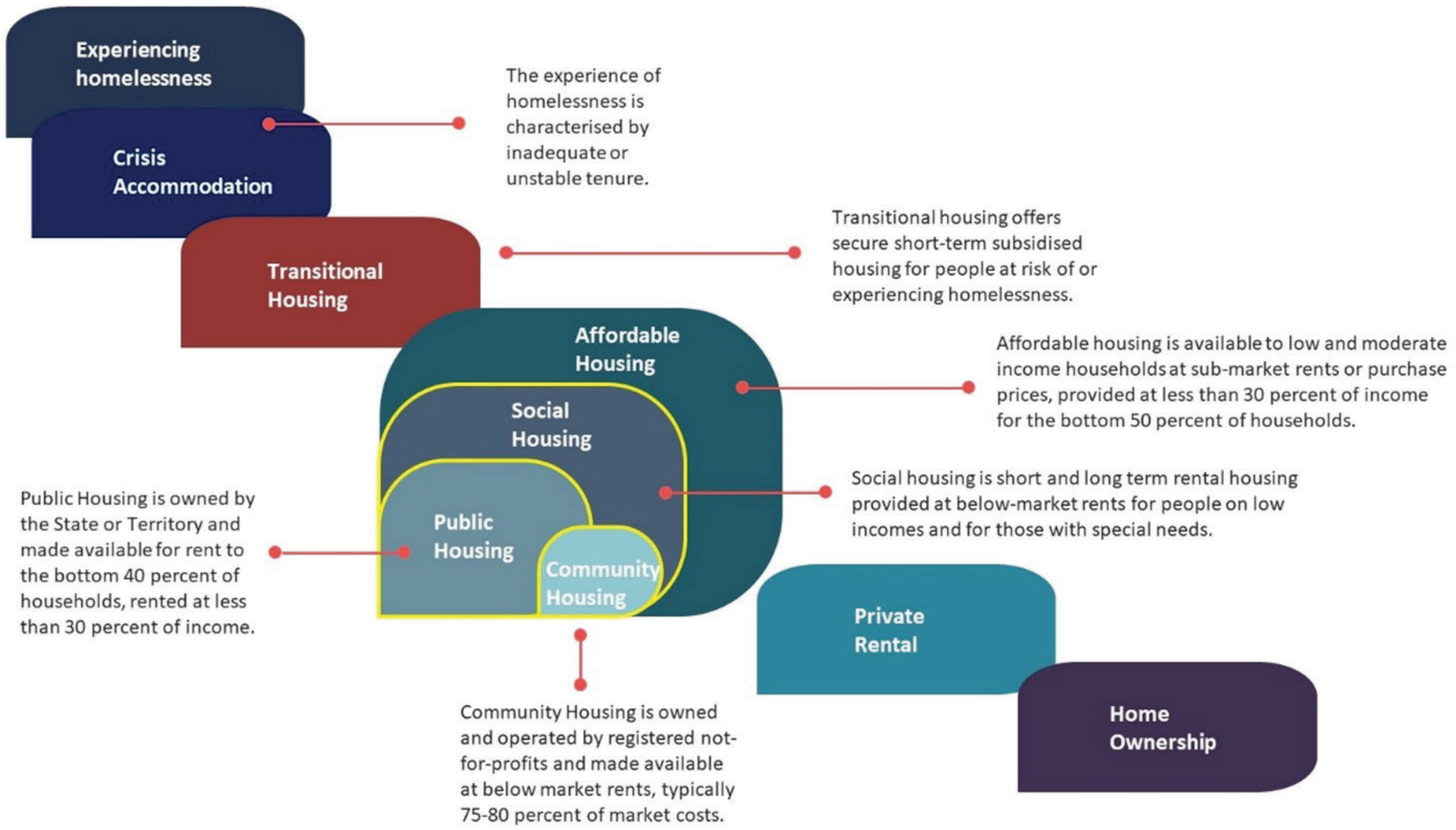
Social housing in this paper is understood as a subset of a broadly defined 'affordable housing' segment in the housing continuum (see Figure 1). It refers to subsidised rental accommodation for eligible tenants as provided by the State or Territory, or by a registered not-for-profit community housing organisation (CHO).

Further to the housing continuum:

- The experience of homelessness is characterised by inadequate or unstable tenure. This encompasses not only people who do not have access to shelter and may be sleeping rough or in improvised dwellings, but also those who are in temporary shelter, crisis accommodation, or not in control of their housing, such as couch surfing, in hostels or refuges, or staying with friends and family.
- Transitional housing relates to subsidised short-term accommodation services where housing is complemented by wrap-around assistance programs for people at risk of or experiencing homelessness. Transitional housing is an intermediary into long-term tenure, typically through securing public housing or entering the private housing market.
- Affordable housing, of which social housing is a sub-set, denotes dwellings made available to low and moderate-income groups at sub-market rents or purchase prices. Affordable housing is provided at less than 30 per cent of income for the bottom 50 per cent of households.
- Households spending more than 30 per cent of income on housing are considered to be in moderate housing stress, and those spending more than 50 per cent of income on housing are considered to be in severe housing stress.
- Social housing is short and long-term rental housing provided at below-market rents for people on low incomes and for those with special needs. The two forms of social housing are provided by not-for-dividend landlords — State or Territory Governments (Public Housing) or not-for-profit housing providers (Community Housing):
    1. Public Housing is owned by the State or Territory and made available for highly subsidised rent to individuals or households that meet defined income eligibility criteria. Rent is determined by tenant income and is allocated on a most-in-need basis, available to the bottom 40 per cent of households, rented at less than 30 per cent of income.
    2. Community Housing is owned and operated by registered not-for-profit organisations and made available at below-market rents, typically subsidised down to 75-80 per cent of market costs.[2]
- Private rental and home ownership are households operating in the private market. Within the private market, households may still experience housing stress. Due to long wait times, many people who would otherwise qualify for social housing are tipped into housing stress as a result of operating in the private market.[3]

[2]Judith Yates (2013) Evaluating social and affordable housing reform in Australia: lessons to be learned from history, International Journal of Housing Policy, 13:2, 111-133, DOI:10.1080/14616718.2013.785717
[3]Pawson, H., Martin, C., Thompson, S., Aminpour, F. (2021) 'COVID-19: Rental housing and homelessness policy impacts' ACOSS/UNSW Poverty and Inequality Partnership Report No. 12, Sydney

FIGURE 1: HOUSING CONTINUUM



Source: SGS Economics & Planning Pty Ltd

Social and affordable housing is essential infrastructure

Social and affordable housing has come to be viewed as part of the welfare safety net, providing assistance for a relatively small group of vulnerable Australians. However, historically and prospectively, it can play a key role in underpinning prosperous, sustainable and inclusive communities, providing benefits for all. In other words, it can and should be seen as essential infrastructure for successful cities and regions.

As is characteristic of infrastructure assets, social and affordable housing delivers a wide range of external benefits for the host community as well as directly improving the lives of those housed. Specifically, social and affordable housing infrastructure:

- mitigates unreasonable housing stress and poverty
- delivers more efficient labour markets by ensuring adequate accommodation for essential workers and skilled staff for key industries, and
- shapes better places, recognising that places of diversity and inclusion are highly valued and sanctioned in policy.

How much of this infrastructure is needed? This can be established by estimating the numbers of very low to low-income households who find themselves in moderate or severe housing stress in the private rental market, as defined above, adding these to households already in social and affordable housing or on the waitlist, and expressing this total as a percentage of all households. These estimates can then be projected forward based on forecast population growth and reasonable assumptions about how incomes will track versus rents over the forecast period.

On this basis, the 'right' amount of social and affordable housing infrastructure for Australia is around 15 per cent of the total dwelling stock.

Figure 2 shows SGS' projected need for social and affordable housing in 2051. Some 2.4 million dwellings in this category of infrastructure would be required across the country.

The current stock of social housing is 440,200[4]. This implies that up to 70,000 dwellings will need to be brought into the social and affordable housing infrastructure network per year over the next 30 years[5]. This estimate of required social and affordable housing compares with an AHURI projection that Australia needs to add around 36,500 units per year over the coming decades (Lawson et al, 2018). Our estimate goes beyond the scope of that in Lawson et al (2018) by including households on moderate and low incomes in rental housing stress. This broader scope is in keeping with the wider functions of social and affordable housing as infrastructure, extending to improved labour market functioning and place making as well as poverty mitigation.

FIGURE 2: PROJECTED REQUIREMENT FOR SOCIAL AND AFFORDABLE HOUSING 2051 (DWELLINGS)

HOUSEHOLD	VIC	NSW	QLD	WA	TAS	SA	ACT	NT	TOTAL
Homeless (rough sleeper and other)	**78,583**	**109,062**	**62,245**	**23,230**	**3,011**	**13,330**	**3,745**	**23,946**	**317,152**
Very low income	**232,241**	**321,613**	**195,002**	**88,772**	**21,102**	**80,190**	**25,563**	**16,498**	**981,081**
Low income	**286,681**	**340,118**	**270,401**	**92,098**	**19,529**	**66,645**	**19,067**	**10,694**	**1,105,233**
Total	**597,605**	**770,793**	**527,648**	**204,100**	**43,642**	**160,165**	**48,375**	**51,138**	**2,403,466**

Source: SGS Economics & Planning Pty Ltd (2021) The business case for rebuilding social and affordable housing

[4]Australian Institute of Health and Welfare, "Housing assistance in Australia" (2022) <https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/social-housing-dwellings>
[5]This estimate of required social and affordable housing compares with Lawson et al (2018) projection that Australia needs to add around 36,500 units per year over coming decades. Our estimate extends beyond the scope of that in Lawson et al (2018) by including households on moderate and low incomes in rental housing stress. Our broader scope is in keeping with the wider functions of social and affordable housing as infrastructure extending to improved labour market functioning and place making as well as poverty mitigation.

A consortium of interested institutions and businesses – Housing All Australians (HAA) – commissioned SGS in 2020 to undertake a cost benefit analysis (CBA) for a national effort to fully meet social and affordable housing need by 2051, reflected in Figure 2.

The CBA eschewed questions about the best way of meeting this need, whether this be by direct government investment and/or leveraging private sector capital and/or providing income supplements to lower-income tenants. Rather it characterised the cost of meeting the need as government outlays or foregone revenue in bridging the gap between the (regional) market rent of housing and the affordable rent for the different categories of households requiring deep or relatively shallow assistance.

This cost of bridging between an affordable and market rent was supplemented for some households with the cost of providing 'wrap around' services, such as support with accessing health, training and other services required to maintain tenancies.

Against these costs was a suite of benefits relating to:

- health cost savings
- reduced domestic violence
- reduced costs of crime
- enhanced human capital
- improved labour market productivity, and
- better education outcomes.

In aggregate, these benefits outweighed costs by a factor of 2 to 1, see Figure 3.

Approximately 30 per cent of the benefits generated from a program to fully meet social and affordable housing need over 30 years would flow to households, by way of improved education outcomes, skill acquisition and better lifetime earnings.

FIGURE 3: COST BENEFIT ANALYSIS – FULLY MEETING SOCIAL AND AFFORDABLE HOUSING NEED OVER 30 YEARS

CATEGORY	NPV
Costs	
Housing Subsidy	$49,240,057,039
Supports	$5,702,355,643
Total Costs	$54,942,412,682
Benefits	
Total Benefits	$110,207,436,596
NPV	$55,265,023,914
BCR	2.01

Source: SGS Economics and Planning, 2021[6]

The lion's share would accrue to governments in saved outlays on health care, the justice system and transfer payments. The HAA study estimated that Commonwealth fiscal outcome would be $3.5 billion in present value terms over three decades. Almost all States and Territories would also enjoy net fiscal savings were they to invest in adequate social and affordable housing infrastructure.

[6]SGS Economics and Planning, 2021, 'Give me Shelter: Cost benefit analysis report', Housing all Australians, https://www.sgsep.com.au/assets/main/SGS Economics and Planning_Give Me Shelter.pdf

Evolution of Commonwealth policy on housing assistance

Commonwealth policy on social and affordable housing has been subject to seismic shifts over the past eight decades, reflecting broader forces at work in the Australian economy and society (Figure 4). The early post WWII period was characterised by a reconstruction fervour in which social housing was seen as a key priority. Investment in social housing was expected to provide a mainstream tenure option for ordinary Australians, as well as directly supporting accelerated industrialisation of the nation. For example, major public housing estates were built specifically to accommodate workers employed in the car manufacturing, power generation and port industries.

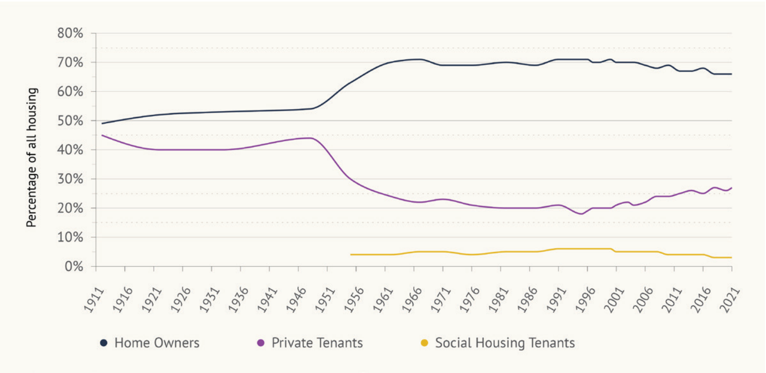
Strong economic growth and rising incomes during the long post-war boom rapidly brought home ownership within reach of more Australians. The owner occupancy rate rose from around 55 per cent of all households to more than 70 per cent in the space of two decades. The focus of Commonwealth policy shifted to supporting this tenure. While investment in social housing continued at significant volumes, the role of this tenure gradually morphed into that of a welfare safety net, as distinct from providing essential infrastructure for a productive and cohesive society.

By the late 1980s, Commonwealth investment in social and affordable housing was shrinking rapidly. This reflected the dominant policy paradigm of the time which was centred on 'micro-economic reform'.

This variously featured deregulation in support of a more dynamic and competitive economy, the privatisation of government businesses in telecommunications, aviation and power generation and generally improving the efficiency of markets in preference to direct government intervention.

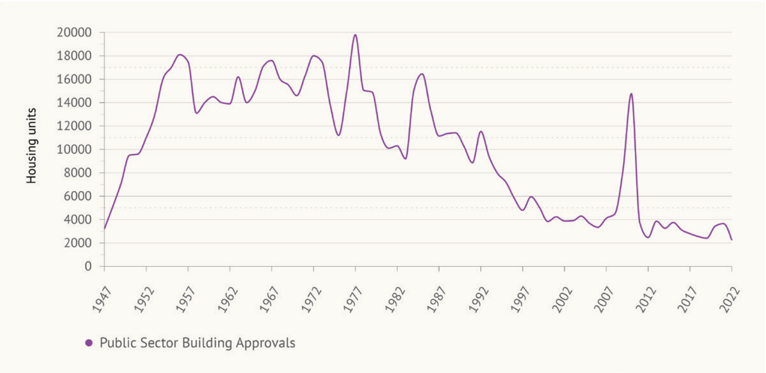
In terms of housing assistance, the prevailing idea at the time (and persisting to some extent today[7]) was that if given the chance by cutting unnecessary planning and other regulation, housing markets could deliver the required dwellings at the full range of price points. This meant that Government could concentrate on topping up the incomes of those marginally excluded from affordable rental opportunities rather than involve itself directly in the production of affordable housing supply.

FIGURE 5: HOUSING TENURE – AUSTRALIA – 1911 - 2021



Source: SGS Economics and Planning Pty Ltd

FIGURE 6: DWELLING APPROVALS – PUBLIC SECTOR



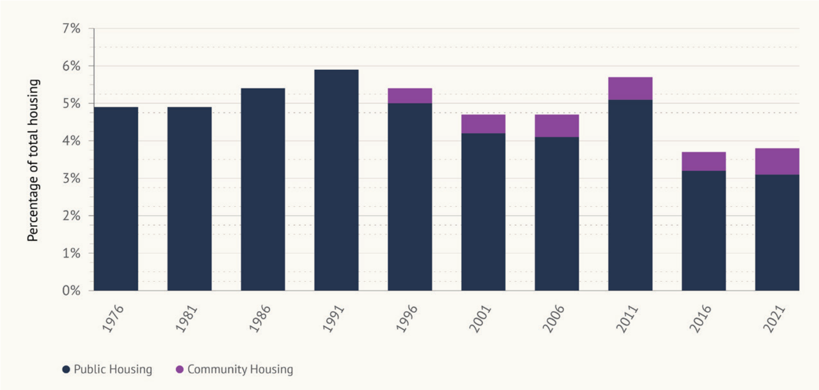
Source: ABS Building Approvals

[7]See Productivity Commission (2022) In need of repair: The National Housing and Homelessness Agreement (https://www.pc.gov.au/inquiries/completed/housing-homelessness/report/housing-homelessness.pdf)

Aside from a spike in social and affordable housing construction engineered by the Rudd Government as a response to the 2008 Global Financial Crisis (Figure 6), investment in this sector has dwindled to the point where Commonwealth and State/Territory outlays combined are barely enough to pay for the replacement of obsolete stock. Social housing as a percentage of Australia's total dwelling stock has fallen from close to six per cent in 1991 to less than four per cent in 2021 Figure 7).

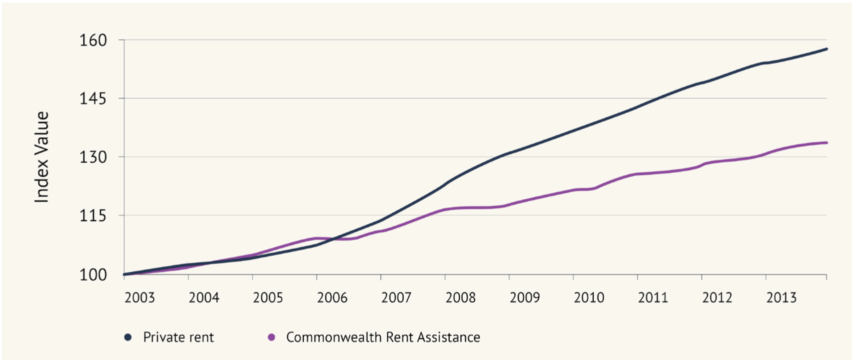
As a legacy of the micro-economic reform era, the Commonwealth's outlays on income support for low and moderate-income renters now vastly outstrip the Commonwealth's annual expenditure in supporting the States and Territories to deliver homelessness services and social housing. In 2020/21, Commonwealth Rent Assistance cost the Commonwealth budget $5.3 billion, providing relief for just under 1.5 million households. Meanwhile, around $1.7 billion was outlaid in the social housing/ homelessness portfolio.[9] Notwithstanding this effort to directly assist low and moderate-income households, reliance on CRA is losing efficacy as private rents grow faster than the general rate of inflation.

FIGURE 7: SOCIAL HOUSING AS A PROPORTION OF ALL HOUSING



Source: Coates, B., 2021[8]

FIGURE 8: GROWTH IN CRA VERSUS PRIVATE RENTS



Source: Productivity Commission, 2015[10]

[8]Coates, B., 2021, 'A place to call home: it's time for a Social Housing Future Fund', Grattan Institute, https://grattan.edu.au/news/a place to call home its time for a social housing future fund/ and ABS Census 2021.
[9]Australian Institute of Health and Welfare, "Housing assistance in Australia" (2022) < https://www.aihw.gov.au/reports/housing-assistance/housing-assistance-in-australia/contents/housing-assistance>
[10]Productivity Commission, 2015, 'Housing Assistance and Employment in Australia Research Paper Volume 2', https://www.pc.gov.au/research/completed/housing-employment/housing-employment-volume2.pdf

The economics of housing assistance

As mentioned, governments may deploy one or a combination of three strategies to deliver housing at an affordable rent to households that require this assistance:

1. **Government investment** in the production of housing which is retained in public or community ownership for leasing to eligible households at an affordable rent[11]
2. **Government subsidies to private investors** willing to make housing available to eligible households at an affordable rent, and
3. **Government income transfers to eligible households** to fully or partially close the gap between their market rent and their affordable rent.

Government investment strategies, versus those which provide subsidies to private investors to supply housing at affordable rents, present a 'tortoise and hare' dilemma in public policy. Private sector leveraging strategies have the great advantage of (potentially) mobilising large volumes of capital to rapidly deliver a significant flow of housing that is affordable in the short term. However, unlike traditional public sector provision of social housing, where returns on the equity invested are implicitly retained by government, private sector leveraging necessarily involves paying these returns to the providers of the capital in question on an ongoing basis.

FIGURE 9: EXAMPLES OF AUSTRALIAN HOUSING ASSISTANCE

Strategy	Australian examples	Commonly quoted international examples
Government investment	National Affordable Housing Agreement (NAHA)	Habitation a Loyer Modere (HLM), France
Subsidies to private investors	National Rental Affordability Scheme (NRAS)	Low Income Housing Tax Credits (LIHTC), USA
Income transfers	Commonwealth Rent Assistance (CRA)	Housing Supplement (UK)

Source: SGS Economics and Planning 2022

The tortoise and hare dilemma is represented in Figure 10, using a notional annual budget availability of $100 million. In the case of private sector leveraging, we assume, for the purposes of illustration, that investors will require an annual subsidy of $25,000 per unit. This means that the available $100 million could be used to provide assistance for 4,000 households in the first and all subsequent years for as long as this budget is available.

Alternatively, the same $100 million could be deployed in traditional government investment in (build and own) social housing. If we assume that it costs $500,000 to procure each unit, the available budget will provide assistance for 200 households in the first year. However, in the second year, 400 households can be assisted, being the 200 additional dwellings delivered plus the 200 held from the previous year.

In this schematic example, the traditional investment method ultimately overtakes private capital leveraging in terms of households assisted by year 22. In the meantime, however, many thousands of households will have missed out on any assistance through this financially more efficient but speed-limited strategy.

[11]Under particular circumstances, the dwellings in question could remain in nominal private ownership so long as they remain available to eligible households on an indefinite basis.

For their part, strategies that rely heavily on income support for lower-income tenants confront the problem of price in elasticity in the supply of rental housing. Without supplementary programs to induce supply, providing income support can simply boost rents, presenting governments with a ballooning expenditure scenario and/or continuing housing stress, notwithstanding significant outlays on rental assistance. Nevertheless, income support for tenants has the compelling advantage of immeditate responsiveness to household need. They also offer a degree of agency and choice to these households as opposed to their being beholden to the supply preferences of governments, community housing providers or investors.

The most thorough Australian appraisal of the merits of these delivery strategies was undertaken three decades ago by the Industry Commission — the predecessor of the current Productivity Commission. The Industry Commission (1993) concluded:

Public housing and head leasing[12] are assessed to be more cost effective than cash payments and housing allowances.

Public provision of rental housing is shown to be more cost effective than head leasing over the longer term that is, there are benefits in terms of financial savings.[13]

FIGURE 10: TORTOISE AND HARE DILEMMA

Source: SGS Economics and Planning Pty Ltd

[12]In this context, head leasing can be taken as a generic term for any form of private capital leveraging
[13]Industry Commission, 1993, 'Public Housing', https://www.pc.gov.au/__data/assets/pdf_file/0020/156710/34public.pdf, viewed 8 August 2022

Mobilising private capital into affordable housing

Recognising the scale of the social and affordable housing shortfall facing the nation, effective housing assistance policy will likely need to make use of all three strategies – traditional public sector investment, leveraging private capital and income support for tenants.

Addressing the second of these strategic themes, the Commonwealth Government, as noted, has committed to delivering 30,000 affordable housing dwellings over five years, based on the investment yield on a $10 billion HAFF. This target can only be achieved by mobilising private sector capital.

Borrowing from a categorisation outlined by Pawson, Milligan, and Yates (2020)[14], affordable housing assistance interventions that can leverage the private sector comprise:

1. capital,
2. revenue, and
3. credit mechanisms.

In this context, it is helpful to highlight where and to what extent these mechanisms are aimed at building, not just 'buying down' rents.

- Reduced cost **capital** and grants— funding or financing support deployed at scale to target production-oriented (i.e., non-operational) policies. Around the globe, particularly in the case of the US's LIHTC program, such mechanisms are effective at a) stimulating production, b) incentivising multi-sector (i.e., private capital) leveraging, and c) achieving deeper levels of affordability than revenue subsidies (e.g., CRA, NRAS, etc.) alone. Recently, NHFIC established the Affordable Housing Bond Aggregator (AHBA), which has gained traction in the market as a source of reduced-cost capital for affordable housing projects. Capital subsidies to incentivise the production of social or affordable housing have emanated from the Commonwealth in the form of time-limited or one-time grants — but they have not been done consistently such that predictability or momentum have been created. Continuing to scale AHBA, however, could be one of a number of effective pathways forward.
- **Revenue** — funding is deployed to subsidise the operational costs of either maintaining or achieving housing available at below-market rents and/or subsidising the provision of supplementary supportive services. Revenue mechanisms can be direct or indirect subsidies for buying down rents. As with CRA or NRAS, they take the form of payments to the tenant or property owner, respectively. In the US context, particularly in states with high ad valorem property taxes, revenue subsidies can also take the form of property tax exemptions or reductions to the owner of social and affordable rental housing, thereby reducing operating costs (indirectly reducing rents). In the Australian context, the reduction of council rates or land taxes would be an equivalent, but the scale of this ongoing tax is neither comparable nor could it be accomplished as easily.
- **Credit** — mechanisms are intended to mitigate and/or enhance borrower or producer credit and capacity, as well as reduce risk. Such mechanisms, in practice, have a more indirect relationship to the production or subsidy of social and affordable housing provision. Common efforts involve the provision of loan guarantees or loan loss reserve funds and the engagement of specialised financial intermediaries, such as syndicators, whose role is to provide scaled access to investment. In practice, credit assistance mechanisms can be effective for removing less visible underwriting barriers for small or mid-sized developers in markets with great need but underdeveloped production capacity. They can function by enhancing borrowing capacity to take on larger or overlapping projects.

A forthcoming SGS Occasional Paper will explore private capital leveraging in more detail.

[14] Pawson, Milligan and Yates. Housing Policy in Australia: A Case for System Reform. Palgrave Macmillan, 2020.

The housing assistance system

In contemplating opportunities for more effective Commonwealth policy on housing assistance, it is also useful to recap on the wider forces at work in the housing market, influencing the availability and cost of housing. Similarly, it is important to appreciate the roles and responsibilities of the multiple actors engaged in providing or influencing housing assistance in Australia's federation.

Housing assistance involves the co-operation of all three levels of Government at the intersection of economic, fiscal and planning considerations.

Figure 11 delineates the different roles and expectations of key actors; however, each level of Government influences all three drivers (economic, fiscal, and planning) to varying degrees. State and local governments are largely responsible for planning and delivery, while funding for housing assistance is primarily reliant on Commonwealth funding agreements.

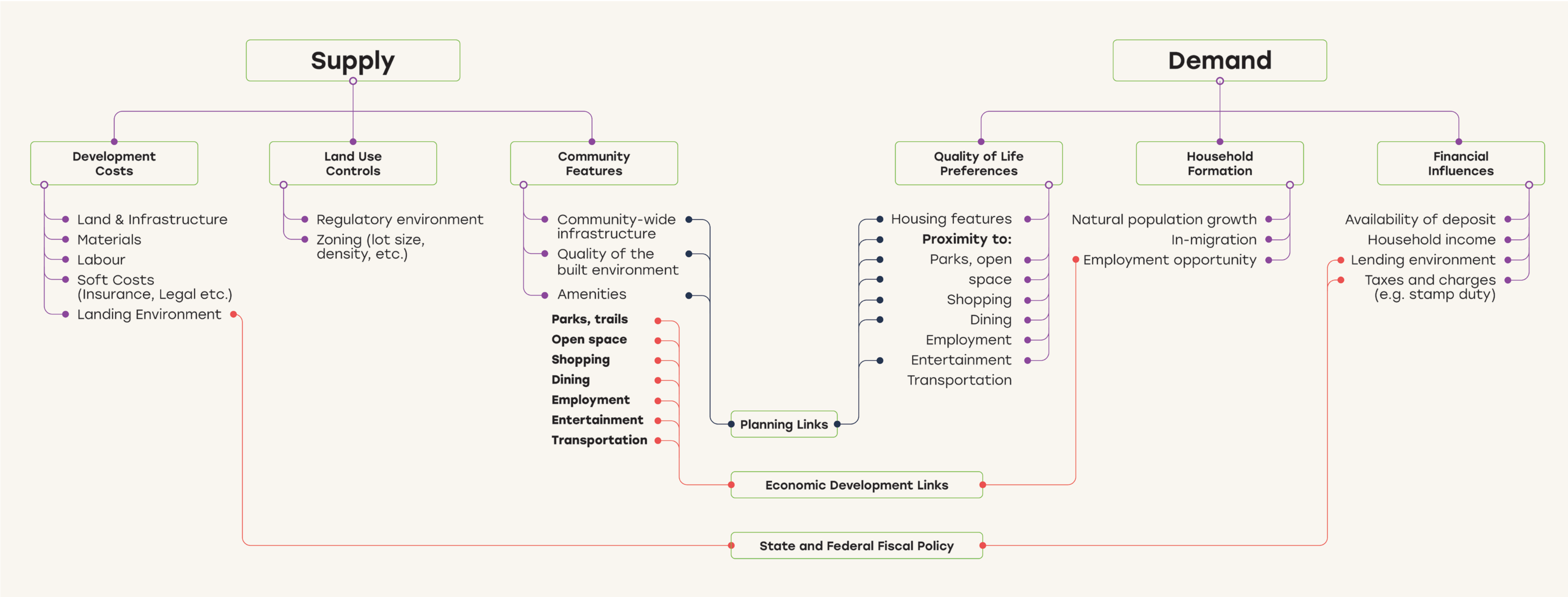
Figure 12 represents the interconnections between many but not all the supply and demand side factors of housing production and assistance with State and Federal Government influencing planning, economic and fiscal policy across both ends of the spectrum.

FIGURE 11: ACTORS IN THE HOUSING ASSISTANCE SYSTEM

Commonwealth Government	• National policy • Provision of capital funding via national agreements • Assistance with raising finance for registered providers (NHFIC) • Provision of income support for low and moderate income renters
State Government	• State policy on housing / Provision of capital funding • Direct provider of social housing ('public housing') • Policy on planning contributions for social & affordable housing
Local governments	• Local housing policy & strategy • (Occasionally) provision of social and affordable housing • Investment in community housing organisations
Social housing registrars	• Prudential supervision of registered providers
Community housing providers	• Supply of social and affordable housing in line with regulatory framework
Peak bodies (CHIA, Shelter etc)	• Lobbying on policy • Training and support for members • System development (e.g. ESG reporting standard)

Source: SGS Economics and Planning

FIGURE 12: THE WIDER HOUSING SYSTEM



Source: SGS Economics & Planning Pty Ltd

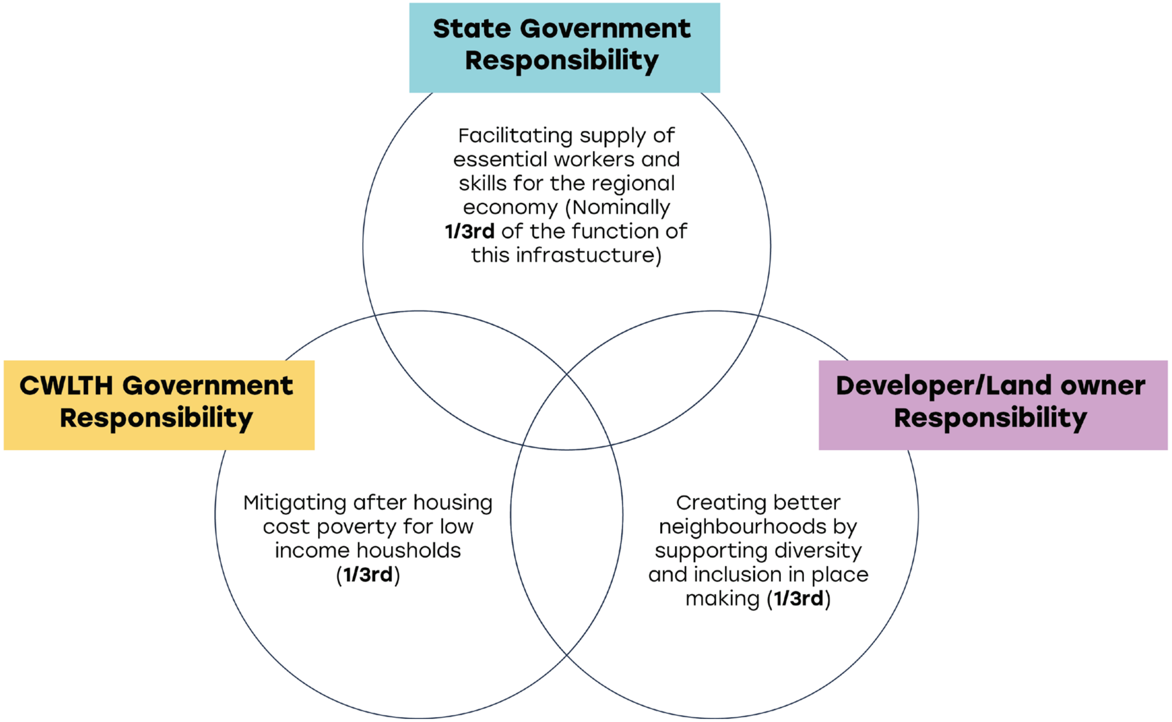
Funding the gap between affordable and market rents

Whatever strategy is applied to meet the need for social and affordable housing – traditional public sector procurement of subsidised housing and/or leveraging of private capital and/or income support – the cost of bridging the gap between an affordable rent and market rent (or more correctly, the rent required to support viable investment) will have to be met.

The externalities associated with social and affordable housing infrastructure, including avoidance of poverty, supporting better local labour markets and creating better local places broadly map to three funding sources to bridge this gap. The Commonwealth is primarily responsible for poverty alleviation, the States and Territories for efficient local labour markets and Councils for sustainable places (Figure 13).

In our reading, there is no basis in the research literature to apply differential weightings to the three categories of benefits associated with adequate provision of social infrastructure. If they are of equal weight, we could say that the effective cost of supplying this infrastructure – the gap between affordable and market rents – should be shared equally between the Commonwealth Government, State and Territory governments and development contributions.

FIGURE 13: MAPPING EXTERNALITIES ASSOCIATED WITH SOCIAL AND AFFORDABLE HOUSING TO FUNDING SOURCES



Source: SGS Economics and Planning

Opportunities for Commonwealth housing policy

Commonwealth policy on housing assistance should have regard to the subsidiarity principle. Ideally, the roles of the different levels of government would be confined to their constitutional mandates and competencies.

In the context of the tripartite model for funding social and affordable housing infrastructure supply outlined above, the Commonwealth is best placed to rule on matters to do with the tax and transfer system. This operates uniformly across the nation and is a core constitutional role for the federal government. Meanwhile, the States and Territories have superior competency and a clear mandate to manage the physical delivery of social and affordable housing infrastructure, including exclusive control over the planning system.

Roles and responsibilities have not been clearly segmented in this way in the past. In no small part, this has contributed to Australia's serious undersupply of social and affordable housing infrastructure. For example, capital funding for State and Territory operated social housing systems has been shared between the Commonwealth and the States and Territory governments for decades, starting with the Commonwealth-State Housing Agreement (CSHA) of 1947 and, more recently, via the National Housing and Homelessness Agreement. While these agreements may have been effective in earlier periods featuring close alignment between national policy priorities and those of sub-national governments, they have been dogged by a lack of transparency and accountability in more recent times. The Commonwealth appears to have become increasingly suspicious of 'cost shifting' on the part of the States. This, alongside ideological differences, has impacted negatively on the Commonwealth's willingness to ramp up capital funding for social and affordable housing in line with need.

Greater clarity in roles and responsibilities premised on subsidiarity should see greater stability in policy settings across all participating governments and the required focus on long-term outcomes.

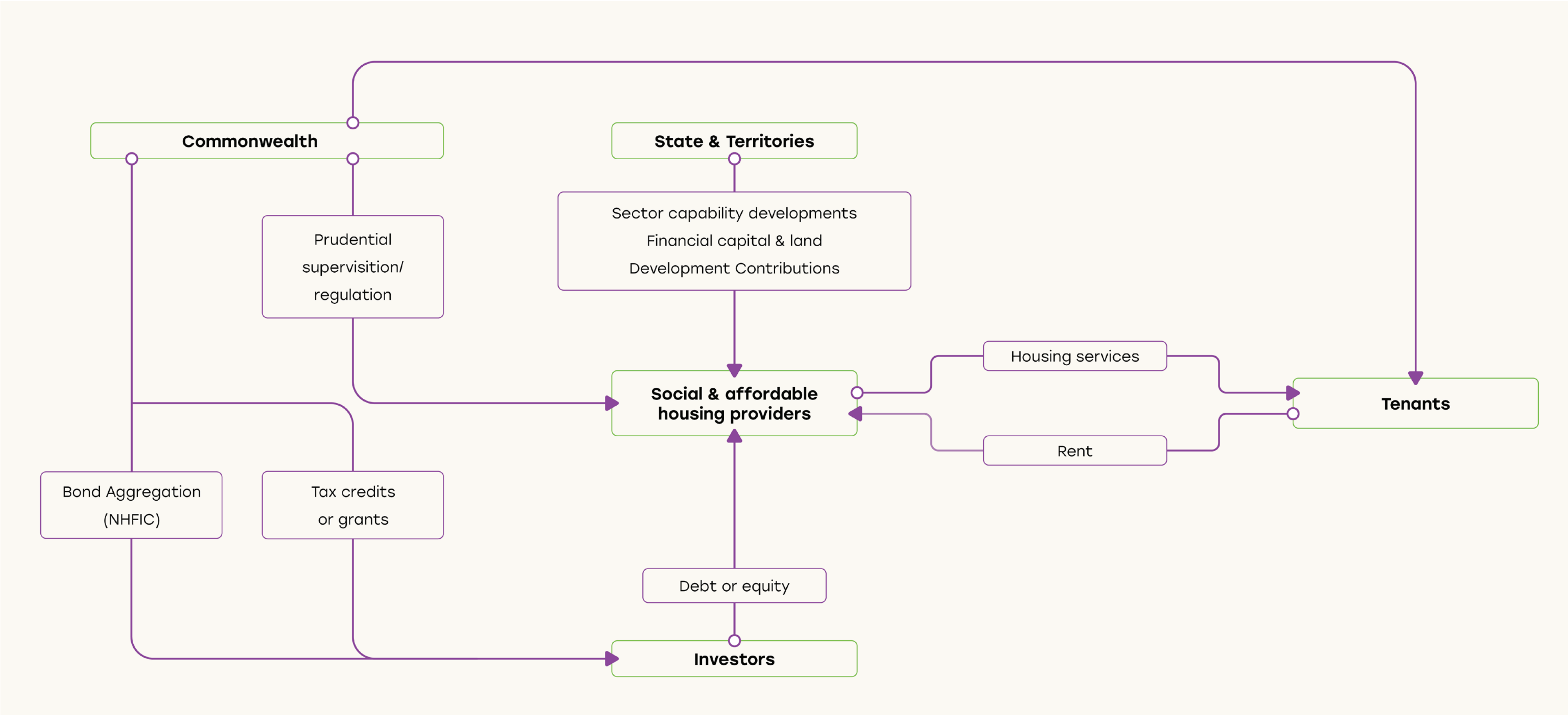
A reform agenda could see:

- The **Commonwealth** withdrawing from direct capital funding of social housing and, instead, committing to adequate investment in expanded social and affordable housing by providing adequate Rent Assistance to all tenants, including those in state-owned and operated public housing (thereby improving the financial viability of this segment of the social and affordable housing system).
- The **Commonwealth** managing a nationally applicable policy around a continuous and predictable system of tax credits, availability payments or similar financial benefits required to support the large-scale investment of private capital, including in superannuation funds, into social and affordable housing provision.
- The **Commonwealth** assuming responsibility for prudential regulation of the social and affordable housing provision system to ensure a nationally consistent approach and to remove restrictions on providers operating across different jurisdictions.
- The **states and territories** managing and administering the delivery of social and affordable housing through a range of procurement models suited to their jurisdictions or particular regional opportunities, taking advantage of the income support and tax system arrangements put in place by the Commonwealth, and tapping development contributions as appropriate.

This untangled system for delivering social and affordable housing infrastructure across the nation is illustrated in Figure 14.

The test of fairness in the application of this untangled system is that the aggregate fiscal cost of bridging the gap between affordable and market (or economic) rents is spready equally between the Commonwealth, States and Territories and those involved in building our towns and cities.

FIGURE 14: AN OVERARCHING FRAMEWORK FOR COMMONWEALTH HOUSING ASSISTANCE POLICY



Source: SGS Economics and Planning Pty Ltd

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