

Shaping a Modern Housing Policy

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Session Title: Big Bold Ideas in Social Housing Policy

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Assessing Governments' Engagement in the Social Housing sector

I want to focus this morning not so much on the social housing policy sector per se, but on the way governments engage with the sector.

The first point to note is that government support for social housing is only a small proportion of total government support for housing generally.

Government support to homeowners (including through capital gains tax exemptions, non-taxation of imputed rent, and the First Home Owners Grants) amounts to some \$20bn per annum.

In contrast, support for social housing is around \$3bn per annum: CRA is around \$2bn and the CSHA cost around \$1bn per annum.

A related point which is often overlooked, particularly by governments and policymakers, is that there is a housing **system**, and all elements are inter-related. Adjusting one element can easily shift pressure to other elements. This means that governments should adopt wholistic perspectives, and one important way to do this is to focus on understanding the diversity of clients, and the specific needs of particular client groups.

Next, some basic data, including on outcomes.

Social housing accommodates some 4.7% of households.

Around 15% of households spend more than 30% of household income on housing – and are defined as in housing stress.

Yates (2007) shows that while the ratio of households in housing stress has been very stable over the past decade, at around 15 % nationally, in the bottom 40% of income earners, housing stress has increased by 3.6% (from 24.6% to 28.2%) whereas the incidence of stress reduced by 1.3% (from 8.4% to 7.1%) for the top 60% of income earners.

Yates also shows that for some specific groups, rates of housing stress are extremely high – particularly low income private renters, where in the fifth quartile, 78.7% were in stress, and in the fourth quartile, 54.8% were in stress in 2002/3

Both the Australian Government and the states and territories have reduced their investment in the CSHA since the mid-nineties. The AG has reduced its investment by 6% in real terms, the states and territories by 2%.

Allocations to CRA are demand driven, and these have been increasing over this period.

Allocations for Supported Accommodation Assistance Programs (SAAP) have been reducing in real terms.

There are a range of problems with these outcomes (and I make no claim that the following list is in any way comprehensive).

First, one would have to question the priorities inherent in the overall allocation of tax revenues in the housing sector.

Second, CRA is not well targeted: around a third of CRA recipients are not in housing stress before they receive it, another third are assisted to move out of housing stress, the last third remain in housing stress.

Third, it is not clear whether the structure of CRA operates to push up housing rents, thus transferring much of the benefit to landlords. In some areas, housing values have risen to such an extent that market rents are beyond the capacity of CRA recipients to meet.

A **fourth** issue is that program delivery by two levels of government inevitably leads to confusion, and most importantly, structural weaknesses in the operation of normal democratic accountability mechanisms in the social housing sector (which are in turn the drivers of appropriate allocations). In other words, while governments at one level can blame governments at another level, they avoid taking the substantive decisions required.

Fifth, the CSHA is the only social housing program which targets the provision of capital assets. We all know intuitively that the capital stock of social housing in Australia is in long term decline. There is a net loss of around 2000 social housing units each year, while new households assisted are declining at about three times that rate (tenancy turnover rates are declining).

Sixth, the quality of the public housing asset base is degrading (although its value has been increasing along with the value of housing more generally). The states and territories are sitting on an asset base valued at some \$65bn.

A final issue – one close to my own interests – is that virtually all of the above problems are writ large in the Indigenous housing sector, to an extent where an objective observer must question the bona fides of governments' rhetoric of concern, and which provides in microcosm positive proof that the social housing policies of the last few decades have not worked, and if persisted with will take the nation backwards.

If these are the problems, writ large, what are the solutions?

I am reminded of the great American base-baller, and social theorist, 'Yogi' Berra, who once said, "If you don't know where you are going, you'll wind up somewhere else".

In the social housing context, to date, as a nation we seem to have wound up somewhere else. What then is the destination for the nation in social housing? And what would a policy road map to get there look like?

The Destination

Given the wealth of Australia, it is not unrealistic or utopian to think it should be within our capacity to house all Australians at a reasonable cost (say a maximum of 30% of household income each year).

We should also expect that social housing would be of reasonable quality, and delivered in ways which don't stigmatise or otherwise disadvantage recipients.

In terms of broader housing policy, including social housing, we should seek to remove inequitable policies that give preference (and significant financial advantages) to home owners over home renters. We should also insist on best practice planning, architectural standards, and building standards (matters I am not qualified to discuss).

The Roadmap

While the ultimate destination is important – and should be kept in mind – the political and economic rules of the game in Australia (what might be termed the institutional framework) are such that we are unlikely to reach the technically achievable policy destination outlined above in our lifetimes.

For example, it is hard to conceive of any government in the foreseeable future removing the capital gains tax exemption on the family home, nor moving to treat the imputed rent foregone by homeowners as income for tax purposes.

What then are the 'intermediate destinations' on this road to the ultimate destination that we should be heading for, particularly in relation to social housing policy?

Intermediate Destinations

I would pick out 5 broad policy objectives/reforms as intermediate destinations on the road to an appropriate social housing policy framework, based on their strategic significance (that is, their capacity to influence future and ongoing outcomes in social housing).

While the reforms I have chosen are complementary, they are also independent in the sense that any one can be pursued in isolation. They are also hugely ambitious given the currently weak political clout of the social housing sector. The cynics amongst you will accuse me of policy meandering. In my defence, I would suggest that what I am offering is a roadmap with a number of multiple routes, some of which will get you home quicker than others, but any of which will take you in the right direction. As Yogi Berra once said, 'when you get to a fork in the road, take it.'

Reforming federal/state relations in social housing.

We are all aware that federal/state relations generally are in a state of flux, with an apparently inexorable shift towards greater centralisation of financial and political power underway.

Even assuming this trend continues and becomes the status quo, it doesn't follow that the most effective policy and program arrangements are ones where the central government makes *all* the decisions.

An enlightened national government in this situation would still

- Aim to reduce duplication in social housing programs between multiple programs , and between multiple delivery arrangements at state/territory and national levels; and
- delegate responsibility for delivery to the states and territories where, relevant skills and knowledge resides at the state level, economies of scale allow decentralised service provision, state and local institutions facilitate effective client feedback, thus maximising the efficiency and effectiveness of service delivery.

This leads me to suggest that (contrary to current trends and policy momentum), the federal government should

- roll CRA and the CSHA into a single social housing program;
- allocate the new program to the states and territories to deliver;
- link the quantum of allocations to the new program overall, and to individual states and territories, to levels of need;
- give the states and territories the flexibility to devise their own social housing programs (that is, they might place all their allocations in to public housing, or rent assistance, or a combination, or some new program);
- explore options to provide incentives for state housing agencies to encourage private sector involvement in social housing provision; and
- limit regulation and oversight of spending by the states strictly to outcomes rather than processes and micromanagement.

Greater commercial independence for public housing authorities

A largely unacknowledged trend over the past two decades in social housing policy has been the gradual decline in the independence of public housing agencies (no longer 'commissions') in favour of greater ministerial (and not coincidentally greater treasury) control. This has been part of a larger trend to rein in the proliferation of statutory bodies. It is worth taking time to consider whether this is the best outcome for social housing.

The establishment of statutory authorities and commissions has a long history in Australia, and was done specifically in recognition that some categories of decisions were best handled at arms length from the day to day imperatives of the political process. My sense is that with the growth in numbers of such bodies, and the increasing pace and intensity of political life (the permanent campaign etc), governments have taken the strategic decision to limit the numbers and autonomy of these bodies. This happened informally well before the formal legislative frameworks were changed to reflect the new realities (and in my experience, the legislative frameworks governing public housing are still formally stronger than the political reality of public administration today).

There is no doubt in my mind that the Housing Commissions of the pre and post war era by and large played a major role in the transformation of Australia's major cities and urban areas. Cities such as Darwin and Canberra were largely built on the foundation of public housing, with generous eligibility entitlements and high quality services.

The case for greater independence however is not so much based on nostalgia for the housing commission glory days, but on the hard-edged reality that governments are loathe to allocate substantial funds for capital investment and much prefer recurrent programs (hence the trend to CRA over public housing). To begin to reverse this, it will be necessary to involve the private sector – something virtually all governments claim to support. To facilitate that process, public housing agencies need greater commercial powers and to be taken outside government balance

sheets where commercial borrowings and capital works are strictly controlled (for what are entirely sensible political reasons). Such positioning necessitates clear autonomy and independence from day to day ministerial control.

Upgrade of existing public housing assets.

There is an extremely strong case for a one-off (possibly over 4 or 5 years) capital upgrade program to assist states and territories to bring public housing assets up to what might be termed 'basic' community standards (I am aware that the Victorian Government has made a start on this in its most recent budget). The national government is the only realistic potential source of the policy impetus and funding necessary if this is to occur on a national level, though there is clearly a potential role too for the private sector in such an upgrade process. The Australian Government's recent 'request for submissions on ways to increase the supply of social housing' appears to reflect an acceptance of the crisis emerging in social housing, but might easily degenerate into a withdrawal of federal government support for public housing and the CSHA.

A range of worked up proposals for increasing the supply of social housing already exist in the literature. The most attractive model is the 'bond model' outlined in detail in Berry et al 2004, where the Commonwealth issues bonds to the private sector to raise finance which the states and territories then utilise to build new stock. Given the concessional rents involved, the Commonwealth would subsidise the difference between the payments to bond holders and rent revenues. The model suggests that a capital investment program of \$1bn would create 7500 units, but would require a gross subsidy of around \$220m by the Commonwealth. The states and territories would carry the risks associated with managing the assets. The model leverages each dollar of Commonwealth investment to enable \$4.50 worth of housing to be built (compared with the current CSHA – and CRA – where each dollar creates only a dollar of housing value).

The rationale for such an investment is similar to the arguments being run by various industry sectors for increased national investment to remove infrastructure bottlenecks, based on the premise that increased economic benefits will flow to the community as a result of removing the bottlenecks. In the public housing case, the outcomes sought are economic, demographic and social in nature. On the economic front, it is increasingly important to the economy that service workers are available in the inner cities to keep key services operating. On the demographic front, commentators such as Haratsis (2007) are making the point that new demands will arise from the large proportion of the population who are under-provisioned in terms of superannuation, and who will live longer than has been the case in the past. And on the social side, social housing will make a crucial contribution to the maintenance and expansion of the largely intangible common property asset – social trust – which is crucial to overall economic and political stability and which is placed at risk by increasing inequality and the emergence of a social and economic underclass.

Reform of CRA

In the absence of the fundamental reforms outlined above, an important if less ambitious reform would be to undertake a major restructuring of CRA to focus the program on addressing the most disadvantaged sectors of the social housing market. Such a reform would free up resources which might be invested in greater allocations for public housing by the federal government (and to perhaps leverage greater allocations by the states and territories, though

the financial capacity of the states and territories is much more limited than the federal government).

Indigenous housing

I have written on this elsewhere, and it is impossible to summarise an appropriate policy framework without outlining some of the complexities which underlie the current policy outcomes and architecture.

Suffice to say, the demographics of Indigenous Australia are moving in the opposite direction to mainstream Australia. The shortages of housing and levels of overcrowding are already at third world levels in many remote communities (I don't deny that urban and regional Indigenous citizens have significant and unique housing needs), current levels of resource allocation by the federal government and the states and territories are inadequate (the levels of overcrowding will inevitably worsen before they get better given the timeframes involved in increasing asset levels).

My three major policy prescriptions here are first, to expand the utilisation of public housing in remote communities (the federal government has for the last two decades pursued a model of (under) providing funds to community housing organisations which do not have the skills, the economies of scale, and in many cases the tenure to enforce rent payments, and thus not surprisingly, have failed to meet the outstanding needs. The second suggestion is to remove the extraordinary duplication between federal and state governments in program delivery. While there are positive moves on both these fronts underway, my assessment is that governments are five years away from actually implementing this policy architecture. The third suggestion is that governments and policymakers need to consider ways to allocate greater resources to Indigenous housing. While appropriate policies are necessary, they are not sufficient if resource allocations are insufficient to address outstanding needs.

Political Feasibility

Finally, I should say something about political feasibility. There is little doubt that the recipients of social housing are amongst the most disadvantaged Australians, and while we normally think of this in terms of poverty and low incomes, it also has implications for political influence in a political system which is highly attuned to responding to organised interests.

The implication is that policy sectors such as social housing tend to be shaped as much by the politics of neglect, by which I mean not that governments set out to ignore these issues, but that the issues rarely make it onto to the policy agenda. The establishment of articulate and sophisticated advocacy organisations and a focus on agenda setting thus become crucial issues for potential reformers, as does having worked up proposals and ideas.

While political agendas are far from predictable, one of the truly great things about democracy is that it is inevitable that at some point the circumstances will arise which position these issues to be advanced. The challenge then for those with an interest in reform is to take advantage of the opportunity.

To combine two of Yogi Berra's most perceptive insights, while most of the time potential reformers will confront situations where it will be 'déjà vu all over again', it is also the case that 'the future aint what it used to be'. The opportunities for reform can come when one least expects it.

Conclusion

To sum up, I have identified five broad (and some might say ambitious) options for reform of social housing. Reforming federal/state relations in social housing; greater commercial independence for state social housing agencies; increasing public housing stock, reforming CRA, and addressing Indigenous housing.

The bottom line is that the nation is facing a crisis in social housing, and there will be adverse consequences for all Australians if we don't find ways to improve our performance to date in this area. Professional organisations such as AHI have a major role to play in the process which will inevitably play out over the next five to ten years. Good luck!

References

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