

The Government of Western Australia's submission to the Productivity Commission's Review of the National Housing and Homelessness Agreement

Western Australia welcomes the opportunity to inform the Productivity Commission's review of the National Housing and Homelessness Agreement (NHHA).

Affordable, stable and appropriate housing delivers the foundations from which people can contribute positively to society and lead a life they choose. Homelessness is a challenging and complex issue that significantly impacts some of the most vulnerable people in our community, and intersects with many other issues, including trauma, family and domestic violence and drug and alcohol dependence. Securely housing people who are homeless or at risk of homelessness can also deliver whole-of-government cost savings in these areas.ⁱ

The indisputable importance of having a home is difficult to reconcile with the reality that a home is also a commodity and for some, a significant source of wealth. There is a fundamental tension between housing as a necessity, and the role real estate plays in our economy. It is for precisely this reason that it is so important to get agreements like the NHHA "right". These are the instruments by which Commonwealth, State and Territory governments can ensure the needs of the most vulnerable are met, while encouraging a fair and productive economy.

Western Australia was the first jurisdiction in Australia to develop and release an affordable housing strategy in 2010 and continues to deliver housing responses for people on very low to moderate incomes, across the housing continuum. In 2020 the Western Australian Government released both the *WA Housing Strategy 2020-2030* and *All Paths Lead to Home: Western Australia's 10-Year Strategy on Homelessness 2020-2030*, followed by a five-year homelessness action plan. Actions under these strategies will incorporate some NHHA funding, however, the majority will be supported by record State spending, including an \$875 million investment in social housing, and an overall investment in social housing and homelessness services over the next four years of \$2.5 billion.

Under these strategies, Western Australia delivers outcomes across the housing continuum through programs and responses like:

- Aboriginal Short Stay Accommodation facilities for people travelling from remote communities to towns or urban areas for health and other services.
- Boorloo Bidee Mia, the first low-barrier, culturally informed and responsive accommodation and support service offering medium-term accommodation for some of the most complex individuals.
- Constructing and contributing to the ongoing operation of Foyer Oxford – a facility that combines holistic support, high quality housing and access to flexible training to give disadvantaged young people the opportunity to thrive long term.
- Housing First Homelessness Initiative which seeks to implement a Housing First approach to homelessness that prioritises connecting individuals to housing, with flexible and tailored supports to follow.
- Providing 35,257 public housing dwellings and supporting the Community Housing Sector to provide a further 9,981 social homes.

- Issuing bond loans to assist lower income households into private rental properties.
- Administering nearly 5,000 affordable rental homes under the National Rental Affordability Scheme (4,638 still active).
- Offering low-deposit and shared-ownership home ownership opportunities through Keystart.

Funding under the NHHA contributes to these and other important outcomes for Western Australian communities and individuals. However, despite significant investment by State and Commonwealth governments, the number of people who struggle to access safe, stable and affordable housing continues to grow. There is a clear and pressing need for a revised approach to prioritise and coordinate action to improve housing and homelessness outcomes for Australian communities. Accordingly, Western Australia is committed to working with the Commonwealth and all other jurisdictions to improve housing outcomes for people in their communities.

This submission considers how the NHHA functions within the context of the nation's housing system and identifies issues along the continuum (spectrum). The Western Australian Government recommends to the Productivity Commission that the NHHA could better achieve outcomes with:

1. Funding certainty, budget autonomy and the flexibility to deliver responses most appropriate to address local needs and conditions.
2. A more focussed agreement, concentrating on delivering key housing and homelessness objectives.
3. A strong governance framework, with Ministerial Council oversight to ensure consistent outcomes.
4. Funding to reflect housing and homelessness services needs, cognisant of factors such as:
 - a. additional costs associated with delivering services to people with increasingly complex needs, across a large geographical region, with limited infrastructure and dysfunctional housing markets;
 - b. the end of the National Rental Affordability Scheme means a significant loss of affordable rental properties for lower income households; and
 - c. the need to address Aboriginal and Torres Strait Islander housing demand and need, aligned to Closing the Gap outcomes.
5. A review into Commonwealth Rent Assistance; and national policy settings and levers that play a key role in increasing the supply of affordable housing and social and economic participation.
6. The redirection of historical Commonwealth State Housing Agreement debt to increase and/or improve social housing provision and quality in Western Australia.

The remainder of this submission sets out commentary to support these recommendations using each as a section heading.

Funding certainty, budget autonomy and the flexibility to deliver responses most appropriate to address local need and conditions.

The McGowan Government has committed a record \$2.5 billion to housing and homelessness services in Western Australia over the forward estimates. This is expected to deliver two Common Ground facilities, 3,300 additional social housing dwellings and ensure the maintenance and operation of thousands more. As shown in Table 1 below, Western Australia forecast to expend more than \$525 million under the NHHA over 2021-22. More than three times that of the Commonwealth.

Table 1: Funding under the National Housing and Homelessness Agreement

Item	2018-19 (Actual)*	2019-20 (Actual)	2020-21 (Actual)	2021-22 (Forecast)
NHHA Public Housing Expenditure	485,988,391	592,668,951	589,959,517	599,295,846
NHHA Homelessness Expenditure	84,549,405	90,092,133	94,710,895	99,593,481
NHHA Total Expenditure	570,537,796	682,761,084	684,670,412	698,889,327
NHHA Public Housing Funding	119,486,000	121,180,000	125,622,560	124,708,000
NHHA Homelessness Funding	44,059,000	44,653,000	46,070,000	49,104,000
NHHA Total Funding	163,545,000	165,833,000	171,692,560	173,812,000
State Public Housing Component	366,502,391	471,488,951	464,336,957	474,587,846
State Homelessness Component	40,490,405	45,439,133	48,640,895	50,489,481
State Total Component	406,992,796	516,928,084	512,977,852	525,077,327
% of State component of overall expenditure	71.3%	75.7%	74.9%	75.1%

* Increase between 2018-19 to 2019-20 reflects a change in the counting methodology

Yet despite significant funding committed under the NHHA, the rate of homelessness is persistent and the demand for social housing is growing. Of great concern is the rate at which priority need for social housing outstrips need from very low income earners. Since the pandemic began, the priority waiting list has increased by more than 100 per cent, whereas the total list has increased by just 27 per cent.

Western Australia is the largest jurisdiction in the country. While the majority of people are concentrated in a small portion of the State around metropolitan Perth, there are nine established regions that cover the remainder. With the exception of Peel, these regions dwarf Perth in size and often have only small populations with limited infrastructure. This is a key challenge to successfully implementing the NHHA.

Affordability issues in regions are compounded by higher cost of living overall. The Regional Price Index (RPI) compares the cost of a common basket of goods and services at a number of regional locations, to the Perth metropolitan region. In 2021, the average RPI across the Pilbara region was 114.7 (where Greater Perth is set at 100). Funding and delivering services in areas with such dysfunctional housing markets is a constant challenge. Homelessness is far more prevalent in remote and very remote areas (27 per cent) when compared to the national average (6 per cent) and Aboriginal people are more likely to be homeless (51 per cent).ⁱⁱ

In the metropolitan areas of Western Australia where local housing markets are relatively normal, many low- and moderate-income households still struggle to find safe and stable accommodation they can afford and that meets their needs. In the December quarter of 2021, only households at the higher end of a moderate income could afford the median house price in the greater metropolitan area of Perth at \$525,000 ⁱⁱⁱ. Low-income earners could not afford to rent a median house at \$450 per week, although with a vacancy rate of 0.7 per cent, few rentals would have been available.

As with any complex system, there are multiple factors that have contributed to the current state of the market, including, but not limited to, COVID-19. One cause of the low private rental vacancy rate in Western Australia is a prolonged period of subdued residential construction. After the peak of 2014-15, dwelling approvals dropped below the long-term average, and were at their lowest ever across the 2019-20 financial year, when accounting for population^{iv}. This was in part caused by a sudden fall in investor driven construction^v, which may have been prompted by the Australian Prudential Regulation Authority's 2014 decision to implement a 10 per cent cap on investor loan growth.

Western Australia's economy relies heavily on the mining and resources sector, which according to one forecast, may need an additional 40,000 workers by mid-2023^{vi}. As quarantine procedures in the state have eased and travel is less complicated, movement in and out of the Western Australia is likely to increase. Around 10,000 homes are expected to be released back into the private rental market over the next 12 months.^{vii} Any relief this might provide to lower income households is likely to be short lived as net population is forecast to increase as workers flow into the state to fill mining and other jobs^{viii}.

A more focussed agreement is needed, concentrating on delivering key housing and homelessness objectives.

The objective of the NHHA is to “contribute to improving access to affordable, safe and sustainable housing across the housing spectrum, including to prevent and address homelessness, and to support social and economic outcomes”. This is important in that it acknowledges the factors influencing housing and homelessness sit across many other systems and domains, and that having a good home delivers outcomes far beyond shelter. Finance and planning systems are among the multiple touchpoints in the NHHA, and policy responsibility sits across all three levels of government. Writing an agreement to implement solutions in such a complex environment is difficult.

Key performance indicators of the agreement attempt to take this complexity into account and target the NHHA to better outcomes for Indigenous Australians and other people disproportionately excluded from adequate housing. But in doing so, the NHHA moves outside its immediate remit of housing and homelessness into planning, the affairs of First Nations people and other ‘target cohorts’.

Focussing on the fundamentals, like adopting a Housing First philosophy, would direct collective efforts to matters most relevant in addressing housing and homelessness disadvantage. A revised NHHA should clearly identify the systems and programs that are complementary to achieving sustained, long-term housing outcomes – for example planning, infrastructure and the reduction of family and domestic violence – and agree to use those linkages and levers in the right context, via the appropriate policy framework. This would enable better outcomes across many portfolios and reduce the burden of reporting on States and Territories: in turn allowing them to focus on program roll out and the service delivery needed to assist the most vulnerable. Mechanisms exist under the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) to fund these additionalities, in line with the NHHA as the primary housing and homelessness funding agreement between all jurisdictions. These opportunities must be pursued.

A strong governance framework be established, with Ministerial Council oversight to ensure consistent outcomes.

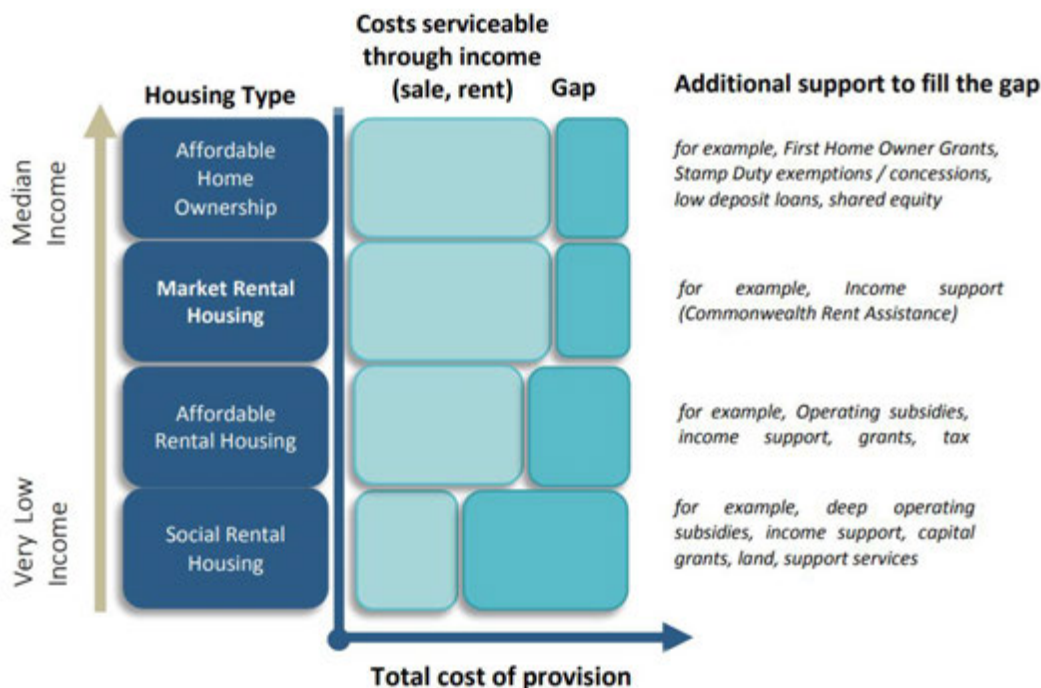
The NHHA was established under the IGA FFR, introduced in 2009 to provide “a robust foundation for collaboration on policy development and service delivery and facilitate the implementation of economic and social reforms in areas of national importance.” The Council on Federal Financial

Relations was formed at the same time (CFFR) oversees the NHHA and now reports through to the National Federation Reform Council which formed in 2020. After a recommendation in October of 2020, the former Housing and Homelessness Ministers’ Meeting was disbanded – but retained the ability to meet and discuss one-off issues^{ix}. This left jurisdictions without regular Housing and Homelessness Ministers’ Meetings, attendant Advisory Councils or formal avenues to pursue the collaboration, leadership and long-term commitment needed to implement coordinated action on such complex issues. Western Australia strongly supports the reintroduction of a governance framework for regular discussion.

Funding to reflect housing and homelessness services need

Better targeting of current funding will improve outcomes, but a larger quantum of funding is needed. Different households require different responses, and the level of subsidy required to achieve the best outcome varies. The figure below is taken from a 2017 Council on Federal Financial Relations report and illustrates the relative costs and funding gaps for different housing types^x. It should be assumed that responses for long-term homeless individuals will require close to 100 per cent subsidy.

Figure 1: Illustrative costs and funding gaps for different housing types



Western Australia believes funding under the NHHA should be better aligned to need to achieve more equitable outcomes for all Australians. A suitably current and robust evidence base is required to do this appropriately. The current NHHA performance monitoring and reporting framework (Framework) is as effective as it can be in assessing performance against the current NHHA objective and outcomes. The Framework has been enhanced and improved, over many years, by members of the national NHHA Data Development Working Group, however, there continues to be some areas of great challenge, as each jurisdiction has its own public housing system, with different policies, definitions, and approaches. For example, Western Australia does not attribute priority assistance to people in (private market) rental stress. Therefore, Western Australia consistently performs lower when reporting against the ‘proportion of new tenancies allocated to households in selected equity groups - public housing’ – 66.8 per cent in 2020-21 compared to the national average 81.1 per cent.

Similarly, there are differences in the homeless service systems across jurisdictions. Western Australia uses a range of data sources to understand homelessness across the State. Capturing accurate data on the number, location, and demographics of people experiencing homelessness is difficult due to the hidden and highly transient nature of the homeless population. Additionally, no single source is reliable in its own right and therefore all must be interpreted with caution.

Despite these issues, Western Australia does not believe there is a better way of measuring progress towards achieving the objective and outcomes of the NHHA without additional funding. Western Australia would welcome a dedicated stream of funding under the NHHA to support the Housing and Homelessness Data Working group to improve the quality and consistency of data collection and improve the evidence base used to inform national housing and homelessness need.

a) Additional costs associated with delivering services to people with increasingly complex needs across a large geographical region, with limited infrastructure and dysfunctional housing markets

For those on the lowest incomes, social housing is the only affordable option, and while the costs to construct and maintain social housing dwellings increases, it is not possible to increase rents. Social housing rent is always charged at a proportion of the tenant's income, and incomes at the lowest end of the spectrum, especially for individuals receiving payments from the Commonwealth, are not increasing^{xi}. Australia's tax-benefit redistribution system, which funds Jobseeker and other welfare payments, is decreasing in its effectiveness, due in large part to reforms to the tax schedule and changes in market income distribution.^{xii} As the impacts of COVID-19 continue to be felt through rising construction costs^{xiii}, the subsidy required to bridge the gap between rent receipts and the cost of social housing provision is increasing.

These issues are further compounded by delivering services across a large geographical region, with limited infrastructure and dysfunctional housing markets. An example is provided in Box 1.

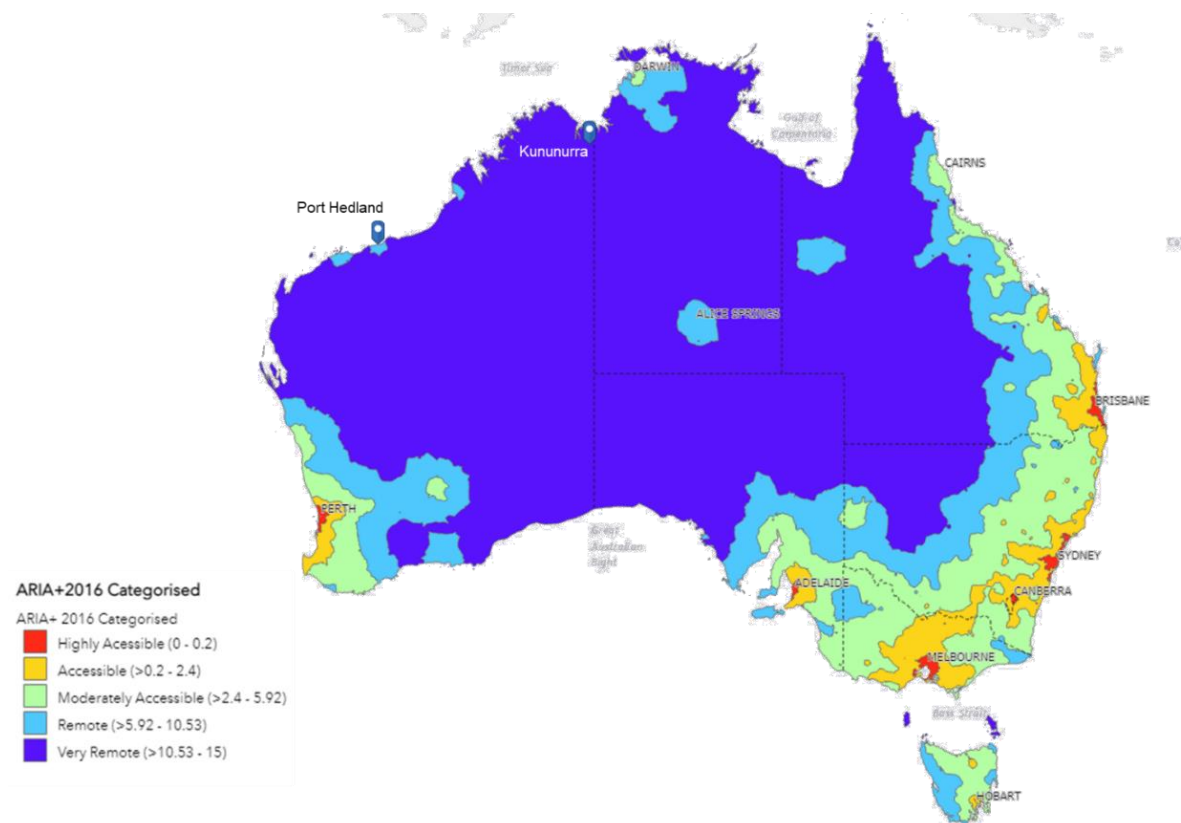
Within Western Australia, the top three reasons for seeking assistance from specialist homelessness services in 2020-21 were family and domestic violence (39 per cent), financial difficulties (32 per cent), and lack of family and/or community support (25 per cent).^{xiv} Specialist homelessness services are supported under the NHHA, with some funding apportioned to the Social and Community Services (SACS) Equal Remuneration Order. Issued by the Fair Work Commission in 2012, jurisdictions are required to match the Commonwealth's SACS ERO funding. As the National Partnership Agreement on Pay Equity for the Social and Community Services Sector ends in July 2022, the Commonwealth has offered WA \$18.2 million over 2021-22 and 2022-23 to meet its continuing SACS ERO obligations for services it directly funds and in-scope Commonwealth-State agreements, but there is nothing in the Commonwealth's budget beyond 2022-23.

This will make it even more difficult to retain staff and ensure ongoing provision of support to people already in significant distress, and opportunities to divert individuals from more costly solutions may be lost. For example, based on homelessness figures from Census 2016, AHURI researchers have estimated the annual cost to the Western Australian Government of delivering medical services to homeless individuals is approximately \$119 million per annum and nearly \$10 million per annum to women and children made homeless as a result of domestic violence.^{xv} These two figures combined are more than the total funding for homelessness services expended under the NHHA in Western Australia during 2020-21.

Box 1: Comparing costs in regional and urban areas

Comparing social housing construction costs between Greater Perth and the Kimberley region of Western Australia provides a basic, but compelling, example of context. Communities' data shows the average construction cost of a three-bedroom, two-bathroom public housing dwelling in Greater Perth is \$228,078. To construct a dwelling to the same specification in Kununurra is more than twice this at \$476,205. This is due in large part to the remoteness of Kununurra, which is approximately 3,200km from Perth.

The Accessibility/Remoteness Index of Australia (ARIA+) is a comparable index of remoteness that covers the whole of Australia.^{xvi} As shown in the map below, the vast majority of Western Australia is considered Very Remote.



Other parts of the State's north have incredibly constrained housing markets that respond to change in a very exaggerated manner. Port Hedland in the Pilbara, for example – which has a remoteness score of 9 – is a mining town, where the population, and therefore the availability of housing, fluctuates according to resources cycles. During the last boom, in the December quarter of 2012 median rent for a three-bedroom house in Port Hedland was \$1,600 per week. Three years later in the December quarter the same property type was just \$450 per week.

b) the end of the National Rental Affordability Scheme means a significant loss of affordable rental properties for lower income households

As the NRAS expires, the landlords of more than 4,500 affordable rental properties will stop receiving State and Commonwealth financial incentives to let their dwellings to lower income households at discount to market rent. As Western Australia's private rental vacancy rate is so low, without these incentives, it is unlikely that landlords will continue to offer eligible households the discount rate. This will have a disproportionate effect on households that earn too much for tightly rationed social housing and too little to afford to purchase a home and may lead to homelessness.

c) Address Aboriginal and Torres Strait Islander housing demand and need, aligned to Closing the Gap outcomes

Aboriginal and Torres Strait Islander people are disproportionately affected by housing and homelessness issues.^{xvii} It is estimated that nearly 24 per cent of Western Australia's social housing stock is tenanted by an Aboriginal or Torres Strait Islander householder. Although NHHA funding does not technically go toward remote housing or associated programs, it does provide some level of subsidy after the withdrawal of funding under the National Partnership Agreement on Remote Indigenous Housing. Based on current expenditure, Western Australia is spending approximately \$70 million per annum, just to maintain the existing stock and associated services.

The Western Australian Government is committed to working towards the Priority Reforms and the socio-economic targets under the National Agreement on Closing the Gap, including Outcome 9: Aboriginal and Torres Strait Islander people secure appropriate, affordable housing that is aligned with their priorities. However, these outcomes will be difficult to realise without significant additional funding. Western Australia's response to the Productivity Commission's request for further information (A) on actions to improve the housing outcomes of Aboriginal people provides more context for this recommendation.

A review into Commonwealth Rent Assistance; and national policy settings and levers that play a key role in increasing the supply of affordable housing and social and economic participation

Opportunities to improve housing and homelessness outcomes, beyond directly funding these under the NHHA, should also be pursued. For example, Commonwealth Rent Assistance (CRA) and income support payments are levers within the Commonwealth's remit that would benefit from review, despite being ruled out of scope in the current NHHA. Low-income households that rent privately, or from a community housing provider are eligible for CRA: public housing tenants are not. These settings create a "two-tiered" system with inherent inequities that could be addressed by introducing financial assistance for renters that is portable across private, community, and public rental housing.^{xviii}

A recent and thorough review of the current evidence base on homelessness found there are two important economic drivers of homelessness – decreasing housing affordability and stable or increasing levels of poverty^{xix}. The review also found that while it was decreasing, public housing tenants still suffered the greatest absolute level of income poverty among all renters. More than half of applicants on the social housing waiting list are single. Recent research indicates that single people, either with or without children, renting in the private market, are more likely to be experiencing income poverty. Single women aged over 55 are most affected^{xx}. For these groups, CRA is helpful in keeping rent costs at less than 30 per cent of income. For a single person without children on JobSeeker CRA contributes roughly 9-10 per cent of rent as a proportion of income, while the effect is smaller for single parents (~4%) and pensioners (~1%). The same report also found that an increase of \$20 per day in the JobSeeker base rate combined with an increase in rent assistance of about \$21.50 per week would virtually eliminate severe poverty in Australia. Thus increasing the rate of CRA would benefit all renters, and allowing public tenants to receive CRA, would improve the income position of the poorest households, while delivering a small funding increase to the State for reinvestment in the public housing system. Enabling a portable rent assistance model would help to bridge the gap between social and private rental markets as the price difference between the two models continues to widen.

The redirection of historical Commonwealth State Housing Agreement debt to increase and/or improve social housing provision and quality in Western Australia.

Western Australia continues to service the State's high-interest historic housing debt of \$273.5 million from the Commonwealth, acquired under previous Commonwealth State Housing Agreements. Western Australia will make interest and principal repayments of \$30 million per annum over the next four years, money that could be redirected into social housing and homelessness initiatives. Western Australia has previously sought a waiver of the outstanding balance, proposing to mirror the obligations agreed to by the Commonwealth and Tasmanian Government in 2019. However, it is not clear if the discussions have progressed to date.

Western Australia argues that better housing and homelessness outcomes could be achieved through redirecting historical housing debt to current need and seeks equal treatment from the Australian Government in this regard.

Finally, the Western Australian Government looks forward to the Productivity Commission's final report, and working with the Commonwealth, States and Territories to improve housing outcomes and reduce or prevent homelessness for more Australians.

ⁱ Davison, J., Brackertz, N. and Alves, T. (2021) *Return on investment for social housing in the ACT*, report prepared for ACT Shelter, Australian Housing and Urban Research Institute, Melbourne

ⁱⁱ Australian Institute of Health and Welfare 2021, Specialist homelessness services 2020–21: Western Australia, Fact sheets by state and territory, available from www.aihw.gov.au.

ⁱⁱⁱ Communities modelling using ABS Cat No. 6345.0 Table 2b and data from the Real Estate Institute of Western Australia

^{iv} May 2020. The Housing Industry Forecasting Group. April update and Media statement

^v Australian Bureau of Statistics, Lending Indicators

^{vi} <https://www.cmewa.com.au/media-release/wa-mining-and-resources-sector-could-need-another-40000-workers-over-the-next-two-years/>

^{vii} Crowe A, Duncan A, James A and Rowley S (2021), 'Housing Affordability in WA: A tale of two tenures', Bankwest Curtin Economics Centre Focus on Western Australia Report Series, No. 15, June 2021.

^{viii} Government of Western Australia, 2021. WA Economic Profile November 2021.

^{ix} <https://www.pmc.gov.au/sites/default/files/final-report-review-coag-councils-ministerial-forums.pdf>

^x The Australian Government 2017. *Supporting the implementation of an affordable housing bond aggregator*.

^{xi} Heraldt, N and Aziparte, F. (2014) *Recent Trends in Income Redistribution in Australia: Can Changes in the Tax-Benefit System Account for the Decline in Redistribution?* Economic Record.

^{xii} Heraldt, N and Aziparte, F. (2014) *Recent Trends in Income Redistribution in Australia: Can Changes in the Tax-Benefit System Account for the Decline in Redistribution?* Economic Record.

^{xiii} <https://www.corelogic.com.au/news-research/news/2022/construction-costs-rising-at-the-fastest-annual-pace-since-introduction-of-the-gst>

^{xiv} Australian Institute of Health and Welfare 2021, Specialist homelessness services 2020–21: Western Australia, Fact sheets by state and territory, available from www.aihw.gov.au.

^{xv} Estimate calculated using Zaretsky, K., and Flatau, P. (2013) *The cost of homelessness and the net benefit of homelessness programs: a national study*, AHURI Final Report No. 218 and PwC, 2015, *A high price to pay, The economic case for preventing violence against women for Western Australia's 2021 bid to Infrastructure Australia*

^{xvi} Hugo Centre for Population and Migration Studies, The University of Adelaide.

^{xvii} <https://www.indigenoushpf.gov.au/measures/2-01-housing> (accessed 29/04/22)

^{xviii} Productivity Commission, Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services, Inquiry Report.

^{xix} Flatau, P., Lester, L., Seivwright, A., Teal, R., Dobrovic, J., Vallesi, S., Hartley, C. and Callis, Z. (2021). *Ending homelessness in Australia: An evidence and policy deep dive*. Perth:

Centre for Social Impact, The University of Western Australia and the University of New South Wales.

^{xx} <https://bcec.edu.au/assets/2022/03/BCEC-Poverty-and-Disadvantage-Report-March-2022-FINAL-WEB.pdf>