

Mission Australia Submission to the PC Inquiry into Public Infrastructure

Mission Australia welcomes the Productivity Commission Inquiry into Public Infrastructure. Mission Australia considers public infrastructure, including social and affordable housing, as central to enabling participation and growth in our communities.

Mission Australia Housing (MAH) was established in 2009 to help fill the significant shortfall in social and affordable housing in Australia. MAH currently owns or manages more than 2,000 properties, including Sydney's \$32 million Common Ground development.

Mission Australia's experience in the provision, financing and development of public infrastructure informs this submission, which responds to the terms of reference in the following areas:

- the scope of the definition of "major public infrastructure"; and
- the provision, funding, and financing of major public infrastructure

Mission Australia would also support the Productivity Commission considering as part of the Inquiry the value of public infrastructure, particularly in connecting disadvantaged communities to opportunities for employment and growth. Further, the Inquiry would benefit from an assessment of the relative value of different types of public infrastructure, particularly roads versus other public transport infrastructure, when it comes to ensuring the maximum overall economic and social return on investment.

The definition of major public infrastructure

The Productivity Commission's Issue Paper dated November 2013 provides the following statement in relation to the definition of public infrastructure:

*"Defining 'public' infrastructure is challenging, but the essential elements are that it encompasses infrastructure **where government has a primary role and responsibility for deciding on whether infrastructure is provided, and/or the source of the revenue streams to pay for the infrastructure.**"*

Government has a primary role and responsibility for decisions regarding the provision of social and affordable housing decisions and is the primary funder of their provision. Consequently, social and affordable housing meets the proposed elements required to be considered public infrastructure.

The Issues Paper also notes the definition of nationally significant infrastructure contained in the *Infrastructure Australia Act 2008 (Commonwealth)*:

*"Nationally significant infrastructure — the Infrastructure Australia Act 2008 (Cwlth) defines nationally significant infrastructure to include energy, transport, communications and water infrastructure **in which investment or further investment will materially improve national productivity.** In its recent*

*consideration of Australia's key economic infrastructure, Infrastructure Australia (2013d) described **nationally significant infrastructure as the structural elements of the economy that provide essential services to industry and households**. It has also noted that nationally significant infrastructure can be that which is highly important to a sense of national identity or external affairs."*

Housing is a central piece of a country's economic infrastructure and productivity. A poorly operating housing market creates drag on productivity and distorts the jobs market, as people's housing options impact their employment opportunities.

Social and affordable housing aligns with the definitions of public, economic or nationally significant infrastructure and should be within the scope of the PC Inquiry.

The provision, funding and financing of major public infrastructure – social and affordable housing infrastructure

Australia is at a crisis point in the provision of social and affordable housing. Without appropriate action from Commonwealth and State governments, the current pressure on the existing stock of housing and associated public infrastructure will continue to rise, with consequences for housing affordability but also health and welfare costs.

By international standards, Australia has an under-developed market in affordable housing. While other OECD countries have well-functioning financing instruments, policy settings, and tax incentives to attract large-scale institutional investment, Australia has only made early steps. Despite our large base of compulsory superannuation savings and well regulated financial institutions, we are only starting to see institutional investment interest in affordable residential housing. Now, at this tipping point to seeing meaningful private investment in affordable housing, government's involvement is as crucial as ever.

Through access to low-cost financing, an expanded not-for-profit Community Housing Sector will be better placed to deliver the necessary supply than is currently possible through State providers. This transition from public to non-profit sector has started but must be underpinned by policy certainty to endure.

There are more effective and efficient ways for the Commonwealth Government to facilitate private investment in affordable housing to deliver long term benefits to individuals, families and the economy.

The Crisis in Affordable Housing

Structural factors in the housing market have pushed up prices for rental accommodation, and for several decades the supply of affordable rental properties has not kept pace with population growth or effective demand. The National Housing Supply Council estimates that Australia is short of 539,000 affordable and available properties for low income renters.ⁱ

Equally, the housing is often in the wrong location. Analysis by Australians for Affordable Housing showed that housing is unaffordable for jobseekers in all of the 40 regions across the country where they are most likely to find employment.ⁱⁱ

We are now in a situation where the lack of affordable housing has also become a bottleneck in solving homelessness. People living in severe housing stress are at high-risk of becoming homeless. In 2011 there were 220,000 people on the social housing waiting list and of those that were lucky enough to move into social housing, 90 per cent were homeless or at risk of homelessness.

A comprehensive solution from government is needed to the challenges faced in the housing sector and to deliver more affordable housing to enhance Australia's productivity and competitiveness.

Current expenditure on housing

The Commonwealth Government underpins the development of affordable housing in Australia through grant funding to the States, provision of rent assistance, and tax settings. There can be no viable affordable housing sector without it. The documented market failure in affordable rental shortfall indicates that current expenditure could be refocused and layered.

Funding for social housing is provided to the State Governments through the National Affordable Housing Agreement (NAHA), which has been administered through the Council of Australian Governments (COAG). This funding is essential to maintain state operated social housing but is insufficient to increase the overall stock. There is no room to reduce expenditure in this area but there are options to improve the outcomes from this expenditure.

Despite the significant investment of \$6.2 billion through the NAHA, the need for social and affordable housing continues to grow. And yet the proportion of all dwellings that are social housing is declining – from 4.7 per cent to 4.5 per cent between 2006 and 2011.ⁱⁱⁱ

This has occurred at a time when the Commonwealth's Social Housing Initiative was bringing online 20,000 new social housing dwellings and paying for renovations of 80,000 more. With the SHI now complete, any further erosion of funding would see an even more precipitous decline in the investment and supply of housing for low-income earners.

The SHI generated significant growth in the stock owned and managed by non-profit Community Housing Providers (CHP's), which has provided a base for private leverage and expansion of housing where appropriate financing is available. Other COAG agreements linked to the NAHA, including the National Partnership Agreement on Homelessness provide funding for services that easily meet the benchmark that 'government should do for people what they cannot do, or cannot do efficiently, for themselves'.^{iv} Indeed it's estimated that some \$200 million of the annual NAHA budget goes directly to funding homeless services and any changes to the NAHA or NPAH need to ensure that the most vulnerable are not left behind.

The National Rental Affordability Scheme (NRAS) has been critical to meeting some of the need for affordable housing, but expansion and improvements are needed to encourage the interest of the large scale investors it was initially designed to attract and meet the target of 50,000 low rent homes within a reasonable timeframe. It's imperative that market confidence is maintained in this burgeoning type of tax incentive to stimulate private investment. Otherwise, the long memories of the institutional investment sector will doom any future efforts to fund housing off the government balance sheet.

Commonwealth Rent Assistance (CRA) is an essential support to people on low incomes in order to meet the cost of their accommodation. It is already heavily targeted to those in need with

adjustments for family type and income and it is in fact diminishing in real-dollar terms. Many would justifiably argue that it is becoming less and less adequate over time.

The Commonwealth also carries significant tax expenditures relating to housing, of which three quarters are benefits directed to homeowners through preferential tax treatment, in many cases to those on high incomes.^v Redirecting these towards more affordable housing would be a natural place to seek savings for further reform. Certainly there can be no argument for reducing housing support to low income earners while this level of subsidy is provide to those on high incomes.

A comprehensive solution to social and affordable housing infrastructure

Commonwealth interventions alone cannot solve the market failure in affordable housing, even if the costs of the supply shortfall are borne disproportionately by the Commonwealth through health and welfare expenditure.

New affordable housing developments will require inputs from all levels of government.

State governments have significant responsibility for planning, land supply and regulation which can all exacerbate the feasibility gap of housing and either assist or impede the supply of affordable housing.

At present, the States also have a more substantial role in the direct delivery of affordable housing, and their policies will determine whether stock is built in areas that are well serviced by transport and amenities, and in areas where employment and other opportunities are also available.

As part of the Social Housing Initiative, State Governments vested a significant number of assets to CHPs in order to allow private leverage and further expansion of stock. However, stock-transfer has been patchy from state-to-state and the pace of vesting has slowed, curtailing this opportunity.

States also maintain responsibility for regulation of CHPs. Harmonisation through the National Regulatory System currently being pursued will help underpin growth in national providers and will be crucial to promoting investor confidence in the sector if CHPs are to access finance on a larger scale.

Innovative solutions to financing affordable housing infrastructure

Mission Australia sees potential to expand, improve and innovate in the mechanisms that deliver social and affordable housing.

In fact, a new asset class of private investment in rental housing is possible if not actually emergent, but it relies on consistent, intelligent government underpinning.

Private financing unlocked by targeted government support has the potential to leverage public investment and address the documented market failure in rental housing supply. Government has a role to underpin confidence where no asset class currently exists.

This will require the Commonwealth to set the pre-conditions for increasing private investment. Just as the Commonwealth government has indicated a willingness to facilitate new and innovative private investment to deliver infrastructure – including using the Commonwealth balance sheet, taking on up front risk and delivering cheaper finance, there is a very strong case for equal treatment

for affordable housing. Assistant Treasurer Sinodinos has identified these principles, put forward by the OECD-G20 taskforce, as critical in a framework for change.^{vi} 'A clear policy framework to provide investor confidence, institutional investment in long-term assets, and long-term finance to support these projects are all fundamental to a flourishing affordable housing sector in Australia.

With some adjustments to the existing Commonwealth government funding mechanisms and a renewed partnership with the States, Mission Australia believes the basic structures needed to unlock institutional investment are already in place. What is needed is an instrument to access finance to fund new affordable housing. Experience overseas suggests such a mechanism is viable and would come at a significantly reduced cost to government in comparison with the outlay required to deliver another SHI.

Recent work undertaken by the Australian Housing and Urban Research Institute (AHURI) identifies real opportunities to finance affordable housing through Housing Supply Bonds, which promote institutional investment in affordable housing.^{vii}

Mission Australia sees the value of existing government expenditure maximised through the use of institutional investment. The development of both a debt and equity product would provide a means to secure private sector capital for affordable housing.

Funding for construction would be split between State and local governments and private investors, with the Commonwealth providing a low-risk guarantee to support this activity.

The use of a government guarantee to unlock construction finance provides significant cost savings as direct, actual costs for Government are lowered. Debt is accounted by the housing provider or developer, while the Government notes the contingent liability based on accepted accounting standards. Experience overseas is of a very low rate of default and documented minimal impact on balance sheet and credit rating. Such an approach has the potential to better harness private sector capital and reduce the direct cost for government in the longer term. As Treasurer Hockey has said "There will be a need for governments to take more up-front risks".^{viii}

While current tax incentives that favour capital gains have been attractive to individual housing investors, institutional investors do not benefit from any corresponding incentives to invest and they are more focussed on higher rental yields.

Any innovative finance mechanism will require certainty in revenue. To date institutional investors have been slow to invest in programs like NRAS because of concerns about government policy changes – the fundamentals are there, but they do not want to be left with an 'orphaned asset.' Although there are a number of features of NRAS and CRA which could be refined, certainty and predictability in these income streams are essential.

Through improvements to existing funding mechanisms and continued support of NRAS and CRA, the Government would provide investors with revenue certainty and ensure that direct Commonwealth funds only flowed when a tenant was living in their newly built, affordable home. This would then be magnified many times over by the private funding unlocked by this yield support.

Similarly, while the States will retain important responsibilities for delivery of housing, a revised NAHA could be focussed more effectively to attract institutional investment. By reviewing the outcomes set for the NAHA and State obligations, it could include performance benchmarks and

incentive payments linked to increase in supply, changes to planning and provision of state funding – through land or other mechanisms. Other COAG agreements have such reform requirements already.

While the move to outcome-based measurements over outputs in the current NAHA was clearly desirable, the assessment has been bewildering because of the lack of appropriate data to draw conclusions about whether the investment has achieved its goals.

A clearer outcomes-framework would help ensure greater continuity in the approach to affordable housing across different levels of government and improve transparency.

A revised NAHA could also consider direct, contestable capital grants to CHPs for particular projects, but these would likely still require State support, particularly for land acquisition.

Addressing the public infrastructure deficit in Australia must include a comprehensive response to the lack of affordable housing, a critical component of any public infrastructure plan.

The role of public infrastructure in addressing disadvantage

Mission Australia proposes that the Productivity Commission's Inquiry into Public Infrastructure should consider the value of public infrastructure, particularly in connecting disadvantaged communities to opportunities for employment and growth.

Extensive evidence exists to show that focussed investment in public infrastructure, including housing, can avoid far more significant costs in the longer-term. Three examples from Mission Australia programs that have shown returns are outlined below.

- The *Going Places* program involved homeless outreach which moved long-term homeless people into sustainable housing. The investment from government was \$3.6 million over 4 years but delivered quantified benefits to society of over \$33 million over 4 years and avoided further costs of \$27.4 million over 4 years to government. **For every \$1 invested, the government saved \$5.10 in public services no longer required.** The savings reflect reduced need for crisis accommodation, incarceration, court proceedings, police time, diversionary services, time in hospital, and participants being able to support their own children amongst other tangible, quantifiable benefits.^{ix}
- The *Resolve* program is a response to assist people with mental illness who are at risk of losing social housing. Participants are provided with up to 30 hours per year of support by case managers and/or broker support services from appropriate service providers. **This up-front investment in a higher level of support cost \$720,000 over 2 years but for every \$1 invested by the Government, the Government saves \$13.50 and the total benefit to society as a whole is \$19.50 for each \$1.** These savings were achieved through reduced need for public housing and mental health services, and a greater capacity for self-help. Savings were also achieved for housing providers with reduced costs to their business including ability for other tenants to maintain tenancies.^x
- The *Michael Project* was an innovative homeless program funded by a private donor that provided men experiencing homelessness in Sydney with a home and demonstrated that it

was more costly for government to leave these men homeless than to provide support. **Over just one year it would have saved taxpayers \$3600 for every person who was assisted, and that's after the costs of delivering the program had been deducted.**^{xi}

A lack of transport and public infrastructure impacts on most areas of life, including work, education, health and social networks. Public transport services are an important contributor to local economies and the sustainability of many communities. Businesses and residents often rely on public infrastructure to facilitate the production and consumption of goods and services and without this infrastructure, economic growth can be stifled.

Lack of public infrastructure, particularly public transport, can also be a major barrier to gaining employment. Such barriers often entrench the social exclusion of individuals and groups in these communities. Young people in particular, with limited or no access to a vehicle, often have restricted access to economic and social opportunities.

A recent study found that housing was unaffordable for jobseekers in all 40 regions in Australia where they are most likely to find employment.^{xii} Addressing social and affordable housing needs, with innovative sources of finance and delivery, is an important investment in public infrastructure plan and will be critical to addressing a significant barrier to employment and improving participation.

Addressing public infrastructure needs in rural and regional communities

Given the benefits of public infrastructure in addressing the needs of disadvantage communities and connecting them to employment opportunities and growth, the inquiry would also benefit from an assessment of **the role of public infrastructure in addressing disadvantage in regional and remote communities.**

Rural and regional communities across Australia have experienced significant social, economic and environmental changes over a sustained period of time. Many have shown extraordinary resilience and a capacity to respond to these changes with flexibility, creativity and innovation. But many still lack the necessary resources and infrastructure to sustain positive change.

Arguably **online technology has a significant role to play in transforming regional and remote communities** and an assessment of the value of public investment in online infrastructure would be informative. Long travelling distances, coupled with poor transport options, contributes to the social and economic exclusion of many residents in rural and remote areas. The potential of mobile and information technology services to address these access issues, across a range of identified needs, should be fully explored.

The Inquiry would also benefit from an **assessment of the relative value of different types and the location of public infrastructure, particularly roads versus other public transport infrastructure,** when it comes to ensuring the maximum overall economic and social return on investment.

Mission Australia – About Us

Mission Australia is a Christian community service organisation that has been helping people regain their independence for over 150 years. Alongside our partners, we help people through early learning and youth services, family support and homelessness initiatives, employment and skills development, and affordable housing. Together we stand with Australians in need, until they can stand for themselves. Our 572 services cross metropolitan, rural and regional Australia, in every state and territory this year assisted 279,000 individuals.

MA has a rich history of working with leaders from government, the business community and the not-for-profit sector to create new ways to tackle entrenched social problems.

Endnotes

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^{iv} Australian Government National Commission of Audit (2013). *Terms of Reference*.

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^{ix} Mission Australia, *Going Places* cost benefit assessment infographic summary, 2013. Available at: https://www.missionaustralia.com.au/2020-strategy-page/doc_download/173-going-places-cost-benefit-assessment-infographic-2013.

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^{xi} Mission Australia, Michael Project 2007-2010: New Perspectives and Possibilities for Homeless men, 2012. Available at: https://www.missionaustralia.com.au/research-page/homelessness-page/doc_download/59-the-michael-project-2007-2010-new-perspectives-and-possibilities-for-homeless-men-2012.

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