



RESEARCH REPORT SNAPSHOT

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Reforming Social Housing: Financing and tenant autonomy

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1. Why reform of social housing is essential

Just over 400,000 Australian households live in social housing, which covers public housing, community housing, Indigenous community housing, and Indigenous housing provided by governments. A snapshot of the sector is in Box 1.

Public housing is beset with many problems, including:

- About 27% of tenants are not satisfied with their accommodation.
- Almost 20% of dwellings do not meet a fairly undemanding adequacy standard.
- At least 20% of tenants are living in housing that is either too small or too large for their needs.
- With cost increases, declining rent, and declining government funding, public housing is arguably financially unsustainable.

Community housing performs better than public housing on many of these measures, but still faces important issues, particularly:

- Community housing has higher costs than public housing, probably due to lack of scale and greater spending on maintenance and additional services to tenants.
- Community housing providers face many difficulties in obtaining loans and finance.

The waiting list for social housing is long, with most tenants in Sydney waiting for more than 10 years to enter public housing, while experiencing substantial disincentives to work.

Being in social housing also may discourage incentive to work, though the evidence on this is not clear-cut.

Social housing tenants have almost no choice over the dwelling they occupy. A prospective tenant who rejects two, or sometimes even one, offered dwelling is usually sent to the back of the (very long) waiting list.

There are substantial inequities in the system.

- Tenants in public housing receive on average at least two and a half times as much assistance as the average person on rent assistance.
- It is essentially a luck of the draw if a new tenant is allocated a high-quality dwelling in a desirable location or a poor quality inaccessible dwelling.
- Public housing is treated very differently from community housing in many ways, including rent assistance, direct government spending, regulation and taxation.

For social housing tenants, rent as a share of income has increased somewhat over the past 19 years, indicating a

decline in rental affordability. However, most other measures show rental affordability (for public and private rental housing combined) has remained stable or has improved in recent years.

The agreement under which the Australian Government funds the state governments for social housing, the National Affordable Housing Agreement (NAHA), has failed to meet most of its stated targets. Much of the NAHA funding is unlinked to performance and fails to encourage reform.

These problems have been identified in numerous reports including by the New South Wales Auditor General, The Australian Government's Federation White Paper on Housing, the Henry Tax Review, and the Productivity Commission.

Box: A snapshot of social housing

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%

SOMIH = State Government Owned and Managed Indigenous Housing. Private rental properties are estimated as residual after subtracting figures for social housing

The share of social housing in total dwellings has been falling over time, while community housing is making up a growing share of social housing.

Public housing was originally built for families, and has been slow to adjust to current demographics where most tenants are single people. As a result more than 16% of dwellings have too many bedrooms for their current tenants.

There were 408,000 households in social housing in July 2016. Compared to the general population, public housing

tenants are more likely to be out of employment, female, Indigenous, in single-person households, and have a disability.

Most tenants pay rent determined by income. As tenant income is low, rents are well below market rates: the average discount to market rents is \$181 per week or \$9,444 per year.

State governments spent \$5.1bn on social housing in 2015–16, of which the federal government provided \$1.8bn under the National Affordable Housing Agreement.

2. A bond aggregator to finance social housing

The government is proposing to address financing issues for social housing by setting up a 'bond aggregator' to borrow on their behalf, obtaining the financial market scale that social housing operators lack.

Based on current proposals, the aggregator would likely issue bonds into the Australian financial market on a semi-regular basis, when fully operational potentially borrowing over \$1.5 billion. The aggregator 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 an aggregator without substantial government support. It won't discourage the broader reforms advocated in this paper; and may actually encourage sectoral reforms if funds are allocated to housing providers on a competitive basis.

However, an aggregator with substantial government support would be inefficient compared to direct subsidies to housing providers. A subsidised aggregator is only worthwhile if the subsidy is fully passed on to social housing providers. So why not give the subsidy directly to social housing, cutting out the intermediary?

Subsidising social housing indirectly through an aggregator is also much less transparent than subsidising the sector directly. Government guarantees, or tax concessions for bonds issued by the aggregator, would be even less transparent.

Indirect subsidies through an aggregator would also mean governments have fewer opportunities to contract directly with housing providers to encourage cost reductions and service improvements.

A government loan guarantee for the aggregator would increase financial system risks.

There is no need for an aggregator to finance state public housing, as state governments can borrow themselves for this purpose. If an entity sponsored by the Australian Government borrows on behalf of state governments for social housing, why not for other purposes such as roads, schools or hospitals?

While direct subsidies to housing providers are preferable, the National Rental Affordability Scheme (NRAS) is a severely flawed model for direct subsidy, with costs more than six times larger than benefits. This model should not be followed.

3. Reforming National Affordable Housing Agreement and rents

The National Affordable Housing Agreement (NAHA) should be reformed and reduced in size. Rent assistance should be paid to public housing tenants offset by a reduction in the NAHA of the same total amount. This would be accompanied by an increase in public housing rents of the same magnitude. As a result, no jurisdiction or tenant should face any major change in their financial position. This reform would:

- Put public and community housing on a more level playing field.
- Improve incentives for state governments to renovate and fill empty properties.
- Increase state autonomy and responsibility, including by reducing vertical fiscal imbalance.

The NAHA should also be reformed so that state governments share in the costs of increased rent assistance and are given financial incentives to implement the other reforms supported in this paper, similar to the superseded National Competition Policy payments.

Other proposals to make the NAHA more prescriptive are not preferred as they decrease state government autonomy and responsibility and may increase the discrepancies between public and community housing.

4. Reforming social housing choice and rents

New tenants in social housing, and tenants wishing to relocate, should be given informed choice over dwellings, and pay rents that are differentiated based on dwelling quality and location. Increased choice:

- Recognises tenants are generally best-placed to make choices about the dwellings and services they receive.
- Will drive competition between social housing providers to increase scale, improve services, innovate, and increase the match between tenants and housing.
- May encourage some tenants to stay and invest in communities, while other tenants might find it easier to move.

For new tenants, rents that are differentiated by location will improve incentives for both tenants and housing providers:

- Tenants that are in inappropriate dwellings will be encouraged to move.
- The inequities in the current system, and the element of luck, will be reduced.
- Waiting lists are likely to be shorter, reducing bureaucratic costs and the disincentives from being on the waiting list.
- The disincentives to leave social housing will be reduced, meaning relocations for work are more likely, and poor quality housing is more likely to be vacated.

Increased choice should improve tenant autonomy and satisfaction.

It is essential that both choice and differentiated rents are implemented simultaneously.

- If choice alone is implemented, tenants will only choose the best properties and ignore the least desirable properties.
- If rent differentiation alone is implemented, some new tenants will be forced to pay for a more expensive property that they don't want, or can't afford.

The benefits of choice are much greater if choice is also provided to existing tenants who wish to move, as it will increase choice for all and dramatically speed up the moving process.

Removing the link between rent and tenant income should also be explored, though there is value in ensuring tenants with significant increases in income pay more rent and (eventually) leave social housing.

Differentiated rent and choice should be rolled out over time to existing tenants, ensuring that those tenants who face a rent increase have options to move to a less expensive property.

5. Improving supply of social housing

Instead of increased government spending on social housing, a better solution would be to free up planning laws and regulations that artificially increase costs of all housing and rents, including social housing. The NAHA reforms outlined earlier should encourage these reforms.

Research suggests adding one extra storey to dwellings in a city with a population of 4 million would reduce housing prices by 13%. This change on its own would dwarf the impact of any other reform.

Addressing government regulations that cause housing problems would be superior to further intervention or spending.

- Subsidies are an unnecessary burden on taxpayers if they were caused by governments in the first place.
- Subsidies by the Australian Government would discourage state governments from undertaking supply side reforms, as state governments would be effectively transferring the costs of housing unaffordability to the Australian Government.

6. Institutional reforms to social housing

Through the NAHA reforms outlined earlier, state governments should be encouraged to transfer public housing to the community sector. The community sector is likely to improve the management of this housing:

- The community sector performs better than the public housing sector on tenant satisfaction, maintenance, overcrowding, underutilisation of bedrooms, provision of tailored services to tenants, and encouragement of tenants to enter mainstream housing.
- Community providers are likely to improve the strategic management of property, as public housing authorities have been reluctant to redevelop their properties.

There should be structural separation of the various roles of state governments as purchaser, provider and regulator of social housing. Transferring public housing to the community sector will assist in addressing these state government conflicts of interest.

Community and public housing should be treated as similarly as possible. Public and community housing should face the same regulations, pay the same taxes, and receive the same state government subsidies.

State governments should use competition and contestability in its contracts with social housing providers to drive cost reductions, efficiencies and improvements in service delivery.

Community providers should increase scale by merging and by gaining properties transferred from public housing. This process will be encouraged by state government use of contestability in its contracts as well as tenant choice.

Increased scale will reduce costs and drive efficiencies in the community sector. Large-scale social housing providers should be able to escape many of the financial problems facing the sector. As a result increased scale is a better solution to financing problems than a subsidised bond aggregator.

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