



IT'S TIME TO END
HOMELESSNESS

Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform

Productivity Commission, Preliminary Findings Report

Launch Housing Submission

2016

A merger between



Launch Housing's submission

Launch Housing is pleased to respond to the Productivity Commission's report, *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform Preliminary findings report*.

Launch Housing is Melbourne's largest independent provider of homelessness services, delivering housing and homelessness programs across 14 sites in the metropolitan area.

This submission focuses on the third section of the *Preliminary Findings Report*, 'Social Housing', and is broken into two parts:

1. The need for a broader review of affordable housing.
2. Opportunities for reform.

The need for a broader review of affordable housing

Launch Housing understands that the scope of the Productivity Commission's inquiry is on potential benefits from greater competition and informed user choice in the provision of human services. We believe this limits the capacity of the Productivity Commission to fully understand Australia's housing market and recommend the federal government ask the Commission to investigate the impact on productivity and growth associated with declining housing affordability.

A broader review of housing is needed because Australia faces a critical lack of affordable housing, including social housing and rental housing. Over the past decade in Melbourne, house prices¹ have risen at twice the rate of average weekly earnings² and rental prices³ have increased at twice the rate of inflation.⁴ During this time there has been a steep fall in the supply of rental affordability⁵ for lower income households and long waiting lists for social housing.⁶ These changes make it harder for people to break into the housing market and maintain secure housing and increase the risk of homelessness for lower income households.⁷

Launch Housing agrees with the Productivity Commission's *Preliminary Findings Report* which pointed out that "shelter is a basic human need" and "housing assistance provides a safety net for those that are experiencing homelessness, or face high barriers to sustaining tenancy in the private rental market".⁸ While this sentiment is true, government leadership is needed to ensure that housing security is enjoyed by all Australians.

This is why the Productivity Commission should consider social housing in a broader policy context, taking into account current and future demand for affordable housing, including rental housing. Launch Housing believes the Productivity Commission should recommend how the federal government can intervene in the housing market to increase affordability for lower income households. This includes direct government investment to increase housing supply, government leadership to encourage private sector investment in affordable housing, and government investment to increase affordability in the private rental market.

Opportunities for reform

The remainder of this submission examines four areas where government intervention and leadership is needed to improve the supply of affordable housing and improve access for lower income households.

Government investment in affordable housing

Recently, Infrastructure Victoria estimated that between 75,000 and 100,000 Victorian households do not have access to affordable housing and recommended that Victoria needs 30,000 new affordable housing dwellings to meet current demand.⁹ Infrastructure Australia has also identified the enormous problem of declining social housing in Australia and proposes a model where a Social Housing Future Fund is created through the sale of legacy public housing stock and reinvestment of the proceeds into the fund.¹⁰

There is a strong case for the federal government to directly invest in new affordable housing supply and to partner with states and territories to achieve this.^{11,12} This is a long-term project and it will take time to deliver new housing supply. We believe it should begin with a needs assessment to determine how much affordable housing is required and where it is needed. It should then set clear targets and timelines, along with funding responsibilities, to deliver new supply.

In the immediate term, the federal government can act quickly by working with states and territories to increase social housing and affordable private rental housing. This could be done by following a Victorian model, where the state government is investing \$24 million in a Rapid Housing Assistance Fund for people experiencing homelessness. Funding will provide \$23 million to purchase 60 new social housing properties that will be owned and managed by registered housing agencies and \$1 million for agencies to headlease 70 rental properties.¹³ This initiative builds on the Victorian government's response to the Royal Commission into Family Violence, where it provided \$50 million to lease 100 properties and purchase 130 new social housing dwellings.¹⁴ Housing is delivered through social housing agencies tendering to build own and/or manage this housing. Agencies are required to demonstrate the added value they will bring to the investment, which delivers more housing for the funding provided. As well as being a fast way to increase housing supply, this approach offers greater flexibility as household and geographic needs can be taken into account when purchasing or leasing new stock.

Private sector investment

Launch Housing does not believe that governments need to hold a monopoly on building new social housing, however, government leadership is needed to encourage private sector investment in affordable housing. We recommend the Productivity Commission explore options (and make recommendations) for the federal government to establish settings to encourage greater private sector investment in affordable housing. Two examples of how this could be achieved are summarised below.

Low Income Housing Tax Credit

The Productivity Commission should explore how the federal government can work with states and territories to introduce a low income housing tax credit to stimulate construction of affordable rental housing for low income households. In the United States, the Low Income Housing Tax Credit has been a 30 year partnership between the private and public sector that provides a dollar-for-dollar reduction in Federal tax liability for investment in new affordable rental housing.¹⁵

Under the scheme, each state receives a pool of credits based on their population size and awards those credits to housing developers through a competitive process. Developers then sell these credits to investors who in turn claim the tax credit over a 10-year period. The equity raised from the sale process is used to reduce the amount of debt the developer needs to borrow to construct the new development. This reduces the mortgage costs, which in turn reduces rental prices.¹⁶

Investment by large private sector institutions

The Productivity Commission should look at options for the federal government to encourage large private sector institutions, such as superannuation funds, to invest in affordable housing. This option was canvassed earlier this year by the federal government's [Affordable Housing Working Group](#).¹⁷

The federal government should take an active leadership role to facilitate investment in affordable housing by large private sector institutions. The most effective way to achieve this is for the federal government to lead the development and implementation of a market for housing supply bonds. The market should be overseen by a new financial intermediary that would match finance with investment opportunities that are backed by a federal government guarantee. This would lower the risk for those loaning money and in turn reduce the cost of finance for borrowers, such as community housing organisations.¹⁸

Transferring the management of public housing stock to community housing providers

Launch Housing supports the Productivity Commission's argument that both the government and housing tenants can benefit when the management of public housing stock is transferred to community housing providers. We are pleased this has been picked up by the Productivity Commission as many Australian jurisdictions have been slow to implement this reform. As far back as 2009, Australian Housing Ministers agreed that the community housing sector should own or manage up to 35% of social housing stock by July 2014.¹⁹

Launch Housing has extensive experience in housing management. We provide crisis accommodation, transitional housing, and tenancy management in the private sector through our not-for-profit real estate agency, HomeGround Real Estate. We also provide case management, support and referral services to housing tenants to help them maintain stable housing and access health, wellbeing and employment programs. These services add value to the provision of housing alone, and are not provided by government bodies that manage public housing.

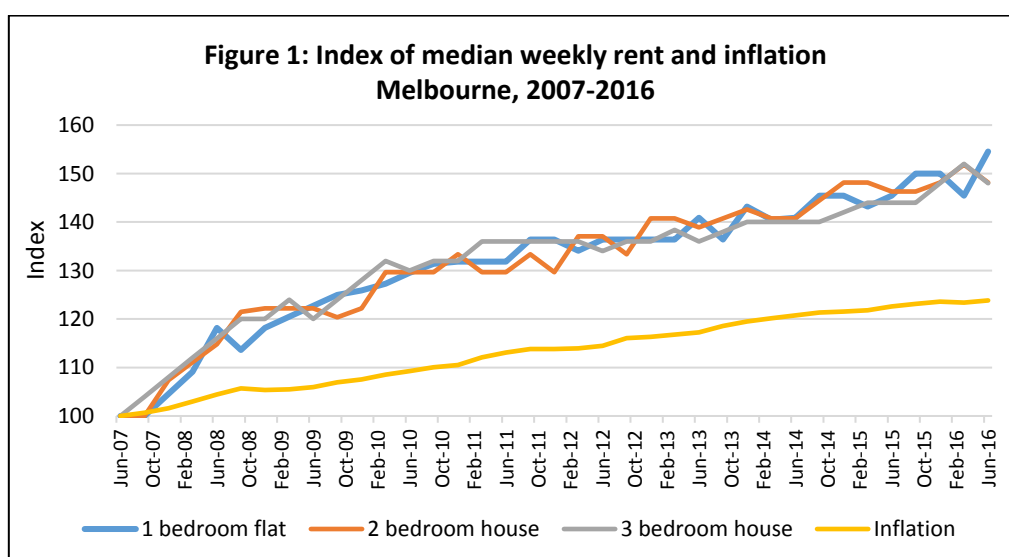
Income support for low income households in private rental

In addition to the need for government leadership to increase the supply of affordable housing, the federal government should increase Centrelink payments, including Commonwealth Rental Assistance (CRA), to reduce housing stress for lower income households in private rental.

CRA is designed to help lower income households meet the cost of housing in the private rental market.²⁰ It supported more than 1.3 million households in 2014-15, costing the federal budget \$4.2 billion.²¹ But despite this outlay, 41.2% of households that receive CRA are in housing stress, paying more than 30% of their income on rental costs.²²

So many lower income households in rental stress because CRA (and other Centrelink payments) are indexed to inflation, rather than housing costs. Figure 1 shows that rental costs for a range of properties in Melbourne have risen at twice the rate of inflation over the past ten years. The steepest rise was for one-bedroom flats, which increased by 55% during this time. The impact of rising rental prices in excess of inflation, and hence income support payments, is that lower income households pay a greater proportion of their total income on rental costs.

Rising rental prices has led to a sharp fall in rental affordability for lower income households. In June 2007, 27% of Melbourne's rental properties were affordable for lower income households; by June 2016 that figure had fallen to just 8.2%.²³ Such is the decline in rental affordability that in June this year there were just 25 one-bedroom units across Melbourne that were affordable for a single person receiving Newstart and CRA.



Source: Department of Health and Human Services, *Rental Report statistics – June quarter 2016*; ABS 6401.0 – Consumer Price Index, Australia, June 2016, Tables 1 and 2 (Australia).

* Data has been rebased to 100 in 2007.

As well as increasing CRA, Launch Housing recommends the Productivity Commission consider the Henry tax review²⁴ and the review of Australia's welfare system,²⁵ which both recommended that rental support payments reflect the true cost of housing for lower income households. The

Productivity Commission should review CRA (and other income payments such as Newstart) for lower income households in the private rental market to:

- Determine an appropriate level of rental support.
- Recommend a better way to index payments so they reflect the true cost of housing. An index tied to local area rents is one way this could be achieved.

Concluding remarks

While the Productivity Commission has been given the task of examining opportunities for greater competition and user choice in social housing, any benefits from this approach are likely to be marginal unless reforms are part of a broader process of improving the supply of affordable housing for lower income households. Federal government leadership is needed to achieve this.

Launch Housing believes the Productivity Commission should make recommendations to the federal government on ways it can increase the supply of affordable housing. Options include direct government investment in new housing supply and through government leadership to establish the right settings to encourage private sector investment in Australia.

As well as increasing the supply of affordable housing, the federal government can improve access to rental housing for lower income households. This can be achieved through an immediate increase in CRA, and by working with states and territories to offer subsidies in private rental for lower income households at risk of homelessness.

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