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Reforming Social Housing: financing and tenant autonomy

Michael Potter

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Executive Summary

About 400,000 Australian households live in social housing, which covers public housing, community housing, Indigenous community housing, and Indigenous housing provided by governments.

The sector has many issues, including:

- In public housing, many dwellings fail adequacy standards, and numerous tenants are dissatisfied and living in housing that is too small or too large for their needs.
- The waiting list is long, with most new tenants in Sydney waiting for more than 10 years to enter public housing. Being on the waiting list creates substantial disincentives to work.
- Tenants lack choice and housing providers have little incentive to respond to tenant needs and preferences.
- Housing assistance has substantial inequities.
- Public housing is arguably financially unsustainable, and community housing providers face difficulties in obtaining loans and finance.
- On one measure, rental affordability for public housing tenants has declined, though other measures of affordability show no change.

The government is proposing to address financing issues for social housing by setting up a 'bond aggregator' to borrow on their behalf.

There is some value in establishing an aggregator without government subsidy. However, a subsidised aggregator would be inefficient, non-transparent and discourage sectoral reforms, compared to direct subsidies to housing providers.

- A government loan guarantee to an aggregator would also increase financial system risks.

Instead, to encourage sectoral reforms, the National Affordable Housing Agreement should be refocussed and reduced in size so that states share in the costs of increased rent assistance and receive incentives to implement reform.

Public and community housing should be treated similarly, including through public housing tenants receiving Commonwealth Rent Assistance and each sector being treated similarly for regulation, funding and taxation.

New social housing tenants should be given much more choice over dwellings and pay rents that are differentiated based on dwelling quality and location.

The community sector should increasingly take over public housing, and state governments should drive community housing reform through contracting and contestability.

Instead of increased rent assistance or government assistance to social housing, costs in the sector should be reduced by relaxing planning regulations.

Together, these reforms should:

- improve tenant choice, autonomy, and satisfaction;
- encourage housing providers to meet tenant preferences;
- reduce housing mismatches;
- improve housing quality;
- increase the supply of social and affordable housing;
- reduce inequities in the system, leading to shorter waiting lists; and
- ensure the sector becomes more sustainable.

These solutions to the community sector's financing issues are much better than a subsidised bond aggregator as they improve the sector's efficiency and reduce its call on taxpayer funds.

1. Introduction

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.[1] Rental housing is broadly in two categories: private and social. Social housing is provided to tenants often at significantly discounted rents and 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.[2] The makeup of rental housing is shown in Table 1.

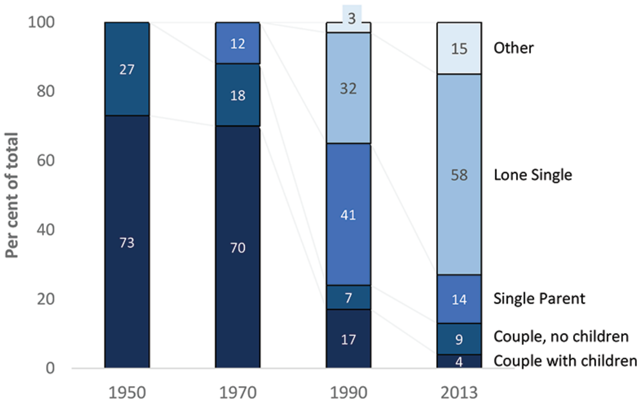
For the remainder of this report, the term 'state government' is taken to include territory governments.

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.[4] 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.[5] In 2000, community housing was 6.7% of the social housing stock and had grown to 17.7% in 2016.[6]

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.[7] Public housing was originally designed for families, and has been slow to adapt to the current demographics where a greater proportion of public housing dwellings are occupied by single people.[8] The transformation in public housing demographics in NSW is shown in Figure 1.

This demographic shift means there are currently a substantial number of public housing dwellings (more than 16% across Australia) with surplus bedrooms.[9]

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



Source: NSW Department of Family and Community Services (2014).[10] 'Other' includes extended families and group households.

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: ABS, Productivity Commission.[3] SOMIH = State Government Owned and Managed Indigenous Housing. ICH = Indigenous Community Housing. Private rental properties are estimated as residual after subtracting figures for social housing.

Public housing has become increasingly targeted at the least well-off Australians, which has meant more tenants have lower incomes.[11] 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.[12] The average employment rate of tenants has 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.[13]

There are about 408,000 households in social housing.[14] This is fewer than the number of dwellings, because some properties are vacant; awaiting new tenants or being redeveloped. Compared to the general population, social housing tenants are more likely to be female, Indigenous, in single-person households, and have a disability.[15]

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.[16] 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.[17]

There is 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.[18]

Just over 90% of public housing tenants[19] pay below-market rent. For most jurisdictions, rent is set at 25% of the renters' income;[20] on average the discount below market rates is $181 per week or $9,444 per year.[21] 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.[22]

State governments spent $5.2bn on social housing in 2015–16, with $1.8bn of this coming from the Australian government under the National Affordable Housing Agreement (NAHA), as shown in Table 2.

Of the total Australian government funding to the states, $1.3bn is provided under the National Affordable Housing Special Purpose Payment (SPP) and the remainder under related National Partnership agreements.[24]

Specialised housing services — including crisis housing, remote Indigenous housing, and housing for people with disability — are not specifically covered in this paper, although many of the broad principles can apply. Issues specific to Indigenous housing are discussed in a number of other CIS reports.[25]

In addition to social housing, some private rental housing is provided at below-market rents; this is sometimes known as 'affordable rental housing', and has less stringent eligibility criteria than social housing, with rents often set at a fixed discount to market rents rather than as a proportion of tenant income.[26]

This paper examines the issues with social housing and the case for reforms to this sector. The paper reviews a specific proposal for a 'bond aggregator' to finance social housing, and proposes some fundamental reforms to improve tenant wellbeing and the operation of this sector.

Table 2: Government spending on social housing, 2015–16

State	State spending on social housing ($m)	Commonwealth housing funding to states ($m)
NSW	1,774	502
Victoria	691	355
Queensland	960	439
Western Australia	810	270
South Australia	552	122
Tasmania	137	31
Australian Capital Territory	148	23
Northern Territory	112	83
Total	5,184	1,825

Source: Report on Government Services 2017.[23] Commonwealth funding for housing through the National Affordable Housing Agreement is in rightmost column.

2. Problems with social housing

There are many issues with social housing indicating the importance of reform, including declining affordability, poor maintenance of existing dwellings, a lack of choice for tenants, inefficient use of dwellings, lengthy waiting lists, substantial dissatisfaction of tenants, and potentially unsustainable funding models.

Box 1: Comments on existing social housing model

The New South Wales Auditor General in 2013:[27]

> Public housing is ageing and increasingly not fit for purpose… Over 30 per cent of households do not match the size of their dwellings. Many of these properties are under-occupied. There are also over 8,000 existing tenants waiting for relocation as their current housing is not suitable.

The Australian Government's Federation White Paper on Housing:[28]

> Public housing is not sustainable in its current form. This has created a perverse incentive for State and Territory housing authorities to either sell stock or transfer it to community sector providers. (p18)
>
> Current arrangements give rise to inequitable outcomes, given people on the same income can receive different levels of rental subsidies (from different levels of government) depending on their tenure and location. (p25)
>
> Fiscal sustainability [of social housing] is being undermined by increasing cost pressures on governments. (p27)

The Henry Tax Review:[29]

> The higher average level of assistance to public tenants is not well-targeted to need. As a majority of public tenants have similar means to recipients of the government's Rent Assistance payment, the large difference in assistance levels is inequitable. The gap in assistance leads to rationing through queuing and can lead to poor outcomes for tenants in the long term.
>
> In public housing, the use of queues to ration assistance, and income-based rent-setting, discourage workforce participation. Current public housing funding neither effectively targets assistance nor encourages use of the housing stock in ways that reflect the needs of clients. (Section F5).

Senate Inquiry into Affordable Housing:[30]

> The committee is of the view that it is unacceptable that the chronic shortage of public housing has created a situation whereby people feel they cannot improve their circumstances for fear of becoming ineligible for such housing. While understandable, this attitude is counterproductive to building a resilient and productive workforce and a strong economy…the supply of public housing is short and waiting lists are long—properties are old and in need of repair and/or renewal and the income derived from rents is insufficient to keep the sector viable. Also, there are inefficiencies associated with the under-utilisation of properties. (p246)

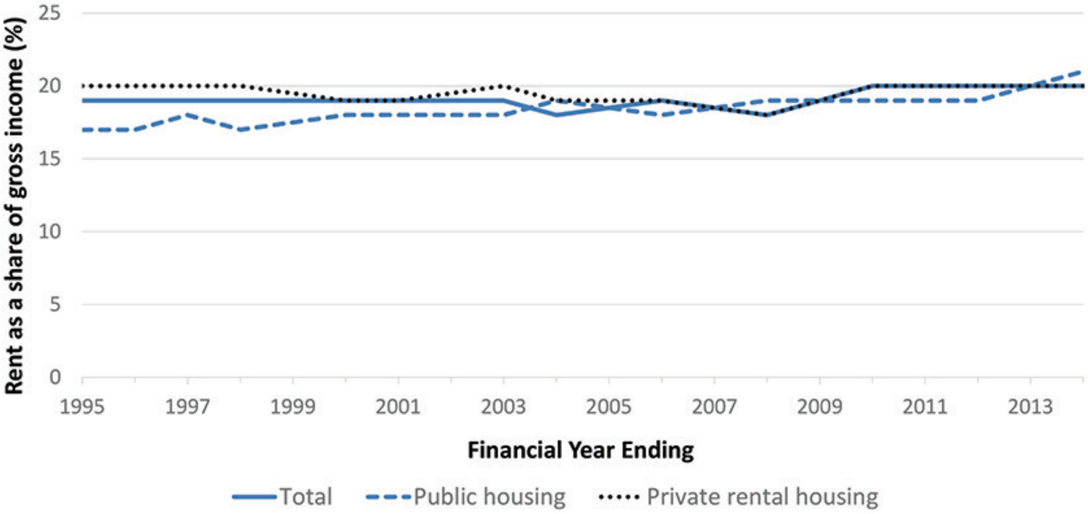
The Productivity Commission:[31]

> The social housing stock is no longer fit for purpose…Many social housing properties are in an unacceptable condition and are underutilised, and there is a lack of data to monitor service providers…The system produces inequitable outcomes. (p13)
>
> Importantly, users have little choice over the home they are allocated, and there is little competition between government and non-government providers to manage social housing. (p14)

A Report to Commonwealth and State Treasurers on financing affordable housing:[32]

> The main issue impacting on the supply of sub-market rental housing is the lack of investment available to construct new and enduring dwellings. This lack of investment is driven by the financing gap and the new nature of the asset class. (p15)
>
> …
>
> while demographics and income characteristics of public housing tenants have changed, a large part of the social housing stock has not been updated, leaving significant maintenance issues and underutilisation of stock (pp17–18).

Figure 2: Rent as a share of gross household income



Source: ABS.[33] Gross income is income before tax. Other measures below use disposable income which is after tax.

2.1 Declining social housing 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.

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.[34]

Over the period from 2005–06 to 2014–15, rent as a share of disposable income remained relatively unchanged for many demographic groups:[35]

- At each income quintile, including the lowest quintile which holds significant portions of public housing tenants.[36]
- At each wealth quintile.
- For households earning mainly wages and salaries.
- For households where the main source of income is pensions — these households are likely to include many public housing tenants.
- For single person households, childless couples, single parents and couples with children.

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).[37]

Other measures show rent as a share of income has remained stable or improved recently, including the CoreLogic Housing Affordability Report,[38] and the Housing Affordability Report from Adelaide Bank and REIA.[39]

Note affordability measures — with the exception of the measures shown in Figure 2 — generally include data from everyone in the relevant demographic, so rent includes private renters, and income includes both private renters and all non-renters. As a result, the figures may not fully represent the outcomes for public housing tenants.

Box 2: Rental stress

A household is generally said to be in rental stress when the household is in the lowest 40% of household income, and pays more than 30% of income in rent. Using this measure, rental stress levels are low in social housing, with 0.7% of public housing tenants in stress, although this has increased from 0.4% in 2012.

In community housing, 4.4% of tenants were in stress in 2016, a figure that has fluctuated significantly over the period 2012–2016 with no clear trend.[40] In the private rental market, rental stress levels were much higher at 41.2% in 2016,[41] highlighting the large difference in effective support between social and private rental housing, discussed in Section 2.2.

Rental stress is however a flawed measure of housing affordability. In particular, almost half of those in overall housing stress regarded themselves as financially reasonably comfortable or very comfortable in 2010, and only 8% considered themselves to be in poor or very poor financial position.[42] Most of those in housing stress escape quickly, with 73% of those in housing stress exiting after one year, and only a small minority fail to exit stress after 5 years.[43] In addition, a substantial number of low income earners have housing costs close to 30%, so small changes in housing costs can change this measure considerably.[44]

2.2 Social housing performs poorly on many measures of adequacy

In 2016, 4.2% of public housing was overcrowded, having insufficient bedrooms for the occupants,[45] but remote and Indigenous social housing have much higher rates of overcrowding.[46] More than 16% of public housing is underutilised, having surplus bedrooms.[47] This inefficiency of use has increased strongly in recent years,[48] 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.[49] Underutilisation partly reflects the dramatic shift in tenant demographics away from families to singles, shown in Figure 1.

In 2014–15, 23% of tenants with greatest needs waited for more than 2 years to enter a tenancy; for the remaining tenants, 51% were on the waiting list for more than 2 years before they entered public housing.[50] 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.[51]

The total waiting list for social housing was 194,592 in 2016.[52] 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.[53] 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,[54] and lengthened by making eligibility and application easier.

Prospective tenants for public housing 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[55] — which is more than 10 years long in most parts of Sydney, as noted above. As a result, the dwelling allocated to tenants can be a question of timing and luck.[56]

In 2016, about 27% of public housing tenants were not satisfied,[57] and almost 20% of dwellings do not meet a (fairly undemanding) adequacy standard.[58] Poor maintenance is a significant issue with public housing.[59]

Another reason for the length of waiting list is the very low turnover of tenants in public housing.[60] While this does provide stability for tenants, this also 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 noted above.

The Henry Tax Review argued that public housing tenants, or households on the waiting list, faced substantial adverse incentives for workforce participation.[61] This conclusion has been supported in several subsequent studies,[62] including the 2015 McClure Review of Welfare that argued 110,000 public housing tenants were in 'employment traps' that discouraged work.[63] One study argued being on the housing waiting list reduces labour force participation for males by up to 12 percentage points and females by up to 5 percentage points.[64] A Senate Inquiry into Affordable Housing heard arguments from a number of parties that public housing tenants deliberately chose to avoid extra income in case this affected eligibility for social housing.[65]

A research paper by the Productivity Commission found being in public housing had only a small impact on employment,[66] but that 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 paper also included evidence suggesting there was an adverse employment effect from being on the public housing waiting list.[67]

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.[68] Including the capital costs of public housing[69] and the benefit of more secure tenure in public housing[70] 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.[71]

2.3 Financing of social housing is probably unsustainable

The financing of social housing faces a number of significant problems.

The SPP funding from the Australian government to the states was worth $1.3bn in 2015–16, as stated in Section 1. This funding is not linked to any outcomes, and is not linked to the provision of public (or social) housing. The only requirement is that states spend SPP funding on affordable housing.[72] The funding to each state under the SPP is determined by two factors: state population and wage growth, with no conditions based on performance.[73] As a result, the funding allocation provides no incentives to states to invest in public housing, maintain the existing housing stock, improve services to tenants, or engage in reforms of the sector.

In addition, the NAHA has so far failed to meet most of its performance benchmarks, as shown in Table 3.

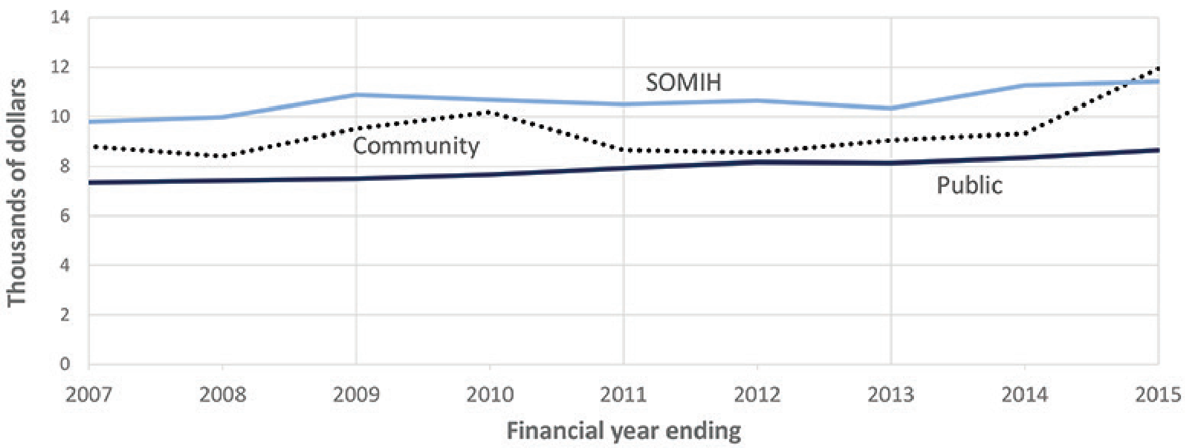
As public housing is becoming more focussed on the least well-off over time, as discussed in Section 1, the rent received from tenants is declining.[74] At the same time, funding from state governments is falling in real terms.[75] In addition, the costs of both social housing are growing in real terms, with community housing and state-managed Indigenous housing more expensive than public housing, as shown in Figure 3. The combined effect of falling rental revenue, declining government support, and increasing costs suggests that public housing is financially unsustainable.[76]

Table 3: Evaluation of NAHA against stated benchmarks

Benchmark	Target	Result to date	Success/Failure (to date)?
Proportion of low-income renter households in rental stress	10% reduction from 2007–08 to 2015–16	7% increase from 2007–08 to 2013–14[77]	✘
Number of homeless Australians	7% reduction from 2006 to 2013	17% increase from 2006 to 2011[78]	✘
Proportion of Indigenous households owning or purchasing home	10% increase from 2008 to 2017–18	Negligible change from 2008 to 2014–15[79]	✘
Proportion of Indigenous households living in overcrowded conditions	20% reduction from 2008 to 2017–18	Decline of 26% from 2008 to 2014–15[80]	✓

Sources: Benchmarks and targets are from the NAHA.[81] Results: see footnotes in the table. See also COAG (2016).[82]

Figure 3: Real cost of social housing, 2015–16 dollars



Source: Report on Government Services 2017.[83] SOMIH = State Government Owned and Managed Indigenous Housing.

A likely cause of the higher cost of community housing is a lack of scale, with 88% of nationally registered community housing providers having an indicative size of fewer than 500 dwellings.[84] By contrast, the industry notes the optimum scale may be around 5,000–10,000 properties.[85] This lack of scale increases costs, probably causes some of the sector's finance problems (listed below), and limits the ability of providers to have a more even pipeline of developments. [86] Community housing may also have higher costs because private providers spend more on maintenance and related services to tenants.

The community housing sector's finance problems include:

- Inadequate scale to justify financing from institutional investors.[87]
- Insufficient return for many investors.[88]
- Low liquidity of investments in the sector, which constrains investment from many institutional investors because they have limits on illiquid investments.[89]
- Inadequate governance, transparency and reporting for many investors.[90]
- Short length of existing loans, creating significant refinancing risk and mismatch with asset lives.[91]
- Hefty security requirements for loans.[92]
- Many loans required to be interest only.[93]
- Borrowing is often only permitted against the present value of expected rent, rather than the property value which is often much higher.[94]

3. Financing social housing through a bond aggregator

In response to the concerns about financing social housing, the Australian Government recently announced[95] a taskforce to develop an entity, also known as a 'bond aggregator'. Broadly, this entity would borrow funds, including from institutional investors, and then on-lend these funds to social housing providers. The bond aggregator would alleviate the financial problems of social housing, according to a Report to Commonwealth and State Treasurers.[96] Details of how the aggregator might work are in Box 3.

Proponents argue:

- The debt issued by an aggregator would be of lower risk than any individual provider due to diversification.[97]
- The bonds issued by the aggregator would be easily traded,[98] be issued regularly,[99] and be in sufficient size to be an important part of the bond market.[100]
- Community housing providers that borrow from the aggregator will likely improve their governance arrangements and reporting.[101]
- The aggregator will have greater financial sophistication than individual housing providers.[102]
- The aggregator will reduce the risk to individual housing providers that their borrowings won't be rolled over.[103]

In addition to these benefits to the sector, it has also been suggested[104] that the aggregator should assist social housing by being provided with a government backed guarantee of its borrowings. This would substantially reduce the borrowing costs of the aggregator, but with significant risks discussed in more detail below.

The bond aggregator could potentially also finance providers of 'affordable housing', which is private rental accommodation with below-market rent.[105] This section includes 'affordable housing' when using the term 'social housing'.

While a bond aggregator would address many of the financing problems raised in Section 2.3, it would not directly resolve many of the other problems raised in Section 2 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, a poorly designed aggregator would discourage reforms to address these broader problems, as discussed below.

Box 3: How would the proposed bond aggregator work?

There are several options being considered by the federal government for a bond aggregator, including the aggregator being an independent government owned business, like the NBN or Clean Energy Finance Corporation, or a not-for-profit directed by sector experts or housing providers.

The main assets of the proposed Australian aggregator would be the loans to housing providers, while its liabilities would be the bonds issued to the financial market. The aggregator's balance sheet would be similar to that of a bank.

Also similar to a bank, the aggregator will likely charge an interest margin on loans to fund its operations and build a capital buffer to cover defaults and reduce risks to bondholders.

Several other countries have entities to fund social and affordable housing. The Housing Finance Corporation (THFC) in the United Kingdom is an independent not-for-profit organisation making loans to affordable housing providers. It has operated for 30 years, and had a loan book of £4.4 billion in 2016. THFC raises funds from the institutional bond market and then on-lends to housing providers that meet due diligence tests. The loans to housing providers are at lower interest rates and longer tenors than from traditional financing sources.

If the proposed Australian aggregator refinances existing borrowings, the borrowings would be over $1bn. A report to federal and state government Treasurers indicated the aggregator could expand borrowing capacity by an additional $765m. So aggregator's lending book, when fully operational, could be over $1.5bn.

The aggregator would likely issue bonds into the Australian financial market to wholesale investors, particularly Australian super funds. The bonds would probably be issued on a semi-regular basis and be traded on secondary markets.

It is proposed that the aggregator would conduct due diligence on housing providers who seek funding, similar to THFC in the UK. One proposal is that housing providers would be allocated funding on a competitive basis.

The plans are for the aggregator to provide financing only for existing housing stock rather than for new construction projects, as traditional banks are seen to have an advantage in construction financing. This financing restriction would limit the ability for an aggregator to cause an increase in the supply of affordable housing. However, this plan may change.

Sources: *Council on Federal Financial Relations (2016)* Innovative Financing Models to Improve the Supply of Affordable Housing – Affordable Housing Working Group Report to Heads of Treasuries*, October, particularly pp36–39; and Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014)* Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220, pp6 and 96*.

3.1 An aggregator without government subsidy has potential value

A bond aggregator should be worthwhile as long as it operates without substantial government support. An aggregator would enable social housing providers to access financial markets on a scale they cannot achieve independently. An unsubsidised aggregator is likely to be cheaper than continuing the current approach which sees private housing providers facing significant difficulties in accessing finance — and therefore requiring costly assistance from government.

In addition, an unsubsidised aggregator would not discourage the other reforms discussed in this paper, including: increasing the scale of community housing; transferring public housing to the community sector; treating community and public housing similarly; and providing tenants in social housing with informed choice. If the aggregator allocates funding to housing providers on a competitive basis, as has been suggested,[106] this may in fact encourage sectoral reforms.

However, it appears likely that the Australian government will propose a bond aggregator with significant government support.[107] This raises a number of important problems, discussed below.

3.2 An indirect and inefficient way to subsidise industry

Subsidising a bond aggregator is an indirect way of subsidising community housing. It is less transparent, and less directly targeted, than other options that subsidise the housing providers directly.[108] A subsidy to the aggregator is only worthwhile if it is fully passed on to housing providers, in which case it would be better to subsidise the industry directly instead of through an intermediary. In addition, detailed monitoring would be needed to ensure a full pass-through of subsidy occurs, increasing costs for the industry.

Subsidising the industry through a bond aggregator also has other problems:

- It would reduce or remove the ability for governments to use direct contracts with housing providers to drive improved quality, efficiency and cost reductions, including through contestability (see Section 6).
- It would mean funding would be less able to follow tenants to different housing providers (full portability of funding is discussed in Section 8).
- It could entrench the bond aggregator as a *de facto* monopoly provider of finance to social housing providers. This would remove the competition and

contestability that are significant drivers of efficiency, innovation, quality and choice in financing.[109]

One suggestion[110] is that tax credits be used as an indirect way to fund the aggregator: for example, tax concessions for the investors in the bonds issued by the aggregator. This approach has additional problems, as it is even less transparent than direct funding to the aggregator — because the effective level of support is often not known: the value of tax expenditures are often estimates rather than exact values.[111] In addition, it would make the tax system more complex, can encourage tax avoidance,[112] and can reduce budget certainty compared to direct subsidies. Tax credits would provide smaller incentives for super funds to invest because they are on lower tax rates, even though super funds are a target group for investing in social housing.[113]

While this report favours direct funding, the National Rental Affordability Scheme should not be used as a model for this form of funding, as discussed in Box 4.

Box 4: The National Rental Affordability Scheme should not be revived

The National Rental Affordability Scheme (NRAS) was announced by the Australian government in 2008,[114] to provide a subsidy to investors to build new rental properties with rents at least 20% below market rates.[115] The NRAS has been critiqued in two reviews by the Australian National Audit Office,[116] and was closed to new funding in the 2014–15 Budget.[117] The cost of the scheme over its whole life was estimated to be around $3.3 billion.[118]

The NRAS represents poor value for money. The total NRAS subsidy was $10,916 per dwelling per year in 2015–16.[119] This exceeds the value of the recurrent cost of public housing of $8,766 per year,[120] or the average yearly level of Commonwealth Rent Assistance of $3,251 per person.[121] Effectively, for each household assisted under NRAS, more than three could have been provided with rent assistance, and the households would have had a much wider choice of property.

The NRAS likely reduced housing costs, but at excessive cost to the public. In 2009, the reduction in housing costs per household was estimated at $1,259 while the cost to taxpayers was $8,000.[122] This is a (simplified) benefit-cost ratio of 0.16, clear evidence that the closing of the NRAS was worthwhile — and this calculation doesn't include the costs of running the NRAS, which would make the benefit-cost ratio even worse. It would have been a clear improvement to just cancel the NRAS and pay the released funds directly to households needing affordable rental housing.

These calculations do not include the public 'benefit' of new construction under the NRAS. However, this should not be included as we do not know the net increase in dwellings that can be attributed to the NRAS[123] — the scheme may have been used on new rental dwellings that would have been built even without the NRAS.[124] In addition, the public benefit is not clear when the NRAS buildings are not public property and remain with the private owners. Therefore, new construction should be omitted as a measurable public benefit of the NRAS.

The NRAS has a number of other problems:

- There is an inequity between tenants who are just on either side of the eligibility criteria for NRAS. Those who are 'just eligible' for an NRAS dwelling pay 20% less rent than those who are 'just ineligible', with minimal differences between these two groups.
- A secondary market developed in NRAS incentives, with anecdotal evidence that some NRAS allocations were exchanged for up to $30,000,[125] implying that some NRAS providers obtained substantial windfall gains at taxpayers' expense.
- The criteria for assessing applications for the NRAS do not mention value for money, efficiency (except in relation to energy efficiency), or effectiveness.[126]
- Some of the NRAS dwellings are utilised by international students, reportedly 10%.[127] It is highly unlikely that it is wise use of taxpayer funds to give foreign students a large accommodation subsidy, given that they generally are not eligible for educational subsidies such as the Higher Education Loan Program (formerly HECS).
- There are substantial costs of administering the NRAS and monitoring NRAS providers to ensure they are housing only eligible tenants and charging rent that is 20% below market. The Audit Office noted many administrative issues with the NRAS.[128]

A study by Bond University (2013)[129] purported to show the NRAS had substantial economic benefits. However, it achieved this result only by making highly unrealistic assumptions that:

- All NRAS dwellings were new supply, so no dwellings included in the NRAS would have been built without the NRAS; and
- All the resources — workers, capital and land — involved in NRAS developments would be otherwise unemployed and untaxed. This type of assumption has been critiqued by the Australian Bureau of Statistics.[130]

The Bond University study therefore provides no support for the continuation or reinstatement of the NRAS.

3.3 A government guarantee would create financial market risk

A specific form of government assistance suggested for the bond aggregator is a government guarantee of borrowings. This is an approach taken by governments overseas[131] and the Victorian Government for social housing providers.[132]

This form of government support has all the problems of general support outlined in Section 3.2, with some additional problems. Guarantees of borrowings are even less transparent than direct subsidies, because the effective level of support is not specified. A guarantee that lowers financing costs by 3 percentage points is equivalent to a direct subsidy of the same value, but is generally reported in the budget as though it is costless. However, this reporting does not reflect true economic costs: the real cost is equal to the difference between financing costs with and without the guarantee.[133] The costs of government guarantees (explicit and implicit) are not often seen, but when they are seen they can be large, such as the bailouts of various financial institutions during the GFC in the US and UK.[134]

Guarantees also remove the market pricing for risk, which could encourage housing providers to take more risks (also known as moral hazard).[135] To offset moral hazard, the bond aggregator would need to conduct detailed monitoring of individual housing providers, increasing costs to the industry.

It could be argued that the market is overstating the risks of lending to social housing, and the actual true costs are much lower, meaning a government guarantee has low cost. However, this has yet to be demonstrated. The risks of a guarantee may be large, and more evidence needs to be presented in favour of a guarantee than simply an argument that they have not caused substantial problems overseas.[136] In particular, it needs to be shown that the financial market is inefficiently overestimating the risk of lending to housing providers, and the guarantee will reduce this inefficiency. The arguments for a guarantee to date do not support this case.

3.4 A subsidised aggregator would discourage reform

A subsidised bond aggregator could easily discourage important reforms to social housing, by allowing the costs of inaction, or lack of reform, to be transferred to the Australian government. The reforms proposed in this paper include reforming planning systems to reduce the costs of affordable housing and encouraging reform of community housing sector. State governments currently bear some of the costs of policy lethargy because a lack of reform increases the cost of social housing.

However, a subsidised bond aggregator would shift the costs of inaction on these reforms to the Australian Government. As a result, reform in these areas will be discouraged and costs to taxpayers will be higher. Conversely, the reforms considered in this paper to increase the scale of community operators would largely obviate the need for a bond aggregator.

3.5 State public housing does not need an aggregator

The bond aggregator may be used to finance state-owned public housing.[137] However, there is little or no need for this, as states are able to borrow themselves for social housing.[138] The federal government can probably borrow at lower rates than state governments,[139] but this is an argument for the national government to conduct *all* borrowing on behalf of state governments, rather than borrowing for housing only.

In fact, borrowing by the federal government on behalf of the states would run completely counter to the long-standing decision for states to become responsible for their own borrowing.[140] It isn't clear why a special exemption from this approach should occur for affordable housing only. Why shouldn't there also be 'special' exemptions for state borrowing to fund schools, hospitals or roads?

3.6 An aggregator may not have a substantial impact on supply

A subsidised bond aggregator has not been shown to result in an increase in housing supply. It may speed up the supply of affordable housing, but this needs to be demonstrated rather than just stated.[141] The aggregator could just be used to finance existing housing, or finance new housing that would have been built anyway.

One report estimates that if the aggregator is used to refinance existing debt of community housing, this would release funds to build up to 2,200 new dwellings.[142] This is a small increase, 0.5% of the number of community housing dwellings.[143] Regardless, this 2,200 figure is purely hypothetical; the number of additional dwellings could be much larger than this — or it could be much smaller. The international evidence is not promising, with a similar Housing Finance Corporation in the UK used to improve operational finance, rather than new development.[144]

In addition, a subsidised bond aggregator is an indirect and inefficient way to increase housing supply compared to direct subsidies to providers, or better yet, the supply-side reforms considered in Section 6.

4. Initial reforms to the National Affordable Housing Agreement and social housing rents

Given the poor performance of the National Affordable Housing Agreement (NAHA), as outlined in Section 2.3, reforms to this funding agreement, worth $1.8bn in 2015–16, are warranted.

The main recommended reform is to dramatically reduce the size of the NAHA, with the Australian Government instead providing assistance to public housing tenants directly through Commonwealth Rent Assistance. This recommendation is in line with recommendations of the Henry Tax Review[145] the National Commission of Audit,[146] and the McClure Review of Welfare.[147] The indirect assistance to public housing, through the NAHA, would be replaced with direct assistance to tenants.

Rent assistance totalling $4.4bn in 2015–16[148] was paid to 1.3m recipients in 2016,[149] with an average yearly payment of $3,251 per recipient, or $62 per week. If every public housing tenant were paid this amount in rent assistance, this would cost the federal government around $1.0 billion,[150] with the NAHA falling by this amount. Similarly, public housing rent would increase by the amount of rent assistance.[151]

This proposal would initially not result in a substantial change in the budget of any government or the finances of any public housing tenant. Despite this, it will have some benefits:

- Housing assistance could be more integrated with other income support, which is mostly provided by the federal government. Public housing assistance from state governments overlaps with other support programs of the federal government;[152] having more of this assistance provided nationally may reduce the conflicts.
    - This reform could improve administration and compliance if the systems of the Australian Government are better than those of the states.
- The rent paid to public housing will increase, providing a greater price signal to both state governments and tenants. State governments would have greater incentives to fill unoccupied properties, the incentives for repair and maintenance would be sharper, and tenants might feel a greater responsibility for a property.
- This reform would put public and community housing on a more level playing field, reducing competitive non-neutralities between the two sectors. This would also reduce artificial incentives to transfer public housing dwellings to the community sector (this is discussed further in Section 6).
- It would be easier for public housing authorities to house some tenants in private dwellings, as the cost of doing this would be lower.[153] This would provide state governments with greater flexibility, including to meet the mismatch between housing needs and the public housing stock.[154]
- The reduced size of federal-state funding agreements should improve state government incentives and accountability,[155] as states would be less able to blame the federal government for the problems facing the sector. Instead, the states would have to take greater responsibility for the performance of social housing.
    - The reduction in the size of state funding also reduces vertical fiscal imbalance, which is considered by many experts to be a worthwhile reform for Australia.[156]

A less preferable option would be to make remaining funding under the NAHA more prescriptive, for example requiring states to provide public housing, and providing funding relating to public housing on a per-dwelling basis or similar. However, there would be some disadvantages with this approach, including reducing state autonomy and responsibility. This would also create a discrepancy between funding for tenants in public and community housing, when funding should be neutral between housing providers.

Instead, a better model would involve deductions off NAHA payments when states fail to implement other reforms considered in this paper, including the reforms to: provide tenants with informed choice, differentiate rents based on dwelling quality, transfer public housing assets to the private sector, require states to use contracting to drive efficiency and quality improvements, and reform planning laws to encourage increased supply of affordable housing. This would mean NAHA payments become more like National Competition Policy payments, which the Productivity Commission argued played a "very important role" in encouraging ongoing reforms, but are now no longer in use.[157]

5. Reforming social housing choice and rents

As noted in Section 2, public housing tenants often have little or no choice of dwellings. A significant reform to this sector would expand this choice over time. New tenants and existing tenants wishing to relocate would be provided with a choice of properties to move into. For example, if 2 social housing properties are vacant in a region and ready for use and 10 tenants already resident within the region wish to move, then 12 households in total will be offered the choice of 12 properties. Well-developed procedures can be used to allocate the properties to households in an equitable and efficient way, procedures that have successfully been used for allocating doctors to hospitals and students to schools based on stated preferences.[158] All public and community housing dwellings should be included in the choice system in relevant regions.

Providing choice would put tenants at the heart of social housing, as tenants are generally best-placed to make choices about the dwellings and services they receive. Giving tenants this choice will allow them greater control over their lives.[159] The Productivity Commission has argued for this reform, noting there has been success with providing public housing choice in the United Kingdom, the Netherlands and Canada.[160] These examples should provide guidance for how choice could be implemented in Australia. IPART have recommended a limited form of choice be implemented for public housing in NSW.[161]

Increased choice should be combined with two other reforms:

- Differentiate social housing rent based on dwelling quality and location for new tenants and those who choose to move. Higher rents could be charged for larger, higher quality properties in more desired locations, and conversely lower rents in less desirable properties. This would not mean charging rents at market rates,[162] but will move rents in a market-based direction.
- Require social housing providers to publish data on rents, location, maintenance, quality and tenant ratings for properties, so that tenants are able to exercise informed choice. Some tenants may require assistance to build their capacity to make informed choices.[163] This could involve programs similar to those that support user choice in the NDIS.[164]

These reforms would provide significant benefits:

- Rents for new tenants would more closely reflect the true cost of housing, improving incentives for both tenants and governments.
    - Combined with tenant choice, this would enable tenants to make more decisions that trade off location, quality and rent.[165] This would also provide better signals to providers about the housing that is valued by tenants.[166]
- Inequities in the current system would be reduced:
    - At the moment, prospective tenants play a lottery with the qualities of public housing, with different tenants paying the same rent even with large differences in housing quality and location. Differentiated rents would reduce this inequity.
    - The substantial inequity between households in

public housing, compared with similar households outside public housing, would be reduced.[167] As noted earlier, average rent assistance payments are more than 2.5 times the average recurrent cost of public housing.[168]

- Existing tenants will be protected from rent changes. For new tenants, rents would be closer to market rents, which would improve incentives and household wellbeing:
  - The disincentives to leave public housing would be smaller — so households would be more likely to move for employment, family, or any other reasons.[169]
  - Households would have greater incentives to leave poor quality public housing, encouraging housing providers to remedy quality problems.
  - There would be shorter queues for public housing,[170] which reached 194,592 in 2016 (noting the earlier concerns about the waiting list).[171] This will reduce bureaucratic costs, enable better targeting of social housing, and reduce the disincentive effects of being on the list (see Section 2).
  - Higher rents on larger properties will encourage tenants to move out of properties that are too large for their needs, increasing the effective supply of public housing. At least 16% of public housing tenants are in houses that have more bedrooms than required.[172] This extra supply could be used to reduce the number of overcrowded dwellings or to provide extra dwellings to households on the waiting list.

It is essential that differentiation of rents be combined with choice. Increasing rents without choice would force some tenants to pay more for a better property when they would prefer a cheaper one; while providing choice without differentiation of rents would mean excessive tenant demand for the best properties and few, if any, tenants wanting the least desirable properties.[173]

The specific benefits of increased tenant choice include:

- Increased competition between housing providers, driving innovation and efficiencies,[174] encouraging providers to respond to household preferences and needs,[175] and improving the match between tenants and housing,[176] particularly when providers have access to the data collected from tenant choices.
  - Providers will have to work harder, but this would be to the benefit of tenants.
- Social housing tenants would have greater choices, in line with the growing availability of choice in other human services such as aged care,[177] and the National Disability Insurance Scheme,[178] in addition to areas of existing choice such as in general practice and dentists.
- Increased choice might enable funding to be targeted to the individuals in need, rather than indirectly through housing providers (full portability of funding is discussed in Section 8).
- Tenants who chose their dwellings are more likely to stay in the same area and invest in the community.[179]
- For other tenants who wish to move, providing them with choices would substantially increase choice for all, and potentially allow tenants to move much more quickly.[180]
  - Increasing choice for tenants who wish to move would likely result in more tenants relocating closer to family or work, improving their wellbeing.

5.1 Complementary & alternative reforms

Several other policies could be implemented to reform tenant choice and rent assistance.

This paper proposes that public housing rents be differentiated based on dwelling quality and location. In addition, there is a case for removing the link between rent and tenant income, reducing the disincentives for work outlined in Section 2. However, there is still a case for the subsidy for tenants to decline as income increases, with tenants who have incomes well above the eligibility thresholds being encouraged to move into the private rental market. A range of rental reforms are currently being examined in a review by IPART in NSW,[181] and an earlier report by the Industry Commission considered rental reforms along the lines proposed in this paper, including implementation details.[182]

Choice and rental differentials should be rolled out to existing tenants over time, with an important protection: if existing tenants face a rent increase, they would need to be offered the choice to move to another nearby property with equal or lower rent. Rent increases should be deferred if there are no suitable alternatives.

The federal government and states should share the costs of changes in rent assistance. This will provide stronger incentives for states to address housing affordability problems by improving supply. The current approach imposes substantial cost of housing affordability on the federal government through rent assistance, while states can benefit from housing unaffordability through increased stamp duty and land tax revenue.

A less preferred alternative would have the states fully take over the funding of rent assistance from the federal government. This would provide stronger incentives to states to deal with housing affordability as the states would incur a much greater cost of failing to deal with this issue. However, housing affordability is also substantially affected by decisions of the federal government, such as policies relating to population, migration, employment, regulation of the financial market, taxation and broader welfare programs. As both levels of government affect housing affordability, it would be preferable for both levels to share in the costs of increased rental assistance caused by worsening affordability.

Proposals for increases in rent assistance are considered in the next Section.

6. Improving supply of social housing

To address the numerous issues with social housing outlined in Section 2, there have been proposals for increased government intervention or spending; for example increasing rent assistance,[183] funding to the states under the NAHA, or subsidising a bond aggregator (see Section 3). This paper argues that direct funding to housing providers or tenants is a better solution than indirect funding through an aggregator.

However, the preferred solution would be to free up planning laws and regulations to reduce costs of social and affordable housing, including by:[184]

- Relaxing tight regulations on land supply and use.
- Accelerating lengthy planning and development processes.[185]
- Reducing excessive costs on development, particularly stamp duty and developer levies. Stamp duty effectively imposes double taxation on developments and discourages housing supply, as argued by the Henry Tax review.[186]
- Reducing excessive costs of development, particularly in large-scale construction projects — there are concerns that union activity combined with inadequate competition increases costs and reduces productivity.[187] In addition, ensure building codes do not impose unnecessary costs on new social housing construction.

The benefit of relaxed restrictions on land use is potentially very large. A study published by the Reserve Bank found that adding one extra storey to dwellings in a city with a population of 4 million would reduce housing prices by 13%.[188] The impact of this change would dwarf the impact of any other reform, by increasing housing affordability, and likely reducing rents and the costs of new developments. These changes would all, directly or indirectly, take substantial pressure off social housing.

Addressing government regulations that artificially constrain housing supply 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. In addition, subsidies can just be capitalised into asset prices. It is frequently stated that the First Home Owners' Grant causes price increases,[189] but this argument could also apply to other subsidies; even to social housing.

Also as noted in Section 3.4, substantial Australian Government housing subsidies may reduce the incentives for state governments to address housing affordability, because they would avoid more of the costs of housing unaffordability, while the federal government would pick up more of the cost.

7. Transfer public housing to community providers

State governments have transferred the management of some public housing to private providers.[190] Federal and state government housing ministers supported this transfer in 2009.[191]

This policy should go significantly further, with state governments transferring both management *and* ownership to private operators,[192] a view shared by many industry experts.[193] The new owner should be selected by competitive processes.[194] The housing assets could be sold at market value to the new owner, but it is more likely that they would be transferred at below-market value or for no compensation. If so, there should be appropriate caveats ensuring that the effective gift of assets will permanently remain in use for social housing.

The state government should contract with the new owner for the ongoing provision of social housing, including to existing tenants, as has generally occurred with the transfers to date.[195] The contract could specify minimum service standards and quality in detail. However, a better option would be to have less prescriptive detail, instead allowing informed tenant choice to drive improvements in quality, as recommended in Section 4. Tenants, rather than the government, would be specifying preferred service and quality standards.

The benefits of transfer of public housing to community providers include:

- The private sector will likely manage housing more strategically, selling inappropriate dwellings and developing assets over time. Any sale proceeds would need to be used for replacement housing if the asset values are caveated, as recommended above.
    - Some public housing blocks could sustain more dwellings; while public housing authorities could redevelop to increase capacity, they often do not.[196]
- Financing relating to transferred property would be more flexible as the dwellings would no longer be subject to government budget constraints.
    - New owners of transferred property would have much more financing flexibility if ownership is transferred, compared to transfer of management alone.[197]
- A transfer of property to community providers is likely to improve performance:
    - Tenant satisfaction is higher in community housing; with 80% of tenants satisfied or very satisfied, compared with 73% for public housing.[198]
    - Maintenance is better: 89% of households in community housing live in dwellings that meet adequacy standards, compared to 81% of public housing households.[199]
    - Community housing is less likely to be overcrowded or underutilised than public housing.[200]
    - The incentives for improved performance will be enhanced if complementary reforms are undertaken to increase tenant choice and information (see Section 5) and increase contestability (see Section 8).
- Community housing providers will gain scale, reducing costs and improving efficiency, as discussed in more detail in Section 8. This should, over time, reduce costs to taxpayers.
- Tenants in community housing are more likely than public housing tenants to transition to mainstream housing,[201] freeing up housing stock for the most needy.
- Community housing providers are better placed to provide more related services tailored to the needs of tenants,[202] such as financial counselling and mental health care.
- State governments are currently in a conflicted role: regulating and subsidising community housing, while providing public housing in competition with community providers. If most or all public housing is transferred to the private sector, this conflict will diminish or disappear.

Community housing currently costs more per dwelling than public housing (see Figure 3). However, this is likely due to inadequate scale and increased spending on maintenance and related services for tenants, as argued in Section 2.3. With increased scale, due to transfers and mergers, the costs should decline.

8. Institutional reforms to social housing

To drive ongoing cost reductions, efficiencies, and improvements in service delivery, state governments should use competition and contestability in its contracts with housing providers. The industry has proposed guidelines on how contestability should operate to improve success.[203]

Increased competition and contestability should drive mergers between social housing providers, which will increase scale — as will the proposed transfer of public housing to social providers (see Section 7). This will substantially improve the efficiency of the sector. As noted in Section 2.3, 88% of nationally registered community housing providers are likely to be well below the suggested optimum scale of 5,000–10,000 properties, indicating the benefit of mergers. A report to the federal and state treasurers also argued that mergers between community housing operators will enable them to have a more even pipeline of development projects, and improve attraction of capital.[204] Several sectoral experts have also promoted mergers between smaller providers.[205]

Community providers that increase scale will become less risky, and should therefore find it easier to access finance. Many investors need to invest at a scale well above the borrowing requirements of existing operators.[206] Large-scale housing operators will be able to obtain many of the benefits of the proposed bond aggregator. A larger operator, like a bond aggregator, would likely have greater financial sophistication, lower risk, reduced concern about debt rollover risks, borrow more regularly, and have better governance arrangements, than smaller operators.[207] Therefore, increasing the scale of community providers would achieve many or all of the benefits of a bond aggregator.

State governments have several roles in social housing, particularly providing housing, purchasing housing services from private providers, and regulating private providers — generating conflicts of interest. To address this problem, the different roles of government should be separated. The funding arm of government would purchase social housing from all providers, including from state housing authorities. This structural separation has occurred in New Zealand,[208] and has been recommended by IPART in NSW.[209] This will aid competitive neutrality between all types of social housing provider, increase transparency and should reduce political interference.[210]

Any policies treating public and community housing differently should be removed, consistent with competitive neutrality principles.[211] In particular, Commonwealth Rent Assistance should be provided to public housing tenants, as recommended in Section 3. The current practice, providing rent assistance to community housing only, provides significant incentives to transfer public tenants to the community sector. While this transfer is worthwhile, as argued above, it should not be driven by access to rent assistance. Community housing operators should also receive the same state government subsidies as public housing authorities.

Any differences in the application of other taxes and regulations, including land tax, GST, FBT, council rates and planning laws, should also be reduced or (preferably) removed.[212] State governments usually levy land tax using a progressive scale on an aggregated basis. The extra tax imposed on large-scale landholders, compared to small-scale ones, can be substantial.[213] This extra land tax impost should be removed, so land tax does not discourage large-scale land holding, including in community housing.[214] As argued above, increased scale of community housing will have many benefits, and land tax should not prevent an increase in scale.

Stamp duties discourage the buying and selling of social housing, even if community providers are exempt;[215] which is another argument for the reduction, or preferably abolition, of this particularly inefficient tax.[216]

This paper proposes public housing be transferred to the community sector, which comprises not-for-profit organisations. However, transfers to entities that are for-profit should be trialled as well, as for-profit businesses are able to operate in many other areas of human services such as private hospitals, general practice, medical specialists, disability care and aged care.

A more fundamental reform would allow the subsidy for public housing tenants to become fully portable to any housing provider. This would mirror the approach taken for Specialist Disability Accommodation under the National Disability Insurance Scheme.[217] If the experience of portability is successful for the NDIS, extending portability to public housing is worth piloting and rolling out more widely. An important issue with this reform would be maintaining some security of tenure for the most vulnerable tenants. A more detailed discussion of this proposal is in a report published by the Industry Commission in 1993.[218]

9. Conclusion

Social housing is a sector ripe for reform, with the sector showing poor performance against many criteria:

- many tenants are in dwellings that are too large or too small, and poorly maintained;
- dissatisfaction levels are high;
- costs are growing while funding is falling; meaning much of the sector is arguably financially unsustainable;
- waiting lists are very long, particularly in Sydney, and being on the waiting list creates substantial work disincentives;
- social housing providers have little incentive to respond to tenant needs and preferences;
- tenants have little or no choice over dwellings;
- there are major inequities in housing assistance; and
- affordability of social housing has declined on some measures.

In addition, the main funding agreement with the states has not met most of its stated targets; funding under this agreement is unlinked to performance, and fails to encourage reform.

The proposed reforms are:

- to provide new tenants, and tenants who wish to move, with informed choice and 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;
- implement structual separation of the different state government roles of purchasing, providing, and regulating social housing;
- treat public and community housing similarly for regulation, funding and tax, including by paying rent assistance to all social housing tenants; and
- reform the funding agreements with the states to make states responsible for increased costs of rental assistance and provide them with incentives for housing reform, including reforms to reduce costs of social housing.

A bond aggregator to finance social housing may be of some value, if it is not government subsidised. A government-sponsored aggregator would be inefficient, non-transparent, and likely discourage proposed reforms compared to direct funding of the sector. A government financial guarantee will have all these disadvantages as well as distorting the operation of the financial market. In addition, an aggregator is not needed for state-owned public housing.

Instead of increased subsidies through an aggregator, or increased rent assistance, existing restrictions on community housing supply should be relaxed to reduce costs.

The reforms supported in this paper are interlinked and should provide maximum benefits when implemented together. Overall the reforms are likely to lead to improved tenant choice, autonomy, and satisfaction, dwelling quality and maintenance, improved management of capital in the sector, better matches between tenants and housing, and improved incentives for tenants and providers. Various inequities in the system will be reduced, leading to shorter waiting lists and limiting the adverse employment incentives from being on this list; value for money for taxpayers and the community should be improved; and the sector should become more efficient and sustainable. [219]

Endnotes

1 See Table 1.

2 See SCRGSP (Steering Committee for the Review of Government Service Provision) (2017) *Report on Government Services 2017, vol. G, Housing and homelessness*, Productivity Commission, p18.2.

3 Sources: Number of dwellings: ABS (2017) *Residential Property Price Indexes: Eight Capital Cities*, Cat No 6416, Table 6. Figure is for June 2016.

Proportion of rental dwellings: ABS (2015) *Housing Occupancy and Costs, 2013–14*, Cat No 4130.0. Figure is for 2014.

Social housing: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.3. Figures are for June 2016 except Indigenous community housing which is for June 2015.

4 Figure for 1971 is from Department of Prime Minister and Cabinet (2014) *Reform of the Federation White Paper, Roles and Responsibilities in Housing and Homelessness, Issues Paper 2*, December, pp5.

Figure for 2016 is from Table 1.

5 Australian Institute of Health and Welfare (2014) *Housing assistance in Australia 2014*. Cat. no. HOU 275.

6 Figure for 2000 is from p250 of Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May. Figure for 2016 is from Table 1.

7 Lucy Groenhart; Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, Figure 7

8 Lucy Groenhart; Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, Figure 25

9 See Section 2.2.

10 NSW Department of Family and Community Services (2014) *Social Housing in NSW: A discussion paper for input and comment*, November, p58.

11 Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, Figures 7 and 27.

12 Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, p42.

13 Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231, Figures 34 and 35.

14 *Report on Government Services, Housing and Homelessness*, various tables.

15 SCRGSP (2017) Productivity Commission (2016) *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform,* Study Report, Box 3.

16 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, p18.6.

17 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p14

18 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.63

19 91.8% (=286,798/312,219) of public tenants pay below market rates. Source: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Tables 18A.4, 18A.5.

20 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.63

21 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.21

22 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, p251. See also SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Box 18.2.

23 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*. Table GA.1 for Commonwealth and table 18A.1 for States.

24 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.1. The NAHA specific purpose payment was $1.3bn with the remainder from related National Partnership agreements.

25 Helen Hughes, Mark Hughes, and Sara Hudson (2010a) *Private Housing on Indigenous Lands* CIS Policy Monograph 113; Helen Hughes, Mark Hughes, and Sara Hudson (2010b) *Submission to Indigenous Home Ownership Issues Paper*; Sara Hudson (2009) *From Rhetoric to Reality: Can 99-year Leases Lead to Homeownership for Indigenous Communities?*, CIS Policy Monograph 92; Sara Hudson (2011) *Overcoming indigenous disadvantage or Perpetuating indigenous disadvantage? Submission to the Indigenous Sub-committee of the Steering Committee for the Review of Government Services Provision*.

26 Productivity Commission (2015) *Housing Assistance and Employment in Australia — Volume 2: background papers*, p5.

27 New South Wales Auditor General (2013) *Performance Audit, Making the best use of public housing*, p3.

28 Department of Prime Minister and Cabinet (2014) *Reform of the Federation White Paper, Roles and Responsibilities in Housing and Homelessness, Issues Paper 2*, December, p18.

29 Ken Henry, Jeff Harmer, John Piggott, Heather Ridout & Greg Smith (2010) *Australia's Future Tax System: Final Report*.

30 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May.

31 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*.

32 Council on Federal Financial Relations (CoFFR) (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing – Affordable Housing Working Group Report to Heads of Treasuries*, October.

33 ABS (2015) *Housing Occupancy and Costs, 2013-14*, Cat No 4130, Table 2. Figures are not available for financial years ending 1999, 2002, 2005, 2007, 2009, 2011 and 2013.

34 There was a decline of 1 percentage point in NSW, and an increase of 3 points in Tasmania over this period. Source: ABS (2015) *Housing Occupancy and Costs, 2013-14*, State and Territory Tables.

35 Source: ABS (2015) *Australian National Accounts: Distribution of Household Income, Consumption and Wealth*, Cat No 5204.0.55.011. This analysis omits the year 2003–04, which is anomalous, with rent to income ratios substantially different from the figures in other years for several demographic categories. For example, for the third income quintile, the rent to income ratio is 4% in every year except 2003–04 when it is 10%.

36 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18.15.

37 See endnote 35.

38 CoreLogic (2016) *Housing Affordability Report, December 2016*.

39 REIA & Adelaide Bank (2016) *Housing Affordability Report, December quarter 2016*.

40 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18.2.

41 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.27.

42 Steven Rowley & Rachel Ong (2012) *Housing affordability, housing stress and household wellbeing in Australia*, AHURI Final Report No.192, pp47–48.

43 Gavin Wood, Rachel Ong & Melek Cigdem (2014) *Housing affordability dynamics: new insights from the last decade*, AHURI Final Report No.233, p3.

44 Steven Rowley & Rachel Ong (2012) *Housing affordability, housing stress and household wellbeing in Australia*, AHURI Final Report No.192, p62.

45 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.23.

46 See: http://www.aihw.gov.au/housing-assistance/haa/2016/dwellings-and-household-size/

47 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.29. The underutilisation figure is an underestimate, as it only counts dwellings with two or more unused bedrooms, not dwellings with one unused bedroom.

48 Master Builders Australia (2014) *Submission to Senate Economics References Committee Inquiry into Housing Affordability*, p18.

49 NSW Auditor-General (2013) *Performance Audit — Making the best use of public housing*, Exhibit 6. These figures are more comprehensive as they include dwellings with one extra bedroom as being 'inefficiently used', compared to the figures in the Report on Government Services, which only counts dwellings with two or more unused bedrooms as being underutilised.

50 Derived from Australian Institute of Health and Welfare (2016) *Housing assistance in Australia 2016*, Priority groups, Source data tables and supplementary data tables, Table S4.

51 NSW Department of Family and Community Services (2016) *Expected Waiting Times for Social Housing June 2016 — Overview*.

52 =147,884+8,199+38,509. Source: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, various tables.

53 Peter Abelson (2009) "Affordable Housing: Concepts and Policies" *Economic Papers* 28(1), March, pp27–38.

54 The number of potential applicants is longer than the current waiting list, because many households consider it would be futile to apply, see p55 of Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231.

55 Productivity Commission (2016) *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, Study Report, p17.

56 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p14.

57 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.40.

58 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.36. The adequacy standard is "at least four working facilities and not more than two major structural problems".

59 Australian Institute of Health and Welfare (2014) *Housing assistance in Australia 2014*, p27.

Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p13.

60 Over 40 per cent of tenants in public housing in 2015 had been there for over ten years. Source: Australian Institute of Health and Welfare (2016) *Housing Assistance in Australia 2016 Supplementary Data*

61 Ken Henry et al (2010) *Australia's Future Tax System: Final Report*, Section F5-2.

62 Kath Hulse, Terry Burke, Liss Ralston & Wendy Stone (2012) *The Australian private rental sector - changes and challenges*, AHURI Positioning Paper No.149, p20.

63 Patrick McClure, Sally Sinclair & Wesley Aird (2015) *A New System for Better Employment and Social Outcomes*, Final Report of the Reference Group on Welfare Reform to the Minister for Social Services, February, p59.

64 Gavin Wood, Miranda Stewart & Rachel Ong (2010) *Housing taxation and transfers — Final Report, Research Study for Australia's Future Tax System*, p82.

65 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp240–241.

66 Productivity Commission (2015) *Housing Assistance and Employment in Australia*, Commission Research Paper, Chapter 3.

67 Productivity Commission (2015) *Housing Assistance and Employment in Australia*, Commission Research Paper, p44ff.

68 Rent assistance: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.13; public housing assistance: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, p18.23.

69 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, p18.23

70 The Industry Commission (predecessor of the Productivity Commission) argued the greater security of public housing tenure was worth a premium of 2-3% to market rent in 1993. See: Industry Commission (1993) *Public Housing Volume 1: Report*, p xxv.

71 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p13.

72 Council of Australian Governments (2011) *Intergovernmental Agreement on Federal Financial Relations, Schedule D*, Paragraph D14.

73 Council of Australian Governments (2011) *Intergovernmental Agreement on Federal Financial Relations, Schedule D*, Paragraphs D25 and D26.

74 Infrastructure Partnerships Australia (2016) *From housing assets, to housing people: Fixing Australia's social housing system*, p24.

75 Infrastructure Partnerships Australia (2016) *From housing assets, to housing people: Fixing Australia's social housing system*, pp22 and 24.

76 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp243–244.

77 SCRGSP (2017) Report on Government Services, Housing and Homelessness, Table GA.4.

78 ABS (2012) Census of Population and Housing: *Estimating homelessness, 2011, Cat No 2049.*

79 28.6% in 2008, source: ABS (2010) National Aboriginal and Torres Strait Islander Social Survey, *2008, Cat No 4714, Table 1.*

28.7% in 2014–15, source: ABS (2016) National Aboriginal and Torres Strait Islander Social *Survey, Australia, 2014–15, Cat No 4714, Table 16.3*

80 A change from 24.9% in 2008 to 18.4% in 2014–15. Source ABS (2016) National Aboriginal and Torres Strait Islander *Social Survey, Australia, 2014–15, Cat No 4714, Table 1.3*

81 Council of Australian Governments (2009) *National Affordable Housing Agreement*, paragraph 19.

82 Council of Australian Governments (2016) *COAG Report on Performance*, pp7.

83 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Tables 18A.44, 18A.45 and 18A.46.

84 The National Regulatory System for Community Housing (NRSCH) reports that, as at June 2016, there were 186 community housing providers registered in tier 3, which has an indicative number of tenancies of less than 100, and 33 providers registered in tier 2, which has an indicative number of tenancies of less than 500.

The number of registrations is sourced from NRSCH (2017) *Sector Snapshot Report 2015–16* and indicative size is from NRSCH (2014) *Tier Guidelines*, p9. The providers registered under the NRSCH manage more than 64,000 dwellings, which is about 80% of total community housing dwellings of about 80,000, see Table 1.

85 Community and Affordable Housing Industry Associations (2017) *Reforms to Human Services: Issues Paper, Comments on the December 2016 Issues Paper Report*, p20.

86 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p45.

87 CoFFR (2016) *Affordable Housing Working Group: Issues Paper*, January, p7.

88 As above.

89 As above.

90 CoFFR (2016) *Affordable Housing Working Group: Issues Paper*, January, p8.

91 Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220, p2.

92 As above.

93 As above.

94 Infrastructure Partnerships Australia (2016) *From housing assets, to housing people: Fixing Australia's social housing system*, p26.

95 Scott Morrison (2017) "Turnbull Government establishes affordable housing taskforce", Media Release, 10 March.

96 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*.

97 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, Box 2.

98 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p1.

99 NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary*, p8.

100 NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary*, p12 and Section 8.

101 NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary*, p17.

102 NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary*, p6.

103 Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) Enhancing affordable rental housing investment via an intermediary and guarantee, AHURI Final Report 220.

104 See for example NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary* and Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) Enhancing affordable rental housing investment via an intermediary and guarantee, AHURI Final Report 220.

105 See website of NSW Department of Family and Community Services, Centre for Affordable Housing: http://www.housing.nsw.gov.au/centre-for-affordable-housing/about-affordable-housing/how-is-affordable-housing-in-nsw-developed

106 Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220, pp6 and 96.

107 "…a sustained increase in the investment by governments is required to stimulate affordable housing production and attract private and institutional investment", source: CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p2.

108 The other option, to subsidise tenants directly would effectively be moving towards full portability of public housing subsidies. This is further considered in Section 8.

109 As argued by the European Commission: http://ec.europa.eu/competition/consumers/why_en.html

See also the Harper Review of competition policy: Ian Harper, Peter Anderson, Su McCluskey & Michael O'Bryan (2015) *Competition Policy Review, Final Report*, March. The other disadvantage of monopolies — excessive pricing or price gouging — would be minimal for the proposed bond aggregator as long as it is government owned or controlled.

110 As raised in CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, pp48–49.

111 See for example many of the tax expenditures in Treasury (2017) *2016 Tax Expenditures Statement*.

112 The tax incentives attached to Infrastructure Borrowings in the 1990s created substantial incentives for large-scale tax avoidance, see Peter Costello (1997) "Infrastructure Borrowings Tax Concession", Press Release 97/03.

113 See for example Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220.

114 Australian Government (2008) *Budget 2008–09, Statement 1: Budget Overview*, Working Families Support

115 Parliamentary Library (2008) *Bills Digest 49, 2008–09 — National Rental Affordability Scheme Bill 2008*.

116 Australian National Audit Office (ANAO) (2015) *Administration of the National Rental Affordability Scheme*, November 18; and ANAO (2016) *National Rental Affordability Scheme — Administration of Allocations and Incentives*, November 7.

117 Kevin Andrews (2014) "Round 5 of flawed National Rental Affordability Scheme not proceeding", Media Release, 13 May.

118 ANAO (2016) *National Rental Affordability Scheme — Administration of Allocations and Incentives*, November 7, Paragraph 5.

119 ANAO (2016) *National Rental Affordability Scheme — Administration of Allocations and Incentives*, November 7.

120 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.44.

121 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.13. The NRAS will lower rents paid by households, which will reduce their CRA entitlement, but the impact on CRA spending overall is likely to be small, estimated at about $21m in 2009, see AHURI (2009) *What impact will the National Rental Affordability scheme have upon housing affordability?* AHURI Research and Policy Bulletin Issue 108, January, this compares to total CRA spending of about $3 billion in that year.

This calculation mirrors Peter Abelson (2009) "Affordable Housing: Concepts and Policies" *Economic Papers* 28(1), March, pp27–38, who argued the NRAS provided a subsidy of $8,000 per dwelling per year in 2008, which substantially exceeded the effective subsidy for public housing at that time of $5,500 per dwelling or Commonwealth Rent Assistance of just under $2,000.

122 AHURI (2009) *What impact will the National Rental Affordability scheme have upon housing affordability?* AHURI Research and Policy Bulletin Issue 108, January.

123 The ANAO argued "no processes have been put in place to monitor or evaluate whether the scheme has encouraged large scale investment in affordable housing", see ANAO (2015) *Administration of the National Rental Affordability Scheme*, November 18, paragraph 9.

124 It is also possible that increased housing supply under the NRAS has been offset by reduced supply of non-NRAS dwellings.

125 ANAO (2015) *Administration of the National Rental Affordability Scheme*, November 18; and ANAO (2016) *National Rental Affordability Scheme — Administration of Allocations and Incentives*, November 7.

126 See National Rental Affordability Scheme Regulations 2008 — Schedule 1.

127 Rick Wallace (2015) "Wealthy got half of university NRAS units, says audit", *The Australian*, November 19.

128 For example: Many applications by prospective NRAS providers were non-compliant: ANAO (2015) *Administration of the National Rental Affordability Scheme*, November 18, paragraph 3.13.

Accepted NRAS providers made numerous changes, on average 4 per dwelling: ANAO (2015) *Administration of the National Rental Affordability Scheme*, November 18, paragraph 4.3.

A large majority (70%) of a sample of claims for NRAS incentives contained mistakes: ANAO (2016) *National Rental Affordability Scheme — Administration of Allocations and Incentives*, November 7, paragraph 2.13.

129 Bond University (2013) *National Rental Affordability Scheme — economic and taxation impact study*.

130 The Bond University analysis uses analysis very similar to input-output multipliers which is criticised here: ABS (2010) *Australian National Accounts: Input-Output Tables - Electronic Publication, Final release 2006-07, Input Output multipliers*, Cat No 5209.0.55.001.

131 Julie Lawson (2013) *The use of guarantees in affordable housing investment—a selective international review*, AHURI Positioning Paper No.156; and Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220.

132 Richard Willingham (2017) "Victorian taxpayers to act as guarantor on $1b social housing projects", *The Age*, 23 February; Tim Pallas (2017) *Media Release: Reform, Growth and Better Outcomes for Social Housing*, 23 February.

133 As acknowledged in a report to federal and state treasurers, see CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p39.

134 USA: Mike Collins (2015) "The Big Bank Bailout", *Forbes*, 14 July.

UK: Polly Curtis (2011) "Reality check: how much did the banking crisis cost taxpayers?", *The Guardian*, September 12.

135 David Murray, Kevin Davis, Craig Dunn, Carolyn Hewson, & Brian McNamee (2014) *Financial System Inquiry Interim Report, Chapter 5: Stability*, 15 July, Section on Too-big-to-fail and moral hazard; Patricia McCoy (2006) "The moral hazard implications of deposit insurance: Theory and evidence", paper presented to International Monetary Fund Seminar on Current Developments in Monetary and Financial Law, Washington DC, October 23–27; and Reint Gropp, Christian Gruendl & Andre Guettler (2010) *The impact of public guarantees on bank risk taking: evidence from a natural experiment*, ECB Working Paper 1272.

136 Julie Lawson, Mike Berry, Carrie Hamilton & Hal Pawson (2014) *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI Final Report 220.

137 See CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, pp3 & 28.

138 Richard Willingham (2017) "Victorian taxpayers to act as guarantor on $1b social housing projects", *The Age*, 23 February; Tim Pallas (2017) *Media Release: Reform, Growth and Better Outcomes for Social Housing*, 23 February.

139 See RBA Statistics, Capital Market Yields – Government Bonds – Monthly.

140 Parliamentary Library (2009) *Bills Digest no. 157 2008–09 — Guarantee of State and Territory Borrowing Appropriation Bill 2009*. Australian Government (2008) *Budget 2004–05, Australian Office of Financial Management Portfolio Budget Statement*, Section 1. Subsection on Special Accounts.

141 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, pp2 and 4.

142 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p39.

143 =2,200/428,000 (See Table 1).

144 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p39.

145 Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-3

146 Tony Shepherd, Peter Boxall, Tony Cole, Robert Fisher & Amanda Vanstone (2014) *Towards Responsible Government — National Commission of Audit, Appendix Volume 2*, at Section 10.6.

147 Patrick McClure, Sally Sinclair & Wesley Aird (2015) *A New System for Better Employment and Social Outcomes*, Final Report of the Reference Group on Welfare Reform to the Minister for Social Services, February, p20.

The Industry Commission also supported paying rent assistance to public housing tenants, see Industry Commission (1993) *Public housing — final report*, pxxxvii.

148 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.12.

149 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.15.

150 =$3,251 x 312,000 (see Table 1). A similar figure of $947m can be generated from updating earlier estimates. Providing 20,000 public housing households with rent assistance would cost the Australian Government $50.3m, or $2,515 per household, in 2013. This generates a total cost of $785m in 2013. Source: Hal Pawson, Vivienne Milligan, Ilan Wiesel & Kath Hulse (2013) *Public housing transfers: past, present and prospective*, AHURI Final Report No. 215, p53. This needs to be converted into 2016 figures.

The growth in CRA spending from 2013 to 2016 is 20.6%. Source: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table GA.12. Inflating the $785m figure by 20.6% results in $947m.

151 The base rent would still remain as a fixed proportion of tenant income, as currently. Commonwealth Rent Assistance can change over time, so an issue would be whether the increase in rent is fixed as at a point in time, or whether the rent changes to reflect any changes in rent assistance. This is an issue that community housing providers currently face as tenants in community housing can receive rent assistance.

152 For example public housing rent is often set at 25% of income; this means that tenants face an increase in effective marginal tax rates (EMTRs) of 25% on top of EMTRs that are often already high.

153 As the tenant is now paying a higher rent this reduces the difference between public housing rents and market rents. This approach is called headleasing and is explored in more detail in Industry Commission (1993) *Public housing — final report*, Section 5.3.

154 See Section 2.

155 Shepherd et al (2014) *National Commission of Audit Phase 1 Report*, p182.

156 Many analysts and commentators argue that there are costs and benefits of Vertical Fiscal Imbalance (VFI), but the level of VFI in Australia is too large. See Shepherd et al (2014) *National Commission of Audit Appendix Volume 1*, at Section 8.3; Ken Henry et al (2010) *Architecture of Australia's tax and transfer system*, Section 10.6; Department of Prime Minister and Cabinet (PM&C) (2015) *Reform of the Federation White Paper: COAG and Federal Financial Relations, Issues Paper 5*, February, at Part 3; and Robert Carling (2008) *State Tax Reform: Progress and Prospects*, CIS Policy Monograph 82.

157 Productivity Commission (2005) *Review of National Competition Policy Reforms*, Report 33, pXLII

158 The 2012 Nobel memorial prize in economics was won by Lloyd Shapley and Alvin Roth for developing mechanisms for non-market allocation of resources, similar to this problem. See http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2012/popular.html

159 Productivity Commission (2016) *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, Study Report, p8.

160 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, pp15.

161 NSW Independent Pricing and Regulatory Tribunal (IPART) (2017) *Review of rent models for social and affordable housing — Draft Report*, April, p5 and Chapter 6. The choice system proposed in this paper is more comprehensive than the form recommended by IPART, particularly because it is combined with differentiating rent based on dwelling quality.

162 Charging market rents was supported by the Henry Tax Review: Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-3.

163 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p6.

164 Department of Social Security (2017) *Response to the Productivity Commission's Inquiry into Human Services,* pp3–5.

165 Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-3

166 Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-3

167 Gavin Wood, Miranda Stewart & Rachel Ong (2010) Housing taxation and transfers — Final Report, Research Study for Australia's Future Tax System, p114; and Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5.

168 See Section 2.

169 Public housing tenants are much less likely to move than private tenants, see Lucy Groenhart & Terry Burke (2014) *Thirty years of public housing supply and consumption: 1981–2011*, AHURI Final Report No.231 at p45. This arguably increases household security, but at the cost of decreasing labour mobility and employment options.

170 Gavin Wood, Miranda Stewart & Rachel Ong (2010) *Housing taxation and transfers — Final Report, Research Study for Australia's Future Tax System*, p114.

171 See Section 2.2.

172 Defined as the number of bedrooms exceeds needs by two or more. See Section 2

173 In NSW, IPART has recommended choice be implemented but rent not be differentiated based on dwelling quality, so their proposed model will suffer from this problem. IPART (2017) *Review of rent models for social and affordable housing — Draft Report*, April, Chapters 3 and 6.

174 Productivity Commission (2016) *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform,* Study Report, p8

175 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p17.

176 Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-1

177 Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, p6

178 Department of Social Security (2017) *Response to the Productivity Commission's Inquiry into Human Services*, pp3–5.

Productivity Commission (2016) *Reforms to Human Services — Issues Paper*, in particular pp6 and 8.

179 Productivity Commission (2016) *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform,* Study Report, p17.

180 As at June 2016, there were 22,752 public housing tenants on a waiting list to move to a different property. This compares to the entry to public housing in the year to June 2016 of 20,502.

Source: SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.5.

181 IPART (2017) *Review of rent models for social and affordable housing — Draft Report*, April.

182 Industry Commission (1993) *Public housing — final report*, in particular Section 6.4 and Appendix I.

183 As proposed by the Henry Tax Review, see Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section F5-3

184 Some of these issues are mentioned on p2 of CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*.

185 The regulatory issues relating to housing supply are considered in many other reports, including Productivity Commission (2011) *Benchmarking Report of Australian Business Regulation: Planning, Zoning and Development Assessments*; and Wing Hsieh, David Norman and David Orsmond (2012) "Supply-side Issues in the Housing Sector", *RBA Bulletin*, September Quarter.

186 Ken Henry et al (2010) Australia's Future Tax System: Final Report, Section E4-3

187 Royal Commission into Trade Union Governance and Corruption (2015) *Final Report Volume 5*, Chapters 7 & 8.

188 Mariano Kulish, Anthony Richards and Christian Gillitzer (2011) "Urban Structure and Housing Prices: Some Evidence from Australian Cities", *Economic Record* 88(282).

189 Saul Eslake (2013) *50 Years of Housing Failure*, Address to the 122nd Annual Henry George Commemorative Dinner, The Royal Society of Victoria, Melbourne; and Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp169–173.

190 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p11.

191 PM&C (2015) *Reform of the Federation White Paper, Roles and Responsibilities in Housing and Homelessness, Issues Paper 2*, at p18.

192 Most of the transfers have so far been confined to management transfer only, not ownership transfer. See PM&C (2015) *Reform of the Federation White Paper, Roles and Responsibilities in Housing and Homelessness, Issues Paper 2*, p18.

193 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp259–263.

194 Hal Pawson, Vivienne Milligan, Ilan Wiesel & Kath Hulse (2013) *Public housing transfers: past, present and prospective*, AHURI Final Report No. 215, at p3 and Section 4.

195 Hal Pawson, Chris Martin, Kathleen Flanagan & Rhonda Phillips (2016) *Recent housing transfer experience in Australia: implications for affordable housing industry development*, AHURI Final Report No. 273,

196 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, p254.

197 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp259–263.

198 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Tables 18A.40 and 18A.42.

199 SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Tables 18A.36 and 18A.38. The adequacy standard is "at least four working facilities and not more than two major structural problems".

200 Overcrowding: Australian Institute of Health and Welfare (2014) *Housing assistance in Australia 2014*. Cat no HOU 275. Underutilisation occurs when a social housing dwelling has excess bedrooms compared to the needs of households. SCRGSP (2017) *Report on Government Services, Housing and Homelessness*, Table 18A.29.
For trend over time see Australian Institute of Health and Welfare (2014) *Housing assistance in Australia 2014*. Cat no HOU 275.

201 Community and Affordable Housing Industry Associations (2017) *Reforms to Human Services: Issues Paper, Comments on the December 2016 Issues Paper Report*, p13.

202 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, pp11 and 44; and PM&C (2015) *Reform of the Federation White Paper, Roles and Responsibilities in Housing and Homelessness, Issues Paper 2*, p18

203 Community and Affordable Housing Industry Associations (2017) *Reforms to Human Services: Issues Paper, Comments on the December 2016 Issues Paper Report*, p17.

204 CoFFR (2016) *Innovative Financing Models to Improve the Supply of Affordable Housing*, p45

205 Senate Economics References Committee (2015) *Out of reach? The Australian housing affordability challenge*, May, pp245–246, 253 and 265–266.

206 NSW Federation of Housing Associations (2016) *The Affordable Housing Financial Intermediary*, July, Chapter 2 and Appendix B.

207 See Section 3.

208 See Community and Affordable Housing Industry Associations (2017) *Reforms to Human Services: Issues Paper, Comments on the December 2016 Issues Paper Report*, p5.

209 IPART (2017) *Review of rent models for social and affordable housing — Draft Report*, April, p4 and Chapter 4.

210 Industry Commission (1993) *Public housing — final report*, in particular Section 6.2.

211 Council of Australian Governments (1995) *Competition Principles Agreement*, pp17–18.

212 Tax differences between public and community housing are described in Hal Pawson, Vivienne Milligan, Ilan Wiesel & Kath Hulse (2013) *Public housing transfers: past, present and prospective*, AHURI Final Report No. 215, Section 3.1.2; see also NSW Department of Family and Community Services (2014) *Social housing in NSW — a discussion paper for input and comment* at p37.

213 Ken Henry et al (2010) *Australia's Future Tax System: Final Report, Section C2-3*.

214 Some community housing providers are already exempt from land tax, see p6 of Productivity Commission (2015) *Housing Assistance and Employment in Australia — Volume 2: background papers*.

215 Stamp duty reduces turnover in the market, meaning the market is less liquid, disadvantaging all buyers and sellers even if they have an exemption. Stamp duty is usually imposed on buyers, so an exemption doesn't assist a community provider if it is selling excess stock.

216 Modelling by Treasury finds that stamp duty is the most inefficient major tax in Australia, see Liangyue Cao, Amanda Hosking, Michael Kouparitsas, Damian Mullaly, Xavier Rimmer, Qun Shi, Wallace Stark, and Sebastian Wende (2015) *Understanding the Economy-Wide Efficiency and Incidence of Major Australian Taxes*, Treasury Working Paper 2015-01, April, Chart 33. Similar results are in KPMG Econtech (2011) *Economic Analysis of the Impacts of Using GST to Reform Taxes*, report for CPA Australia, September, Chart 2.1.

217 The details of disability accommodation under the NDIS are here: https://www.ndis.gov.au/specialist-disability-accommodation

218 Industry Commission (1993) *Public housing — final report*, Section 5.3.

219 These goals are adapted from Infrastructure Partnerships Australia (2016) *From housing assets, to housing people: Fixing Australia's social housing system*, p19.

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