THE TROUBLE WITH SOCIAL HOUSING

New budget measures to encourage investment in social housing will not resolve many of the deep-seated problems facing the sector, argues **Michael Potter**

Housing affordability is a key issue for many Australians. While the focus is often on affordability for existing and prospective home owners, it is also a significant issue for many renters.

About 31% of Australian households are renting, with rental housing falling into two broad categories: private and social. Just over 400,000 households live in social housing,* which is provided to tenants often at significantly discounted rents. Social housing is made up of public housing, provided by state and territory governments; community housing; Indigenous community housing; and Indigenous housing owned and managed by state and territory governments.** The makeup of rental housing is shown in Table 1 (opposite).

Social housing is beset with many problems. This article examines the deep-seated nature of these problems, such as poor quality dwellings, work disincentives, long waiting lists, lack of choice, lack of incentive for providers to respond to tenant needs, and substantial inequities in the system. The reforms necessary to address these issues are discussed at length in my April 2017 CIS report, *Reforming Social Housing: Financing and Tenant Autonomy*.

The focus of this article is on specific measures to address the (un)sustainability of financing social housing; in particular, the announcement of a National Housing Finance and Investment Corporation (NHFIC) in the May 2017–18 Budget. The NHFIC is intended to encourage investment in social housing by acting as a 'bond aggregator' that will borrow on behalf of social housing operators, obtaining the financial market scale that operators lack. However, if the NHFIC provides government-subsidised borrowing, it will decrease transparency (compared to direct government support) and increase financial market risks. It will also not directly resolve many of the problems outlined below. In fact, a poorly designed NHFIC would discourage the necessary reforms to address many of these more fundamental issues.

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* Specialised housing services—including crisis housing, remote Indigenous housing, and housing for people with disability—are not specifically covered in this article, although many of the broad principles can apply. Issues specific to Indigenous housing are discussed in a number of CIS reports including Helen Hughes, Mark Hughes and Sara Hudson, *Private Housing on Indigenous Lands*, Policy Monograph 133 (Sydney: CIS, 2010) and Sara Hudson, *From Rhetoric to Reality: Can 99-Year Leases Lead to Home Ownership for Indigenous Communities?*, Policy Monograph 92 (Sydney: CIS, 2009).

** For the remainder of this article, the term 'state government' is taken to include territory governments.

Table 1: Composition of rental dwellings in Australia as at July 2016

Category	Number ('000)	% of all dwellings	% of social housing
Rental dwellings, of which:	3,012	31.0%	-
Private rental	2,584	26.6%	-
Social housing, of which:	428	4.4%	100.0%
Public	320	3.3%	76.5%
Community	80	0.8%	17.7%
Indigenous Community	17	0.2%	3.4%
Indigenous (SOMIH)	10	0.1%	2.4%

Sources: Number of dwellings: ABS (2017). Proportion of rental dwellings: ABS (2015). Social housing: Productivity Commission (2017). SOMIH = State Government Owned and Managed Indigenous Housing. Private rental properties are estimated as residual after subtracting figures for social housing. The number of social housing dwellings (428,000) is slightly more than the number of households (408,000) because of some being vacant due to redevelopment or other reasons.

Social housing: a profile

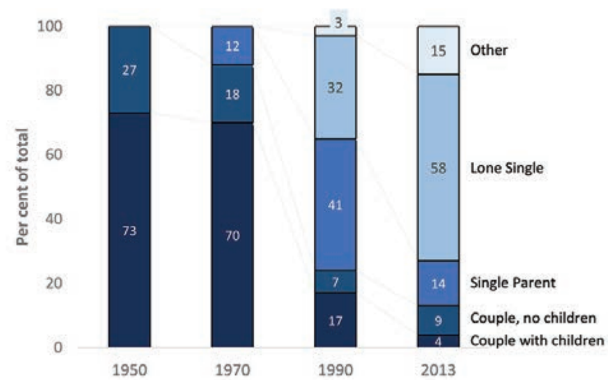
Social housing as a share of all housing has been slowly decreasing, with a decline from 5.6% of all dwellings in 1971 to 4.4% in 2016. Within social housing, there has been a shift from public towards community housing, particularly as some housing stock has been transferred from public to community operators. In 2000, community housing was 6.7% of the social housing stock and had grown to 17.7% in 2016.

Public housing comprises about 50% houses and 50% units, apartments or similar non-detached dwellings—unlike many other developed countries where apartments are prevalent in social housing. Originally designed for families, public housing has been slow to adapt to the current demographics where a greater proportion of public housing dwellings are occupied by single people. The transformation in public housing demographics in New South Wales (NSW) is shown in Figure 1.

This demographic shift means there are currently a substantial number of public housing dwellings that are underutilised, with more than 16% across Australia having too many bedrooms for tenants' current needs. Compared to the general population, social housing tenants are more likely not only to be in single-person households but also to be female, Indigenous, and have a disability.

Public housing has also become increasingly targeted at the least well-off Australians, which has meant more tenants have lower incomes. In 2011, the median household income for public housing tenants was $477 per week ($24,889 per year); this income figure has declined in real terms by 38% since 1991. The average employment rate of tenants has also been falling and is now well below employment levels in the rest of the population. For example, in 2011–12 males aged 15–64 had an employment rate of around 30% for public housing tenants compared to employment rates of around 80% for private renters, and 90% for those purchasing a property.

Figure 1: NSW public housing tenant profile by household type 1950–2013



Source: NSW Department of Family and Community Services (2014). 'Other' includes extended families and group households.

To enter social housing, eligible households apply to be put on a waiting list. In all states except South Australia, there is one unified waiting list for all social housing in that state. The operators of social housing allocate available dwellings to prospective tenants based on measures of need, with tenants exercising very little choice over the dwellings they are allocated. There is also considerable variation in the eligibility criteria between states. The maximum income is broadly around $25–35,000 per year and maximum assets around $30–40,000, with more relaxed criteria in the Northern Territory and (particularly) South Australia.

Just over 90% of public housing tenants pay below-market rent. For most jurisdictions, rent is set at 25% of the renters' income; on average the discount below market rates is $181 per week or $9,444 per year. The gap between rent and cost is funded from various sources. For public housing, funding is from state governments, while for community housing funding is from sources including government grants, tax concessions, and donated land or property.

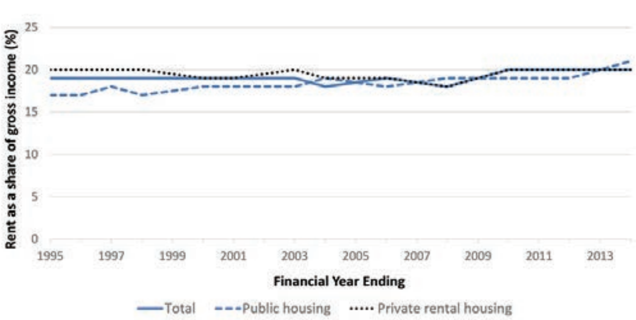
Problems with social housing

There are many problems with social housing indicating the importance of reform, including declining affordability on some measures and potentially unsustainable funding models. Social housing also performs poorly on many key measures of adequacy including poor maintenance of existing stock, lack of choice for tenants, inefficient use of dwellings, length of waiting lists, and work disincentives.

Declining affordability on some measures

Rent as a share of gross household income for public housing tenants has increased from 17% in 1994–95 to 21% in 2013–14, an increase of 4 percentage points over this 19 year period. So on this measure there has been a moderate decline in affordability for social housing tenants. There was no change in rent as a share of gross income for private tenants over the same 19 year period, while for all tenants, both public and private, rent as a share of income increased slightly from 19% to 20%. This is shown in Figure 2.

Figure 2: Rent as a share of gross household income



Source: ABS (2015). Gross income is income before tax. Other measures below use disposable income which is after tax.

The change in rent as a share of income for all renters, both social and private, was small in every state over the period from 1994–95 to 2013–14, and it remained relatively unchanged from 2005-06 to 2014-15. The only exception is households where the head is aged 15–24 years: rent as a share of income increased somewhat in this group (from 11% to 15% over the period 2005–06 to 2014–15).

Poor performance on many key measures of adequacy

In 2016, 4.2% of public housing was overcrowded, having insufficient bedrooms for the occupants, but remote and Indigenous social housing have much higher rates of overcrowding. As mentioned earlier, more than 16% of public housing is also underutilised, having surplus bedrooms. This inefficiency of use has increased strongly in recent years, and the NSW Auditor General's more comprehensive figures show 32% of public housing dwellings in NSW were inefficiently used in 2012, with 16% of dwellings overcrowded and 16% underutilised. Underutilisation partly reflects the dramatic shift in tenant demographics away from families to singles, shown in Figure 1 (page 15).

Poor maintenance is also a significant issue with public housing. In 2016, almost 20% of dwellings did not meet a (fairly undemanding) adequacy standard, and about 27% of public housing tenants were not satisfied.

Waiting lists are long. In 2014–15, 23% of tenants with greatest needs waited for more than two years to enter a tenancy; for the remaining tenants, 51% were on the waiting list for more than two years before they entered public housing. For tenants who are not 'greatest needs' households, the waiting time was 10 years or more in most regions of Sydney as at June 2016. Prospective tenants have little choice over dwellings; if they reject two offers of housing, or sometimes even one offer, they are sent to the end of the waiting list. As a result, the dwelling allocated to tenants can be a question of timing and luck.

The total waiting list for social housing was 194,592 in 2016. This suggests there is an inadequate supply of public housing. However, there will always be excess demand—and therefore a waiting list—

for public housing as long as rent is below market rates. The queue exists because of the substantial rental subsidy. Everyone eligible for public housing could potentially be on the waiting list, so the list would be reduced by tightening eligibility criteria and making it harder to apply, and lengthened by making eligibility and application easier. Another reason for the length of the waiting list is the very low turnover of tenants in public housing. While this provides stability for tenants, it means they have low mobility for employment opportunities. It is also a symptom of the significant disincentives for tenants to exit the public housing system, given the much larger subsidy available to public housing.

The Henry Tax Review argued that public housing tenants, or households on the waiting list, faced substantial adverse incentives for workforce participation. Conversely, a research paper by the Productivity Commission found being in public housing had only a small impact on employment, but the paper examined only the impact on overall employment, not hours worked. As a result, the impact of public housing on work hours may be much more substantial than implied by the Commission's paper. The Commission's paper also included evidence suggesting there was an adverse employment effect from being on the public housing waiting list.

Finally, there are significant inequities between public housing assistance and rent assistance. Commonwealth rent assistance averaged $3,251 per person in 2015–16 while the recurrent cost to government of public housing was $8,766 in that year—more than two and a half times as large. Including the capital costs of public housing and the benefit of more secure tenure in public housing would make this discrepancy even larger. As a result, the Productivity Commission has argued households with the same income and demographics can receive 'vastly different levels of assistance' depending on whether or not they are in public housing.

Financing is probably unsustainable

As public housing is becoming more focused on the least well-off over time, the rent received from tenants is declining. At the same time, funding from state governments is falling in real terms. In addition, the costs of social housing are growing in real terms, with community housing and state-managed Indigenous housing more expensive than public housing. Community housing has higher costs, probably due to lack of scale, with providers facing many difficulties obtaining loans and finance. The combined effect of falling rental revenue, declining government support, and increasing costs suggests that public housing is financially unsustainable.

The federal government provides assistance to state governments for housing of about $1.8 billion per year. This funding is largely not linked to outcomes and has not provided states with incentives to invest in housing, maintain public housing, improve services to tenants, or engage in planning and regulatory reforms relating to housing. However, this approach is set to change, with the May 2017–18 Budget announcing that federal housing funding will in future require 'concrete outcomes' relating to housing supply, planning and zoning reforms, and transfer of public housing to community providers. These specific requirements on funding were advocated in my April 2017 CIS report on social housing.

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Financing social housing through a bond aggregator

In response to concerns about the sustainability of financing social housing, the federal government's 2017–18 Budget announced it will establish a National Housing Finance and Investment Corporation (NHFIC). The NHFIC is intended to encourage investment in social housing by acting as 'bond aggregator' to borrow on their behalf, obtaining the financial market scale that social housing operators lack.

The NHFIC would likely issue bonds into the Australian financial market on a semi-regular basis, and when fully operational could potentially borrow over $1.5 billion, although no firm figures are yet available. The NHFIC would on-lend these funds to housing providers that meet due diligence tests, likely charging an interest rate margin to fund its operations. Current plans are that the aggregator would fund existing housing stock, not new construction.

There is some value in establishing the NHFIC without substantial government support. However, if the NHFIC has substantial government support, this would be inefficient compared to direct subsidies to housing providers. A subsidised NHFIC is only worthwhile if the subsidy is fully passed on to social housing providers. So why not give the subsidy directly to social housing by cutting out the intermediary?

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Subsidising social housing indirectly through the NHFIC is also much less transparent than subsidising the sector directly. Government guarantees, or tax concessions for bonds issued by the NHFIC, would be even less transparent. A government guarantee would also increase financial system risks. In addition, indirect subsidies through the NHFIC would mean governments have fewer opportunities to contract directly with housing providers to encourage cost reductions and service improvements.

Moreover, the NHFIC would not directly resolve many of the other deep-seated problems discussed above such as work disincentives, lack of choice, substantial inequities in the system, and lack of incentive for providers to respond to tenant needs. In fact, as indicated at the outset of this article, if the NHFIC is poorly designed, it would discourage reforms to address these more fundamental problems.

Instead of considering a government-supported NHFIC, my research report advocates a number of more wide-ranging reforms to the social housing sector, including:

- to provide new tenants, and tenants who wish to move, with informed choice of accommodation, while permitting housing operators to differentiate rents based on dwelling quality and location;
- governments to use contracting and contestability to drive efficiency and scale of the community sector;
- transfer public housing to community providers; and
- treat public and community housing similarly for regulation, funding and tax, including by paying rent assistance to all social housing tenants.

Overall, the reforms are likely to lead to improved tenant choice, autonomy and satisfaction, better matches between tenants and housing, improved incentives for tenants and providers, and reduced inequities in the sector. The increased competition between social housing providers will drive improvements in efficiency, financial sustainability, dwelling quality and maintenance, and management of capital in the sector, while improving value for money for taxpayers and the community.