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After the 2003-08 Commonwealth–State Housing Agreement

a background to
some debates in national housing policy

November 2007

After the 2003-08 Commonwealth–State Housing Agreement:
a background to some debates in national housing policy

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THIS PAPER has been prepared with a number of events in mind. First, the Labor party won the federal election held November 24. Second, the current multilateral Commonwealth–State Housing Agreement will expire at the end of June 2008. It gives an outline of key issues and policy proposals being debated in housing industry and public policy circles, particularly those that address housing unaffordability.

Background

Housing assistance to low-moderate income and disadvantaged households is a role for state governments in Australia's federal system of government. Income support, 'social security', is a role for the federal government (the Commonwealth). Nevertheless, the Commonwealth government has assisted state housing assistance programs under a special agreement, the Commonwealth–State Housing Agreement, since 1945.[1]

Up to 1989, the Commonwealth government provided loans (which are repayable) so that state governments could finance those programs; in 1989, those loans were replaced by grants (non-repayable) and the Agreement aimed to increase the supply of public housing. The Commonwealth government's capital subsidy is an important source of financing of the states' housing assistance programs. For example, in New South Wales it comprises 24% of Housing NSW's revenue, and 40% of the Aboriginal Housing Office's revenue.

The Commonwealth subsidy has been steady over the last 7 years. Since 2000, it has averaged at 18% of Housing NSW's revenue.[2] The state government is dependent on the subsidy for maintaining its housing assistance programs, and particularly its public housing business. Housing NSW's housing assistance programs do not cover their costs from recurrent revenue sources, like public housing tenants' rents and state budget allocations for recurrent expenses. Since 2000, the average yearly deficit has been $165 million.[3] The capital contributions under the Commonwealth–State Housing Agreement have been important in sustaining the 'system' as it is, with no significant losses in numbers of dwellings in the social housing sector.

The state government has been able to use capital subsidy for this purpose because the Agreement indicates it may use Commonwealth capital funds to 'provide appropriately for asset management'.[4]

But is it 'crunch time'? The state and territory governments have been bewailing the amount of Commonwealth subsidy. Taking into account …

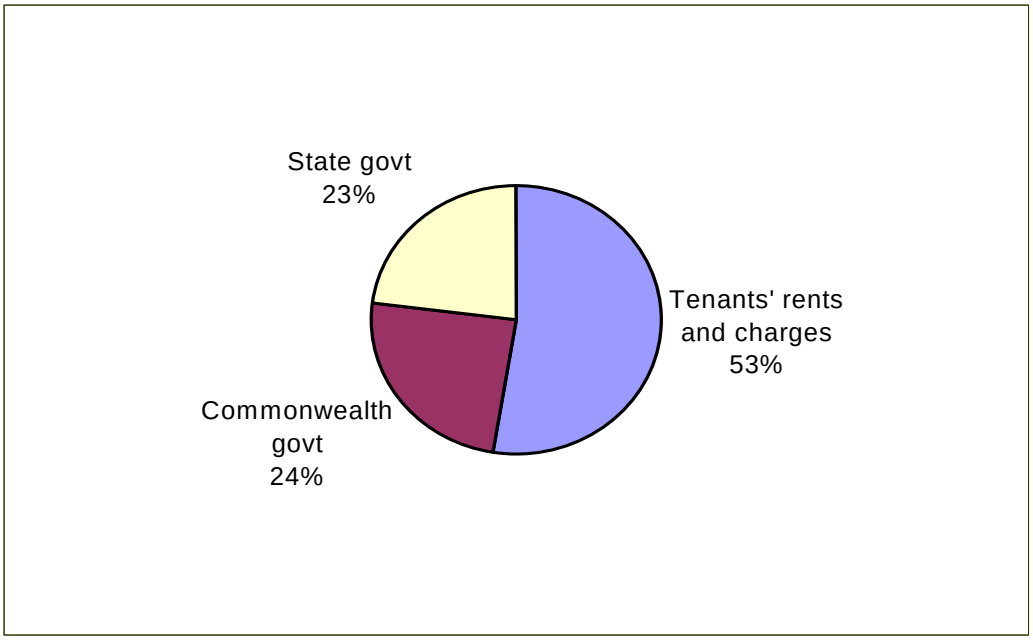
- a Commonwealth subsidy that is steady (see Figure 2 and Figure 7),
- rising operating costs for their public housing businesses,
- a portfolio of social housing dwellings that is steady in size (numbers),
- calls on state government funding by other good (and more popular or powerful) causes,
- limited capacity to raise revenue because of constitutional constraints, and
- the fact that the Commonwealth government collects more tax revenue than it spends …

their eyes are on the Commonwealth government for more money.

These matters have a particular cogency because of the expiry of the current Commonwealth–State Housing Agreement at the end of June 2008. The Agreement is the tool the Commonwealth uses to stipulate the terms under which it gives a subsidy to the states. The states, wanting then subsidy, agree to its terms. As the 1 July 2008 deadline looms, and having housing assistance programs so dependent on Commonwealth subsidy, they are (not unreasonably) anxious that they will continue to get subsidized (and optimistically, at a higher level).

The incoming Labor government had committed itself, during the federal election campaign, to replace the Commonwealth–State Housing Agreement with a National Affordable Housing Agreement.[5] The new agreement would 'bring together' other relevant programs such as Commonwealth rent assistance and the Supported Accommodation Assistance Program (SAAP) (neither of which has been part of previous Commonwealth–State Housing Agreements).

FIGURE 1: MAJOR COMPONENTS OF REVENUE FOR DEPARTMENT OF HOUSING'S HOUSING ASSISTANCE PROGRAMS, 2005-06



Source: Department of Housing annual report, 2005-06. Notes: 'Tenants' rents and charges' indicates rents and water usage charges collected from tenants in the properties managed by the Department's Housing Services program. 'Commonwealth government' indicates the capital grant under the Commonwealth-State Housing Agreement; it does not include an unmatched grant under the Aboriginal Rental Housing Program. 'State govt' indicates Housing NSW internal sources and a Consolidated Fund (state budget) allocation.

Federal–state sharing of responsibilities

When the then British colonies in Australia set up a federal government in 1901, they did not assign responsibility for housing policy, programs and funding to it. Nor have they 'referred' to their powers in this area to it subsequently.

Nevertheless, the federal government does influence the operation of housing markets and the delivery of state housing programs in a number of ways. The federal parliament has the power to make laws for the 'peace, order, and good government' of the Commonwealth on (among other things):

- taxation;
- borrowing money on the public credit of the Commonwealth;
- banking, other than state banking; also state banking extending beyond the limits of the state concerned, the incorporation of banks, and the issue of paper money;
- invalid and old-age pensions, and provision of maternity allowances, widows' pensions, child endowment, unemployment, sickness benefits, benefits to students, family allowances, child endowment, pharmaceutical and hospital benefits, and medical and dental services;
- the people of any race, for whom it is deemed necessary to make special laws; and
- immigration and emigration.

In addition, section 81 of the Constitution gives the Commonwealth parliament to appropriate money 'for the purposes of the Commonwealth'. While the section qualifies this – 'for the purposes of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution', High Court rulings have led to the situation where this spending may be for such purposes as the Commonwealth government sees fit.[6]

Further, the federal Parliament may 'grant financial assistance to any State on such terms and conditions as the Parliament thinks fit' (s.96).[7]

Over the 20th century, the federal government acquired responsibilities and developed programs in a number of public policy areas apart from those anticipated by the Constitution. For example, it is the primary funder of residential care for frail older people, a segment of the housing market that accommodates 150,000 'permanent' residents.

The division of responsibilities now is one where the federal government has exclusive responsibility for some matters (e.g. regulation of corporations, income taxation) and the states and territories have primary responsibility for other matters. In some matters both spheres of government share responsibility. The assumption of greater power by the Commonwealth has been both intentional and ad hoc. Since federation, the Labor party has 'traditionally' favored enhancing the powers of the federal government at the expense of the states, and the conservative parties have defended the state against centralism.[8]

This difference between Labor and the conservatives was played out by a centralist Labor government in the early 1970s (whose leader Gough Whitlam argued in favor of Labor using specific purpose payments as a means of furthering its objectives in

Labor and the Constitution[9]) and by a conservative Queensland government in the 1980s. The Labor government elected in 1983 upped the ante by using its foreign affairs power to override a state government (Tasmania's), but it also initiated a 'new federalism initiative' in 1990 that led to the formation of the Council of Australian Governments. The conservative government elected in 1996 introduced a new taxation arrangement with the states, associated with its introduction of a goods and services tax (GST) in 2000. This tax, which is a Commonwealth tax – notwithstanding the Commonwealth government's refusal to account for it in the Commonwealth budget[10], is imposed and collected by the Commonwealth, but the revenue is given to the states as a grant in the form of a general purpose payment.[11] This initiative took place within the umbrella of an ostensibly cooperative federalism, with GST revenue being allocated among the states according to recommendations of the Commonwealth Grants Commission.

The Commonwealth provides specific purpose payments to the states to 'pursue important national policy objectives in areas that may be administered by the states'.[12] The Commonwealth budget papers states: 'However, in making these payments, the Australian Government does not seek to take over responsibility for those functions.'[13]

There were over 90 specific purpose payments made by the Commonwealth government to the states/territories, in 2006-07.[14] Those to the states amount to $20.5 billion. In 2007-08, specific purpose payments comprised 42% of payments to the states.[15] The total spending on specific purpose payments has increased by 71% over this decade.[16]

There are three fundamental problems with specific purpose payments.

One is that they can skew states' spending decisions on what to spend. Since the Commonwealth makes the payments for matters that are the states' responsibility, the expenditure area is one that the state might wish to undertake anyway. But it might not, if it had a free hand. However, there is a temptation to take the Commonwealth money. Specific purpose payments comprise about 15% of states' revenues and can, with requirements for matched expenditures, account for up to 33% of state spending.[17]

Two is that they can influence and constrain how spending is done. In the case of the Commonwealth–State Housing Agreement, for example, some might argue that a tight targeting of social housing assistance has been driven by Commonwealth policy preference as much as by state governments' policy preference. The current Commonwealth–State Housing Agreement provides: '… subsidies should be designed to provide greatest assistance to those with the greatest need …' (section 4(25)(a)). This provision influences allocation policy, and allocation policy influences the degree to which the public housing tenant population might include tenants who can afford to pay market rents (and thus not be eligible for rental subsidies).

Three is that they are not necessarily based on a partnership model of equal partners. The Allen Consulting group prepared a report for the Victorian government last year on the operation of specific purpose payments.[18] It concluded

that specific purpose payment arrangements were an impediment to innovation and service improvement. This is because the arrangements:

- center on inputs and bureaucratic processes and controls in many cases, instead of being focused on achieving agreed outcomes;
- are typically burdensome and impede efficiency;
- have tended to create tension between governments rather than promoting collaboration or partnership; and
- lack incentives for frameworks for pursuing improvement.

The Allen Consulting group suggested the arrangements be reformed to:

- maximize the coverage of related policy areas rather than have multiple agreements in related areas;
- simplify and standardize administration and accountability arrangements;
- indicate in advance details like funding levels;
- put the focus on outcomes or outputs, rather than the states' expenditures or inputs;
- embed flexibility; and
- have the Commonwealth government take a partnership approach to the agreements, and not see them as an opportunity to coerce the states to conform to its policy preferences on matters outside its constitutional responsibility.

In those respects, specific-purpose payments are less efficient and effective for states' social and fiscal policy than untied, general purpose payments where the states got, say, a dedicated proportion of income tax revenue distributed according to the fiscal equalization principle, in the same way as they get the GST revenue.[19]

In the last couple of years, the Commonwealth government had radically changed tack, for a conservative government, in its attitude to the Constitutional settlement. It had quite militantly used constitutional powers, or a cobbling together of a number of powers, to assert primary policy responsibility for matters until then generally regarded as the primary responsibility of, or a shared responsibility with, the states (e.g. the Murray-Darling basin, industrial relations). It had backed these actions up in some cases with its financial muscle, i.e. the surpluses it has from its monopoly of income tax and the 'leverage' (take it or leave it) it has over the states in negotiations over specific purpose payments. Moreover, it branded this approach 'aspirational nationalism' and described it as one that focuses on 'outcomes not systems', to lend it intellectual integrity.[20] This centralist approach led one (conservative) constitutional lawyer to comment:

> … incursions into such fields as industrial relations, school education, health, defamation, taxation and the control of ports. Collectively these initiatives represent the most intense attempt to centralise power within the Australian federation since the Second World War.[21]

and

> Today, however, the constitutional balance of power is under severe stress, notably from the Commonwealth government. This is partly because many conservatives – the successors of those who wrote the Constitution – are increasingly intolerant of checks on power.[22]

This tack took a particular strong emphasis from mid 2007 up to the federal election in late November 2007. Before May 2007, the Commonwealth was still using the

discourse of cooperative federalism. Since then there was a shift away cooperative federalism to a more strident criticism of state governments' performance, and the packaging of the Commonwealth's approach as 'aspirational nationalism'. This occurred over June and July. Around this time a market research company engaged by the Liberal party, Crosby-Textor, had recommended the (then) government attack the states and state premiers (all premiers ands chief ministers of whom are Labor, as at late 2007) as a re-election tactic. This was revealed in a 21 June 2007 report, 'Federal state of play – Oz track 33', leaked to News Ltd journalist Malcolm Farr.[23] According to journalist Laurie Oakes, the 'stand-out line' refers to the 'need to emphasise Commonwealth is "bailing out" ineffective and inefficient states'.[24]

Not surprisingly, state governments – all composed of the Labor party – responded to the centralist and interventionist policies of the current Commonwealth government by finding some virtue in cooperative federalism. The premiers and chief ministers established a Council for the Australian Federation in 2006 (drawing on a Canadian example). A report it commissioned argued that federalist models of government offered better social, environmental and governance outcomes than centralist models of government, based on a comparison of a number of developed, liberal-democratic societies and the experience of the Australian federation itself.[25]

The NSW government commissioned a report on fiscal arrangements in developed, liberal-democratic societies with federal systems in 2005. Not surprisingly, the report suggested the principle of subsidiarity as one of the factors useful for benchmarking a good arrangement of responsibilities in a federal system.

> Subsidiarity: Subnational governments should, subject to efficiency considerations, be responsible for those services whose benefits are confined primarily to their geographic area and for which residents should have a choice over both the quantity and quality of service.[26]

The federal Labor party, then in opposition, expressed a desire to reform federal–state relations. Indeed, their spokesperson federal–state relations, Bob McMullan MP, made a significant break with 'traditional' Labor thinking on this matter. He said:[27]

> The progressive side of politics in Australia has traditionally been suspicious of federalism. This probably has its origins in the Whitlam era contest between the federal government and the conservative states, led by the Bjelke-Petersens and the Courts of the 1970s. But international experience and broader analysis of the principles suggests that the dispersion of power, enhanced democratic accountability and the capacity for effective service delivery makes federalism not only inevitable in a country of Australia's geography, but in fact a progressive concept.
>
> An important aspect of the essentially progressive nature of federalism is its capacity to deliver services to citizens. Compared to the blame game, which creates a democratic deficit where voters find it hard to make any level of government accountable because the lines of responsibility are not clear, in my view, modern social democratic parties need to embrace federalism and to understand its underlying principles, its contemporary significance and the opportunities it provides going forward.

McMullan also said:

> In Australia, to achieve the full benefits of a modern federation, reform of our federal-state relations is necessary. We need to look at reallocation of roles to reduce duplication and clarify responsibilities. We need to improve the mechanisms for inter-governmental cooperation, and we need to look at a program of concrete measures for enhanced cooperation in particular policy areas.

Who's who

Council of Australian Governments. A standing body of the prime minister and the state and territory premiers and chief ministers, which replaced premiers' conferences in 1992.

Council for the Australian Federation. A coalition of the state and territory premiers and chief ministers, having an advocacy role. The NSW government does not appear to be an active member: the NSW government website makes no mention of it.

Commonwealth Grants Commission. The Commonwealth government agency that, among other things, recommends on the distribution of the Commonwealth's GST revenue among the states, guided by the principle of *horizontal fiscal equalization*.

How Commonwealth taxation and spending affects housing markets and states' housing assistance programs

These are the main ways that federal government policies impact on housing markets around the country and on state housing programs:

- The federal government has a greater capacity to raise revenue through collecting taxes, and greater revenue means it has more to spend.
- The types of taxes the federal government collects and the way it collects them can influence housing markets.
- Federal spending on matters within its own jurisdiction can influence housing markets.
- Federal subsidies to the states and territories can influence the extent and nature of state and territory housing assistance programs.

Vertical fiscal imbalance

The Commonwealth collects the lion's share of taxation revenue. This imbalance happened very early in the history of the federation, but was exacerbated by: (a) the Commonwealth muscling out the states from collecting income tax in 1942, and (b) the introduction of a Goods and Service Tax in 2000 with a requirement that the states drop a number of their own taxes in exchange for a share of the revenue from that tax. While the Commonwealth collects 75% of total governments' taxation revenue, it has responsibility for 60% of the spending on governments' programs. In contrast, the states, which are responsible for about 40% of total expenditure, collect about 16% of Australian tax revenues. This situation is referred to as *vertical fiscal imbalance*. The limited capacity of the states to raise own-source revenue and their dependence on revenue from Commonwealth taxes affects their ability to deliver programs in a range of public policy areas, including housing assistance.

The Constitution anticipated that the Commonwealth government distribute back to the states any revenue it collected that was surplus to its own specific expenditures (sections 82, 87 and 94). However, this changed very quickly. In 1908, the Commonwealth parliament passed legislation to put its unspent monies into a trust fund for future use, and surplus revenue payments to the states stopped from 1908-09.[28]

In the 1990s and 2000s, the Liberal-National government began setting up a number of trust or reserve funds with part of the taxation surpluses (e.g. Future Fund, Higher Education Endowment Fund). In August this year, it set up an economic and social infrastructure fund to spend on matters with no national significance at all and that are within the responsibility of local governments (e.g. libraries, sport facilities).[29] The Labor opposition has supported the broad idea of this fund, reflecting its own tradition of centralism; it had previously announced it would establish a Building Australia Fund for national infrastructure and a Major Cities Program.[30]

Taxation and tax expenditures

The types of Commonwealth taxes and the way they are collected are also significant. The major Commonwealth taxes are income tax (on individuals and

businesses) and a Goods and Services Tax (collected for it by enterprises). Australia's rate of taxation on personal and business incomes is similar to other developed countries.[31] The two Commonwealth tax policies that impact on housing markets are strictly not the taxes themselves, but the '*taxation expenditures*' associated with them. A taxation expenditure can take the form of an exemption (i.e. the tax does not apply at all to some categories of taxpayer) or a concession (i.e. the tax is applied at a discounted or lesser rate for some categories of taxpayer).

The 4 taxation expenditures that are debated in policy circles are:

- capital gains tax
- deductions for depreciation of the construction cost of a residential building
- deductions for costs in maintaining residential investment properties
- negative gearing

The capital gains tax is a tax that the Commonwealth imposes on capital gains. (See Box 1.) It is assesses as part of income tax. This applies to all assets unless specifically excluded. It does not apply to a dwelling that is a taxpayer's principal place of residence ('the family home'). That is, if an owner of a dwelling sells their house and earns income from that sale, they do not have to pay income tax on that income. This policy is one that is common in similar developed countries. (See Table 1.)

The rate at which capital gains are taxed was halved in 1999, and this contributed to greater demand for houses and consequent house-price inflation.[32]

There are no official data on the value of the exemption and concessions on capital gains related to owner-occupied housing. However, Judy Yates has estimated the value of the nontaxation of capital gains for owner-occupiers as being $13 billion in 2001.[33]

TABLE 1: TAX TREATMENT OF OWNER-OCCUPIED AND INVESTMENT HOUSING ACROSS COUNTRIES

	Owner-occupied housing		**Investment housing**		
	Interest deductibility	Capital gains tax	Negative gearing	Depreciation allowances	Capital gains tax (a)
Australia	No	No	Yes	Yes	Discount
Canada	No	No	Restricted	Yes	Discount
France	No	No	Restricted	Yes	Discount
Germany	No	No (after 2 years)	Restricted	Yes	Discount
Netherlands	Yes	No	No	No	Discount
New Zealand	No	No	Yes	Yes	No (b)
Britain	No	No	No	No	Yes
USA	Yes	No (after 2 years)	Restricted	Yes	Yes

Source: Productivity Commission, *First home ownership*, Productivity Commission, Melbourne, 2004, p.85.
Notes: (a) Discount means less than 100% of the capital gain is taxed. (b) Except for depreciation claw-back.

BOX 1: CAPITAL GAINS TAX

Capital gains tax is the tax payable on any capital gain. There is no separate tax on capital gains, it is a component of income tax. A taxpayer is taxed on their net capital gain at their marginal tax rate. Their net capital gain is their total capital gains for the year, minus their total capital losses, minus any capital gains tax discount and small business concessions to which they are entitled. For most taxable events, the capital gain is the difference between the capital proceeds and the cost base of the asset, e.g. if you received more for an asset than you paid for it. There are special rules that apply when working out gains and losses from depreciating assets. To the extent that a depreciating asset is used for a taxable purpose (e.g. in a business), any gain is treated as ordinary income and losses are treated as deductions. A capital gain may arise only to the extent that a depreciating asset has been used for a nontaxable purpose (e.g. used privately). The tax applies to 'CGT assets', which include shares, units in a unit trust, collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property) and rights (such as a mining right). A capital gain made from a CGT event relating to a dwelling that is an individual taxpayer's main residence is exempt from the tax. This rule can change, however, depending on how you came to own the dwelling and what you have done with it – for example, if you have rented it out. To obtain full exemption from capital gains tax, the dwelling must have been the individual's home for the whole period they owned it; the dwelling must not have been used to produce assessable income; and any land on which the dwelling is situated must be two hectares or less.

An individual might be partially exempt if the dwelling was their main residence for only part of the period they owned it; they used the dwelling to produce assessable income; or the land on which the dwelling is situated is more than two hectares.

If a dwelling was not the taxpayer's main residence for the whole time they owned it, some special rules might entitle them to a full exemption or extend the part exemption they would otherwise get.

Source: Australian Taxation Office, 'Capital gains tax essentials', online at <http://www.ato.gov.au/individuals/pathway.asp?pc=001/002/026&mfp=001&mnu=5060#001_002_026>, viewed 12 September 2007.

The 2nd of those four issues is the building write-off allowance (sometimes called the construction write-off allowance).[34] This refers to the claim that a property owner may make as a deduction from taxable income. The claim is against the historical construction cost of the building, e.g. the bricks, mortar, walls, flooring, wiring, etc, being items that are fixed to the structure of the building. It does not include plant and equipment items, including items that are mechanically or electronically operated, e.g. hot water systems, carpets, ovens, airconditioning, door closers, garage door motors.

The allowance applies to any residential property built after 17 July 1985. All residential buildings where there have been refurbishment works after that date, regardless of the building's age, attract depreciation and the building write-off.

The Australian Taxation Office gives the allowance on the basis that any building has a maximum effective life of 40 years, after completion of construction. Investors can claim up to 40 years depreciation on a new building, or the balance of the 40 year period from construction completion on an older property. The yearly allowance ranges from 2.5% to 4% of total construction costs.

The Australian Council of Social Service has proposed that the depreciation write-off allowance be abolished where it applies to 'rental housing', and be replaced with a tax credit targeted to new investment in 'low cost rental housing'.[35] This

suggestion was first raised by Gavin Wood, who calculated that introduction of a low-income housing tax credit scheme (a scheme that exists in the USA) would cost $42.1 million in foregone revenue in its first year, which could be offset by a revenue gain of $37.3 million from abolition of the building write-off allowance.[36] (Their calculations use 1996-97 prices.)

In contrast, the Housing Industry Association supports the depreciation allowance be doubled for 'affordable new investment properties' to help increase supply of rental housing and contain pressures on rents.[37] The federal Labor party has reported on this suggestion favorably but without explicitly endorsing it.[38]

The 3rd of those four issues is the deductions for costs in maintaining residential investment properties. These costs can be for recurrent purposes, and for capital items (e.g. plant and equipment – items not included in the building write-off allowance). (See Box 2.)

BOX 2: DEPRECIATING ASSETS

From 1 July 2001, most depreciating assets have been treated under uniform capital allowance rules. However, eligible taxpayers who elect to enter the 'simplified tax system' will generally calculate deductions for their depreciating assets under special 'simplified tax system' rules.

Under those uniform capital allowance rules, a depreciating asset starts to decline in value when the asset-owner first uses it for any purpose, including a private purpose. However, a deduction for the decline in value is only allowable as a deduction for income tax assessment purposes to the extent the asset is used for a taxable purpose.

The rules provide that the decline in value of a depreciating asset will be its cost.

From the 2007-08 income year on, asset-owners will be able to choose to pool their assets and claim one deduction for the whole pool. For the 2007-08 income year on, if business turnover is less than $2 million, asset-owners can choose those concessions that suit their business. They will need to make individual depreciation calculations for each asset, based on its useful life; calculate depreciation deductions using either the diminishing value method or straight line method.

Source: Australian Taxation Office, 'Capital allowances: overview', 17 January 2007, online at <http://www.ato.gov.au/businesses/content.asp?doc=/content/16407.htm&page=10&H10>, viewed 12 September 2007.

The 4th issue is 'negative gearing'. The Australian Taxation Office defines this as the situation where, in the case of a rental property, the property is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on borrowings. The investor/taxpayer may be able to claim a deduction for the full amount of rental expenses against their rental and other income (e.g. such as salary, wages or business income) when they complete their tax return.

The effect of negative gearing is that the investor/taxpayer's taxable income will be lower, and their tax obligation will be less. But note, the taxpayer is making a loss from the property (asset) in that financial year.

In 2004-05, 35% of individuals with net rental income were positively geared and 65% negatively geared.

Why would investors/taxpayers want to have an asset that produces losses for them?

It might be an interim measure until they are positively geared, or until they can sell the asset and benefit from a capital gain (less capital gains tax). A capital gain is taxed at a lower rate than their other income. Saul Eslake has argued that a halving of the rate at which capital gains are taxed in 1999 'effectively converted "negative gearing" from something which historically allowed those availing themselves of it to defer tax into a strategy for permanently reducing as well as deferring tax, thus bringing another cohort of would-be landlords into competition for the limited supply of housing with would-be owner-occupiers.'[39]

While negative gearing is commonly discussed in relation to rental investment property, it can be used with other types of investment funds, e.g. shares. With residential property investments, the scenario could be attractive to people who can sustain the short-term losses on the asset, i.e. investors/taxpayers whose taxable income is in the top range of marginal rate who buy a dwelling in a high-price area which they expect to increase in price.

The two key variables here are the (overall and other) income of the taxpayer and the income-potential of the dwelling on sale.

While financial analysts suggest the scenario is more suited to top income earners, most of the taxpayers negatively gearing investment dwellings are low-moderate income earners. The top income-tax bracket encompasses incomes of $150,000 and over.[40] But seventy percent of individual taxpayers who reported a negative income from rental properties had overall taxable incomes of less than $58,001 (2004-05). (See Table 2.)

According to *Choice*, positive gearing (i.e. owning a property that earns more income than expenses) could be a better financial decision for people who are not in the top income-tax bracket.[41]

TABLE 2: INDIVIDUALS WITH NEGATIVE NET RENTAL INCOME, BY TAXABLE INCOME, 2004-05

	Net rental income less than $0	
Taxable income	N	$m
$0 - $6,000	89,830	-800
$6,001 - $21,600	132,051	-847
$21,601 - $58,000	467,219	-3,113
$58,001 - $70,000	103,195	-752
$70,001 or more	195,342	-2,001
Total	987,637	-7,513

Source: Australian Taxation Office, *Taxation statistics 2004-05*, Canberra, 2007, p.13.

In relation to the second key variable, the income-potential of the dwelling on sale, there will be variations according to the length of the investment and the location of the property. The Real Estate Institute of Australia notes: 'Investment in property is usually undertaken with a longer term horizon to take account of the generally recognised 5 to 7 year "housing cycle" and the long term trend of increasing capital values.'[42] If there is no growth in the value of the asset, the investor could lose money even after the negative gearing tax benefit is taken into account. The ANZ

Bank suggests: 'As a general rule, only investors with the financial capacity to absorb the effect of potential falls in investment values, as well as an increased cost in interest payments, should consider negative gearing.'[43]

Opponents of negative gearing argue that it encourages over-investment in residential properties and contributes to price inflation of housing, with negative effect on affordability of first home ownership. And that, moreover, it does not assist investment in residential properties in the lower end of the market, where low-income rents are likely to be seeking housing. The Hawke-Keating government did abolish the concession in 1985. Investment in housing fell (at least in Sydney and Perth) and rents rose, as investers tried to recoup their losses. Some observers thought these phenomena were caused by a dampening effect from an increase in interest rates in the same period (making it more expensive to borrow), rather than the abolition of negative gearing alone. The concession was restored in late 1987. Neither the current Government nor the Labor opposition has expressed any indication of abolishing the arrangement.

In 2004-05, individual taxpayers reported earning $17 billion from gross rental income, claimed $21 billion in relevant deductions, and reported net earnings of -$4 billion. (See Table 3.)

TABLE 3: INDIVIDUALS' RENTAL INCOME AND DEDUCTIONS, 2004-05

Rental income/deductions	**N**	**$m**
Gross rental income	1,495,646	17,653
Less Rental interest deductions	1,185,721	12,126
Capital works deductions	479,240	965
Other rental deductions	1,497,282	8,662
Net rental income	1,510,921	-4,101

Source: Australian Taxation Office, *Taxation statistics 2004-05*, Canberra, 2007, p.13.

During the federal election campaign, the Labor party promised to set up a 'First Home Saver Account', which would cost $600 million in tax revenue foregone in the first three years of its operation.[44]

Savings with the 'First Home Saver Account' would receive preferential tax treatment in two key ways, compared to ordinary savings accounts:

- Savers would be eligible for a tax rate of 15% on the first $5,000 of income they deposit in this account each year, rather than the ordinary tax rate they would pay.
- Interest earned will be taxed at 15% or less.

In addition, the saver may contribute an additional $5,000 a year into a 'First Home Saver Account' from their after tax-income, without paying any further tax on that contribution.

Withdrawals from the accounts would only be permitted for the purchase of an eligible first home and would be tax-free. Savers would be able to withdraw savings from the Account after four years. The newly-created accounts would be separate to

individuals' existing superannuation, and individuals would not be able to access their existing retirement savings.

Income support payments

Australia's social security policy does not offer assistance to people on low incomes who are seeking to save a deposit or to those paying a mortgage. However, the Commonwealth government introduced a First Home Owner Grant (FHOG) scheme in 2000. The grant of $7,000 is for use to buy a dwelling (not vacant land). The grant is not means-tested and is not taxable. The scheme is administered by the state governments, and the Commonwealth government guarantees the funding for the scheme through GST arrangements.

The Commonwealth does provide assistance to people on social security payments renting in the private market, through paying them a 'supplementary payment' in the form of rent assistance. This is paid at varying amounts, depending on household size and amount of rent paid. (See page 43.)

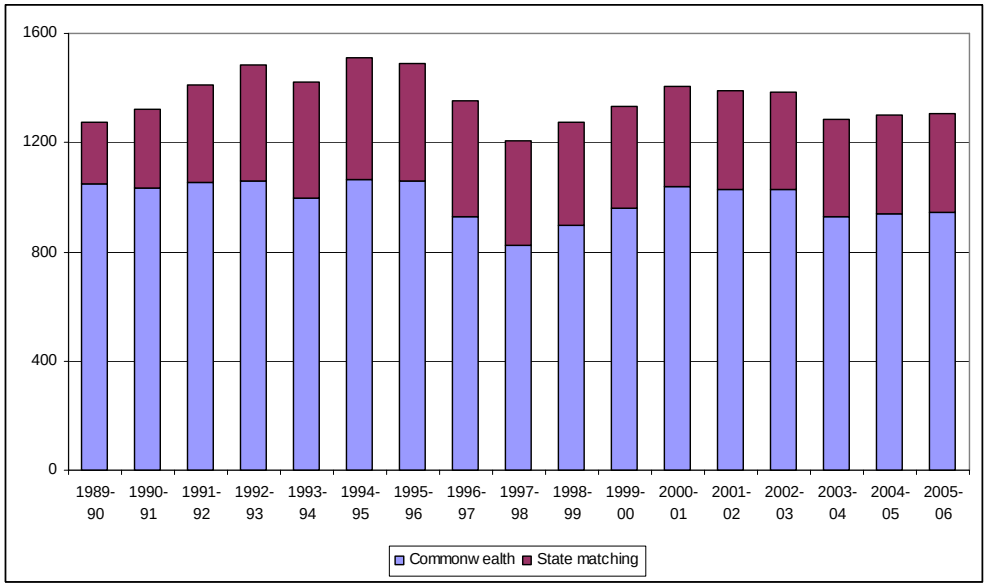
Subsidies to state housing assistance programs

Three specific purpose payment arrangements have particular relevance to housing, each involving a multilateral agreement between the Commonwealth and the states and territories. Those are the:

- Commonwealth–State Housing Agreement, which, among other things, indicates Commonwealth and state contributions to public housing, community housing, state-owned and managed Indigenous housing, rental assistance, and home purchase assistance;
- Supported Accommodation Assistance Program, which coordinates funding for services to people who are homeless or at risk of homelessness;
- Commonwealth–State–Territory Disability Agreement, which among other things, funds supported housing for people with disability.

Figure 2 indicates the grants to states' housing assistance programs under Commonwealth–State Housing Agreement, from 1989-90 to 2005-06.

FIGURE 2: CSHA GRANT TRENDS IN NOMINAL PRICES ($M), AUSTRALIA, 1990 TO 2006



Source: Commonwealth Department of Families Community Services and Indigenous Affairs, Housing Assistance Act annual reports.

The Commonwealth government's specific purpose payments for housing assistance is the 6th biggest of some 50 specific purpose payments paid to the NSW government. (See Table 4.)

TABLE 4: COMMONWEALTH SPECIFIC PURPOSE PAYMENTS TO NEW SOUTH WALES ($M), 2006 TO 2008

	2005-06	2006-07	2007-08
Australian Health Care grants	2,796	2,927	3,077
Schools	902	936	954
National land transport	480	664	830
Technical and further education	363	435	416
Home and community care	266	285	308
Public housing	243	245	248
Assistance to disabled	196	210	216
Highly specialized drugs	159	183	197
Pensioner concessions	69	70	72
Environmental	48	87	61
SAAP	57	59	60
Companies regulation	54	57	59
Housing	37	38	38
Debt redemption assistance	74	0	0
Other	623	649	655
	6,368	6,846	7,190

Source: NSW Treasury, 'Budget papers 2007-08: Budget paper no.2 – 2007-08 Budget statement', 2007, p.3-123. Notes: The 2005-06 figure is the actual. The 2006-07 figure is the revised budget estimate. The 2007-08 figure is the budgeted estimate.

Sources of NSW state revenue

Commonwealth grants provide a similar proportion of revenue for the NSW total general government sector, as do state taxes, at 40%. No other source of revenue provides more than 10% of the total. (See Figure 3.)

State taxes are the biggest type of own-source revenue for the state government. Looking at the state taxes, the most important is payroll tax – generating 34% of the state government's own-tax revenue, and the 2 property taxes, land tax and purchaser transfer duty – which together generate 30% of own-tax revenue. (See Figure 4.)

The various state taxes have their critics. Payroll tax is generally disliked by business groups, but is defended by property/housing lobby groups. (One might guess because these latter oppose property taxes, and see abolition of payroll tax as a barrier to less/no property tax.) The third biggest type of tax, the gambling taxes, also has their critics.[45]

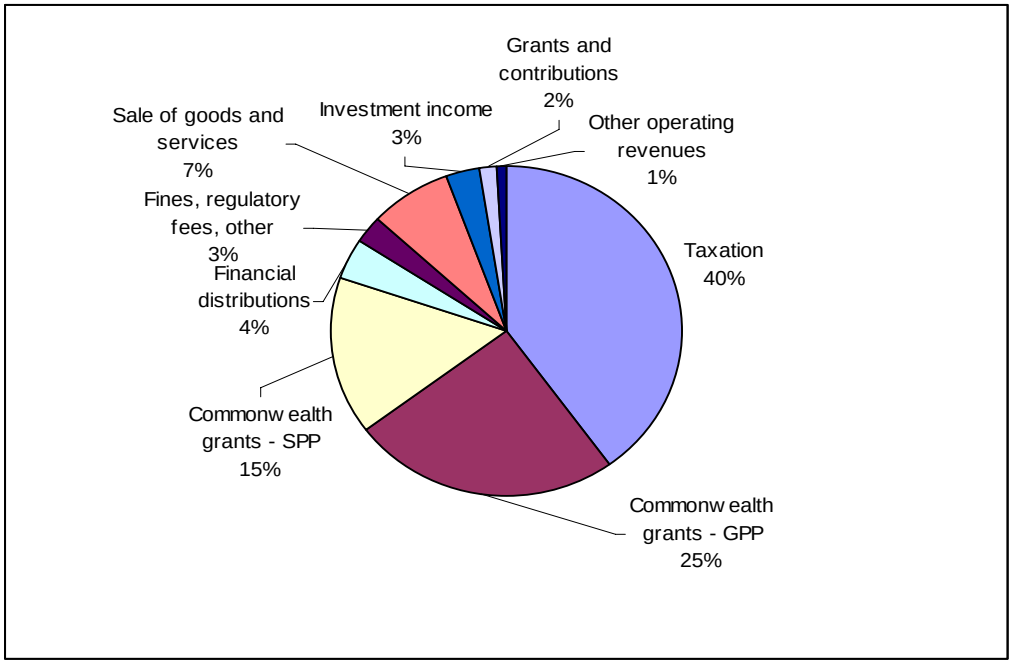
Different states' capacities to use different tax types can be seen in Figure 5, which compares the proportional contributions of payroll tax, land tax, and mining taxes to total own-source revenue in New South Wales and Queensland over the 5-year period 2000-01 to 2004-05. Ten percent of the Queensland government's own-source revenue came from taxes on mining, whereas these taxes provided only an average of 1.7% of the NSW government's total own-source revenue. Payroll taxes were much more important as own-source revenue for the NSW government, providing an average of 28% of own-source revenue; in contrast, payroll taxes comprised an average of 20% of the Queensland government's own-source revenue. Likewise, land taxes were more important as own-source revenue for the NSW government, providing an average of 8% of own-source revenue; in contrast, land taxes comprised an average of 4% of the Queensland government's own-source revenue.

Payroll tax and land tax are economically efficient, and more economically efficient than other state taxes, such as transfer duty.[46]

Payroll tax is efficient because its base, labor, is a widely used means of production, and so the tax base is relatively broad. Payroll tax is particularly important for the states because it generates revenue on a more predictable basis than many other state taxes, since it tends to grow steadily with employment and wages growth.[47] The property industry suggests that payroll tax is a better tax for the states than property taxes (which it wants to be reduced and phased out) because it is the most broad-based, stable, and robust growth tax.[48]

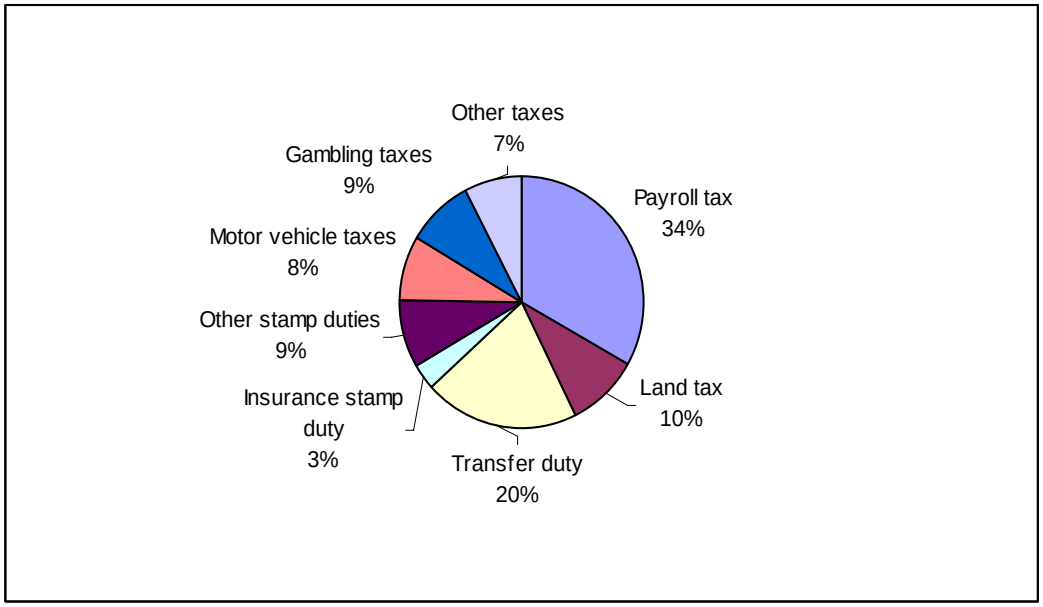
Land tax is efficient because its base, land, has a fixed supply, and taxes on it will not typically reduce the overall supply of land.[49]

FIGURE 3: SOURCES OF NSW TOTAL GENERAL GOVERNMENT SECTOR REVENUE (%), 2006-07



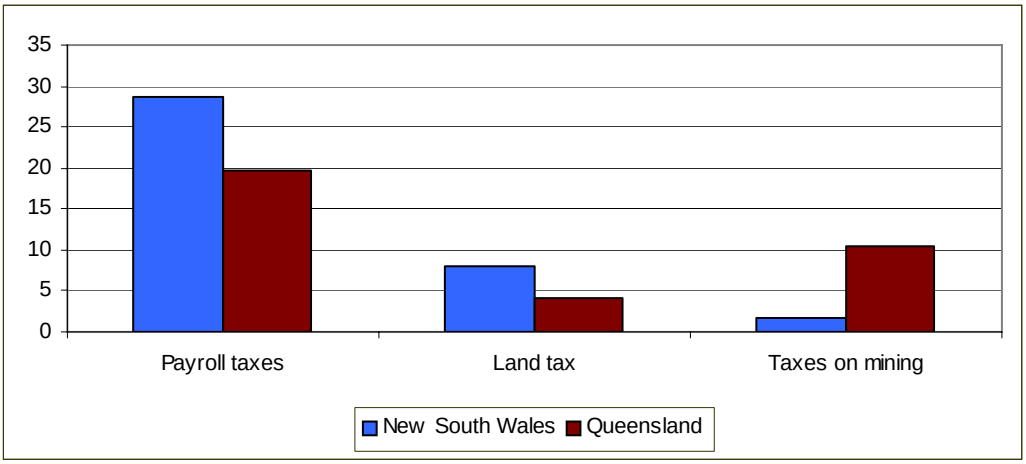
Source: NSW Treasury, 'Budget papers 2007-2008: Budget paper no.2 – 2007-08 Budget statement', 2007, p.3-2.
Notes: The 2006-07 figure is the revised budget estimate.

FIGURE 4: TAX RECEIPT MIX (%), 2006-07



Source: NSW Treasury, 'Budget papers 2006-2007: Budget paper no.2 – 2006-07 Budget statement', 2006, p.3-14.
Note: The 2006-07 figure is the revised budget estimate.

FIGURE 5: SELECTED TAXES AS AVERAGE PERCENTAGE OF TOTAL OWN-SOURCE REVENUE, NEW SOUTH WALES AND QUEENSLAND, 2001 TO 2005



Source: Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 2006, p.13.
Note: The percentage of revenue from any particular tax source fluctuated from year to year in the 5-year period but the patterns were stable.

In mid 2007, the state government announced that the Independent Pricing and Regulatory Tribunal would do a review of the state's main taxes.[50] The review will compare the 12 main state taxes against other jurisdictions and provide recommendations on where taxes should be reduced or simplified.[51] The review's terms of reference cover the impact of the current fiscal arrangements on NSW revenue mix, the efficiency of the taxes available to the state and Commonwealth governments, and the efficiency, equity, simplicity and transparency of the existing NSW tax system.

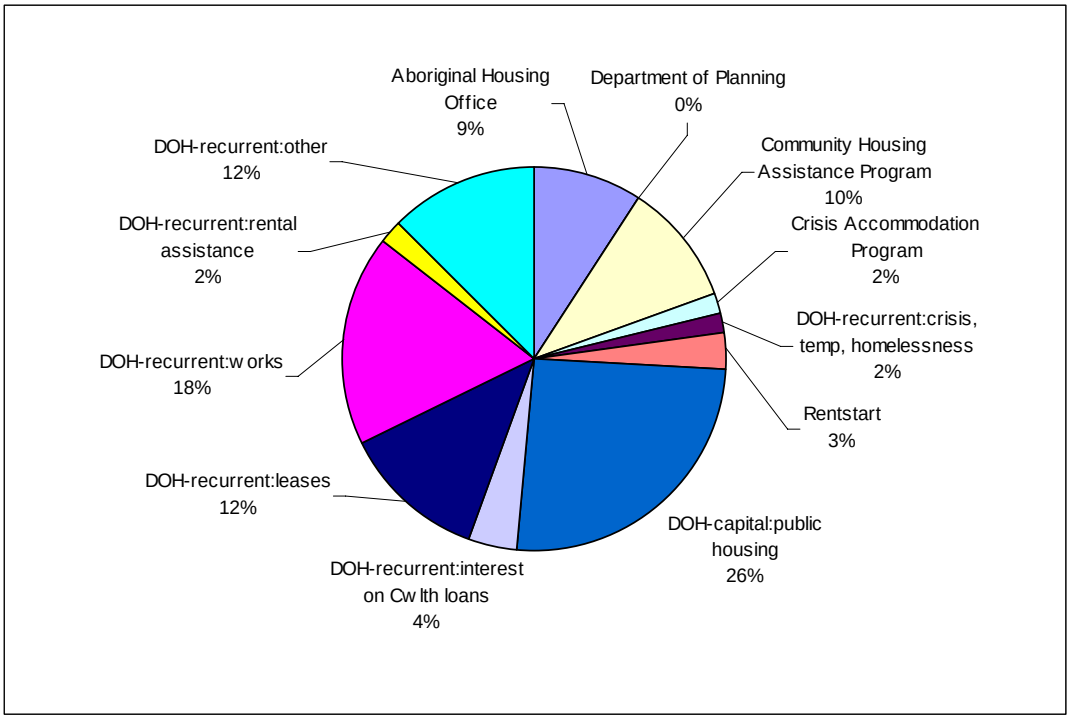
Commonwealth–State Housing Agreement programs

Commonwealth-State Housing Agreement housing assistance programs can provide for people who are living in owner-occupied housing, privately-rented housing, housing rented from a government agency or nonprofit nongovernment provider ('social housing'), or who are homeless.

In New South Wales, about three-quarters of Commonwealth-State Housing Agreement grant subsidies go to public housing, and a quarter of grants go to other housing assistance programs. Those other programs are Aboriginal housing 9%, community housing 10%, crisis, temporary accommodation and homelessness programs 4%, and assistance to private renters (e.g. Rentstart) 3%.[52] (See Figure 6.)

Private rental market assistance programs under the Commonwealth-State Housing Agreement include grants or loans to cover the costs of seeking private rental housing, in meeting rental payments, in relocating, and for advice and information services.[53] (See Figure 17.) In New South Wales, there are also special assistance subsidy (SAS) schemes for private renters with HIV/AIDS and private renters with disabilities. It might be useful to use the concept of 'rental assistance' for those purposes, and so distinguish it from the 'rent assistance' provided through the Commonwealth government's social security system as an income support supplement.[54] Rental assistance is also distinct from rental rebates given to social housing tenants as part of rent-setting policies by their social landlords. Both rent assistance and rental rebates are forms of rental subsidies.

FIGURE 6: DISTRIBUTION OF CSHA GRANTS BY ACTIVITY, 2005-06



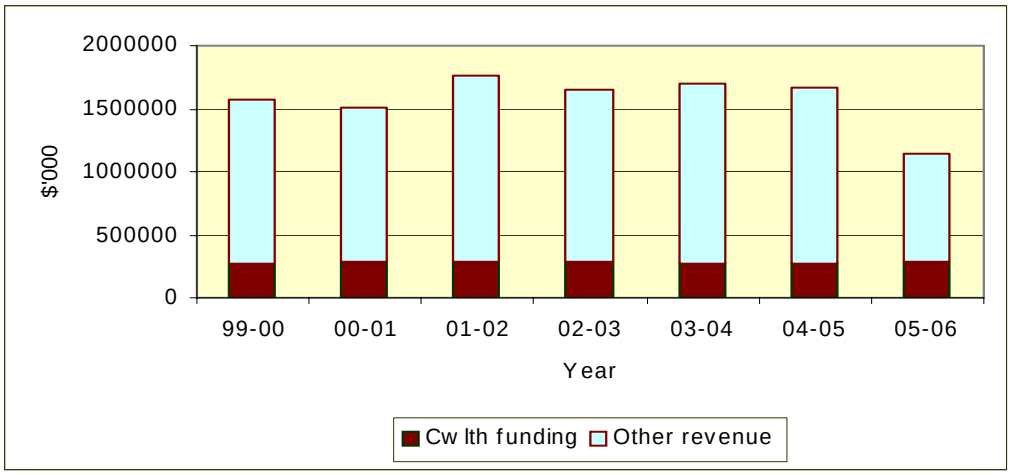
Source: Department of Housing annual report 2005-06.

The Commonwealth-State Housing Agreement of 1945-46 was a response to a shortage of dwellings driven by a downturn in economic activity in the 1930s, diversion of resources to military in the early 1940s and the beginning of the 'baby boom'. The role of the successor agreements changed in response to economic and social changes. (See 'Attachment 1: Development of the CSHA'.)

The reason the Commonwealth–State Housing Agreement is so much at the center of community sector debates on housing assistance is not because of any essential, brilliant or fabulous contribution of the Commonwealth government to social policy, or its outstanding or best practice track-record as a provider of affordable housing, or its flair in efficient, bureaucratic and right-touch management of programs, but rather the surplus money the Commonwealth raises.

The Commonwealth subsidy to NSW public housing through the Commonwealth–State Housing Agreement contributed some 16-19% of the Department of Housing's total revenue in the early 2000s. (See Figure 7.) In 2005-06, the Commonwealth subsidy comprised 24% of the total revenue collected by the Department of Housing for public housing, community housing, and other housing assistance programs.

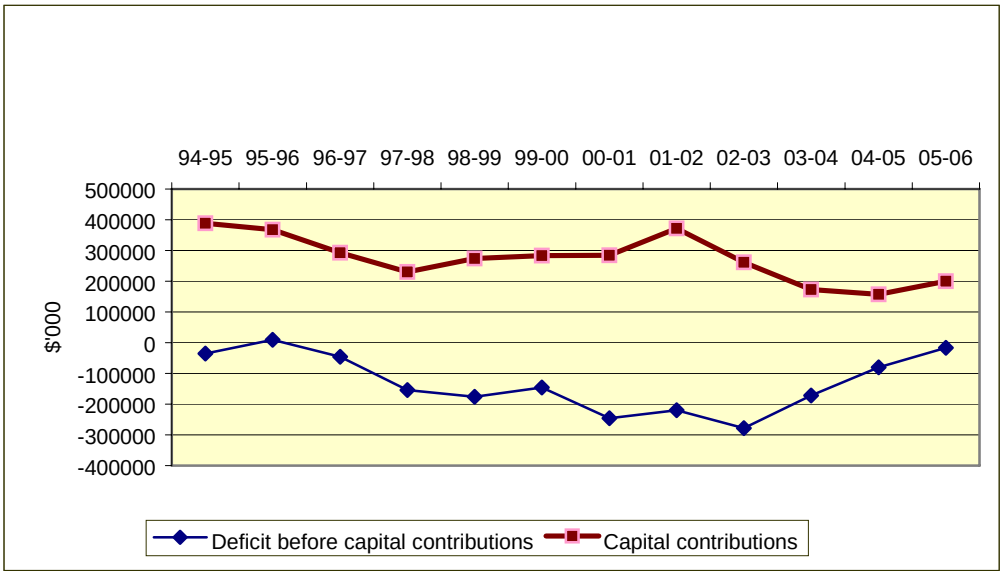
FIGURE 7: COMMONWEALTH SUBSIDY AS SHARE OF DOH TOTAL REVENUE, 2000 TO 2006



Source: Department of Housing annual reports.

The Commonwealth subsidies are for capital purposes and these are matched dollar for dollar by the state government (as a term of the Agreement). The state government may of course put more money for purposes into its own public housing system. But there has been a steady decline in capital contributions (from both sources) for public housing in New South Wales over the last ten years, with a downward movement in 1997 and an upward movement in 2002. (See Figure 8.) The increase in 2002 was the result of a $105 million advance in funding for a maintenance backlog.

FIGURE 8: CAPITAL CONTRIBUTIONS FOR SOCIAL HOUSING, 1995 TO 2006



Source: Department of Housing annual reports.

All state housing authorities except Tasmania had small or moderate operating surpluses at the beginning of the 1990s. But in the mid 2000s, most state housing authorities – the exceptions were South Australia and Victoria – had operating deficits.[55] Housing NSW has not made a surplus (before capital contributions) since 1995-96. That is, the revenue the states get for their public housing businesses – which is primarily revenues collected from their customers (rent revenues, with rents discounted ('rebated') so that customers consumer the good at an affordable price) – does not cover the cost of providing the good. This is the reason the Commonwealth's subsidy, which is given for capital purposes not to finance recurrent costs, is so important to them. It's a matter of business solvency.

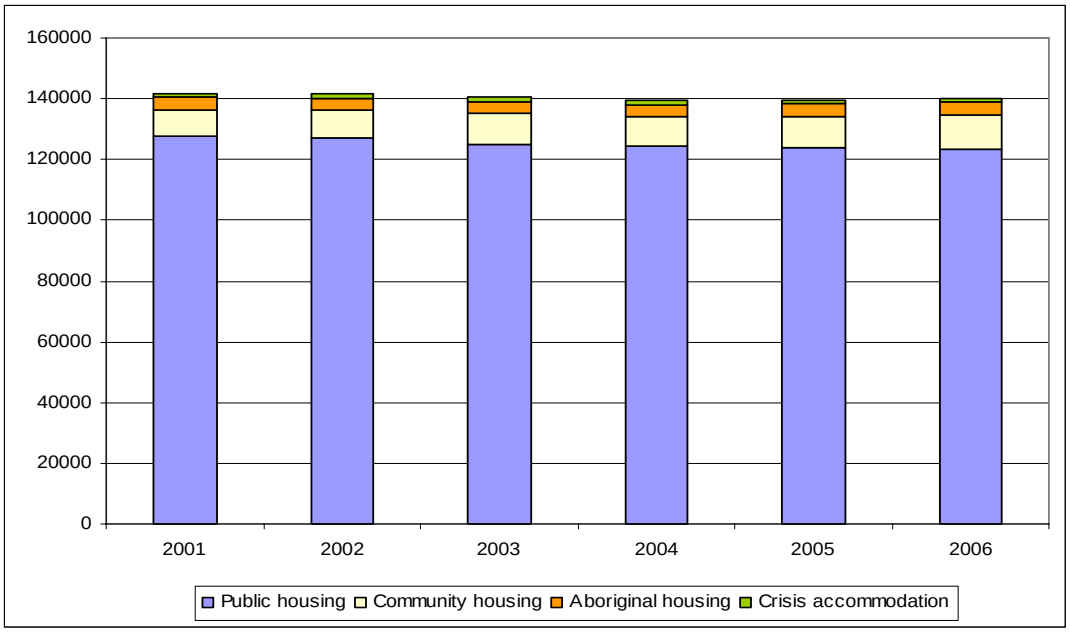
The existing social housing sector would probably not be viable without access to subsidies generated from Commonwealth-collected income tax. The current mechanism for delivering the subsidy is a specific purpose payments for housing assistance. Such a mechanism ties the states to Commonwealth policies. The subsidy could, in principle, be given in a less heavy-handed way: such as dedication of untied funding from income-tax revenue to the states and territories for their own purposes as part of a broader review of the vertical fiscal imbalance in Commonwealth–state taxation arrangements.

The current providers of affordable rental housing, whether government or nongovernment, Indigenous or nonIndigenous, face many challenges in managing their current stock portfolios. They are pressed to manage and maintain dwellings in a way that is economically efficient taking account of the limits that rent revenues can contribute to total recurrent costs. They also need to provide their services in a customer-friendly way that takes account of the higher numbers of people with complex or other support needs among their customer base.

The fiscal constraint on the social housing system is the explanation for the small decline in number of social housing dwellings in New South Wales. The number of

social housing units decreased from 141,430 dwellings in 2001 to 140,169 in 2006. (See Figure 9.) The number of completions of new public and community housing dwellings declined in New South Wales in the early 2000s, but there has been a small pick-up in the mid 2000s, though not to the level of the beginning of the decade. (See Table 5.) However, the number of public housing units has gone down. (See Figure 10.)

FIGURE 9: SOCIAL HOUSING DWELLINGS, 2001 TO 2006



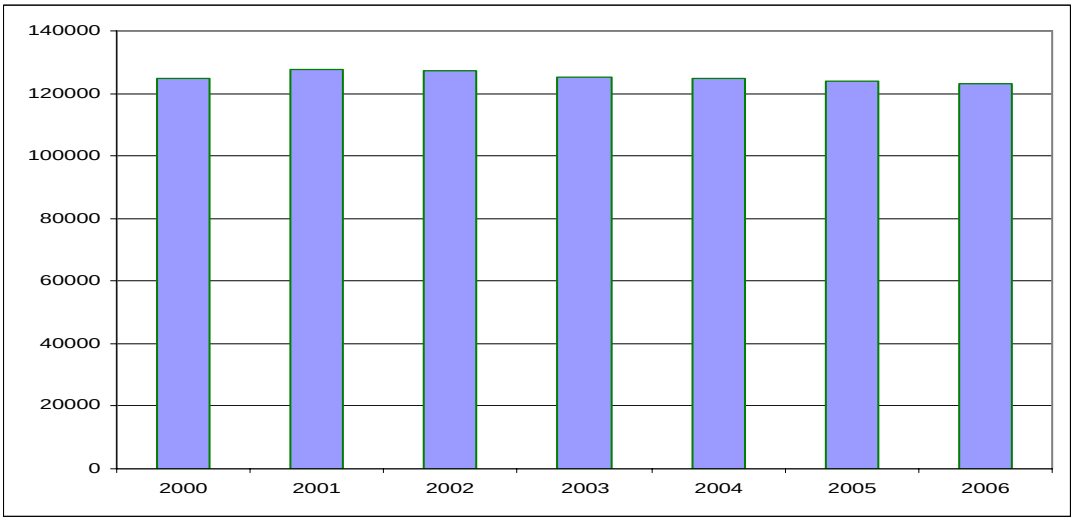
Source: Australian Institute of Health and Welfare, CSHA data reports.

TABLE 5: UNITS OF PUBLIC AND COMMUNITY HOUSING COMPLETED

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Units	1,083	806	662	691	779	955

Source: NSW Government, 'Budget estimates 2005-06: Budget paper no.3, vol. 2', NSW Treasury, Sydney, p.9-12; NSW Government, 'Budget estimates 2007-08: Budget paper no.3', NSW Treasury, Sydney, 2007, p.13-4.

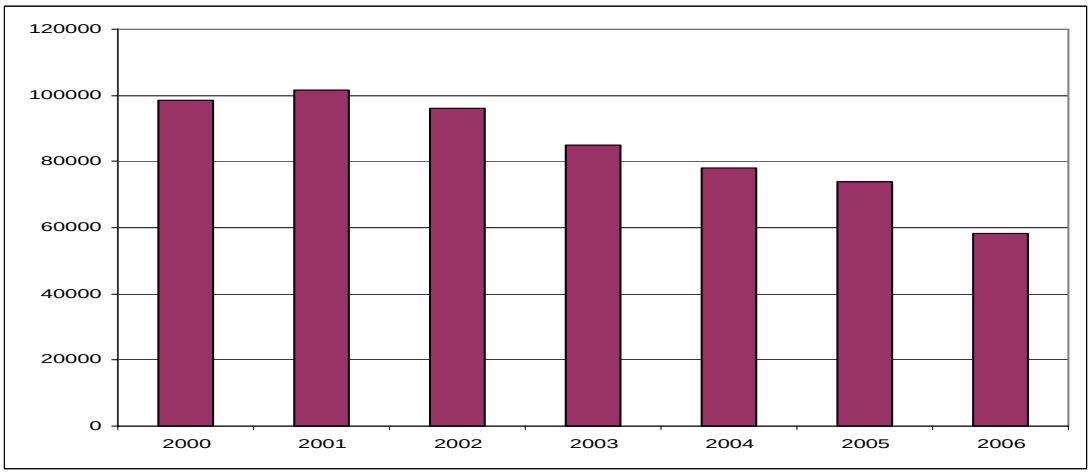
FIGURE 10: PUBLIC HOUSING DWELLINGS, 2000 TO 2006



Source: Australian Institute of Health and Welfare, CSHA data reports. Note: The year indicates the number of dwelling units as at 30 June of that year.

And at the same time as the number of public housing units has declined, the number of people on the public housing waiting list has also declined. (See Figure 11.) The main reason for this is 'bracket creep', i.e. an effective freezing of the income eligibility since 1992, and reviews of the status of applicants who are waiting.

FIGURE 11: PUBLIC HOUSING WAITING LIST, 2000 TO 2006



Source: Australian Institute of Health and Welfare, CSHA data reports. Note: The year indicates the number of applicants as at 30 June of that year.

The number of people on social housing waiting lists is not the same as the number of people in housing need relating to housing stress. Those on the waiting lists are people who meet the stringent income-eligibility criteria and who decide that social housing is more suited to their needs than other housing options such as private rental.

The number of people in need of housing assistance (which might not necessarily require public or other social housing) could be indicated by:

- the number of low-income households in housing stress – both mortgagees and private renters, i.e. some 862,000 Australian households, which includes some 301,000 NSW households[56]; or
- the estimated shortfall of affordable private rental dwellings, i.e. some 150,000 such dwellings in Australia, which includes some 27,000 dwellings in New South Wales.[57]

If you assume that everyone in stress in private rental housing wanted to live in public housing and you aimed to meet the 150,000 dwelling target with public housing dwellings, the cost to do so would be $15,000,000,000 (i.e. $15 billion), based on a construction cost of $100,000 a dwelling.[58]

How does this compare with the current Commonwealth and state government contributions to Commonwealth–State Housing Agreement housing assistance programs? The Commonwealth government budgeted for $970,604,000 for capital purpose subsidies to the states, for 2007-08.[59] Add the $765,224,000 required to be matched by the states (though states and territories may and do subsidize their social housing systems by more than what they have agreed to under the agreement), and the total governments' subsidy is around $1,736,000,000, each year.

If the 150,000 dwelling target was to be achieved over 10 years, with an average of $1,500,000,000 being spent on capital purposes each year, such a sum would be 86% of the current yearly capital contribution. That would quite a huge commitment over what the various governments are currently prepared to commit to housing assistance, and is probably the reason the argument popular in the community sector, that the answer to housing unaffordability in the private rental market is 'build more public housing', has little political traction.

Instead, researchers and policymakers are looking to alternative solutions. (See next section.)

BOX 3: THE 2003-2008 CSHA

The Commonwealth–State Housing Agreement is an agreement between the Commonwealth government and the 8 states and territories (hence, 'multilateral').
The aim of the 2003-2008 agreement was to provide appropriate, affordable, and secure housing assistance for those who most need it, for the duration of their need.
It acknowledged that states have different priorities for housing assistance, according to the different circumstances in each state.
It provided that the Commonwealth and states will strengthen links between housing programs and other relevant services to improve housing outcomes for those most in need, including by influencing other Commonwealth–state agreements, particularly the Commonwealth State and Territory Disability Agreement and the Supported Accommodation Assistance Program.
It established maximum levels of funding to the state/territory housing assistance programs from the Commonwealth and minimum levels of funding from the states/territories to those programs: the Commonwealth funding for the 1st year of the agreement was $725.230 million as 'base funding', plus $91 million for the Aboriginal Rental Housing Program, $63.99 million for the Community Housing Program, and $39.655 million for the Crisis Accommodation Program. These amounts were payable for each of the other years in the agreement period, subject to indexation (i.e. increase) and an 'efficiency dividend' of 1% (i.e. decrease). In addition, there was $10 million extra for the Aboriginal Rental Housing Program in each of the first 2 years. The minimum state funding was 48.95% of the 'base funding' in each of the 5 years of the agreement.
The funds provided by the Commonwealth were to be used for addressing housing need, establishing and maintaining the viability of housing providers, providing appropriately for asset management, and providing subsidies to consumers (including home-purchase assistance).
The agreement was supplemented by one-on-one agreements between the Commonwealth and each state (hence, 'bilateral'); these agreements required specific action to implement the aims of the agreement. The main agreement (the 'multilateral') required those bilateral agreements to include, among other things, outcomes and performance measures in attracting investment from outside the social housing system, outcomes and performance measures in reducing workforce disincentives for social housing tenants, and linkages with Commonwealth and state programs that impact on housing outcomes.

Alternative proposals for financing social housing

The challenges in sustaining social housing systems in growing supply of affordable rental stock have led to a number of proposals being pout forward in recent years. Some of them are summarized here.

Affordable Housing National Research Consortium

The Affordable Housing National Research Consortium was an ad hoc group comprising the Housing Industry Association, Australian Council of Social Service, Real Estate Institute of Australia, Australian Council of Trade Unions, National Community Housing Forum, Urban Development Institute of Australia, Property Council of Australia, Royal Australian Institute of Architects, Master Builders Australia, and Royal Australian Planning Institute. It was formed in 2000 to sponsor a major research project on financing affordable housing. The principal research consultants were the Australian Housing and Urban Research Institute and Allen Consulting.

The Consortium released 5 reports over 2000 and 2001.[60]

After considering various options to address housing unaffordability, the Consortium's researchers favored a housing bond. Under this arrangement, governments would issue a bond with a guaranteed minimum after-tax return. A subsidy would be provided, either via a tax concession, or through a Budget outlay. The funds generated would be distributed to state housing authorities and community housing providers to construct affordable rental dwellings. These dwellings would then be owned and managed by state housing authorities and community housing providers. The dwellings built would be sold off progressively on vacancy and all of them after 20 years, so that the debt could be repaid. The result of this proposal, according to the researchers, would have been to produce four-and-a-half times as much affordable rental housing compared with the government acquiring dwellings from its own funds.

The researchers acknowledged that schemes similar to this option had been suggested previously, but they thought their proposal might get up (unlike earlier suggestions) if it was implemented in a flexible way, for example[61]:

- The bonds could be issued by either the Commonwealth or state/territory governments.
- The subsidy needed to make the scheme viable could be provided by either the Commonwealth or state governments or both.
- The subsidy could be delivered through a tax concession or an outlays program.
- The bond could have various characteristics in relation to duration, price basis, etc.
- The funds generated from the bond could be provided to state housing authorities as well as other approved government, community or private sectors, or provided directly to residential property developers.

The researchers suggested that interested parties (that is, implicitly, the Commonwealth and state/territory governments) consider precise specification of the scheme depending on their willingness and ability to bear the risks and costs and to manage it.

In a follow-up report that costed the housing bond proposal, the Consortium's researchers found that a national program of $100 million would produce a gross cost to the Commonwealth government of $220 million and net cost after direct tax receipts of $8.9 million for the total term of all state transactions. A program of $2 billion capital would have a gross cost of $440 million (once off), and a net cost of $180 million. This would provide accommodation for 14,900 assisted tenant households[62].

The proposal was not supported by state housing authorities, and it went nowhere.

National Affordable Housing Roundtable

The NSW Department of Housing organized a national affordable housing conference on 21-22 June 2005, in Sydney. Following the conference, the Australian Housing and Urban Research Institute organized a 'strategic forum' to consider ways of addressing housing unaffordability.[63] The forum identified three components of an integrated strategy:

- leveraging private finance
- extending the influence of the planning system
- enhancing the delivery system in social housing

National Affordable Housing Summit

A 'national summit on housing affordability' was held in Canberra in June 2004.[64] It was organized by the Housing Industry Association, Australian Council of Social Service, Australian Local Government Association, Australian Council of Trade Unions, and National Housing Alliance. After the summit, the Housing Industry Association, Australian Council of Social Service, Australian Council of Trade Unions, and National Housing Alliance issued a statement, 'Improving housing affordability: a call for action'.[65] This 'Call to action' proposed:

- a 5-year national housing plan for achieving housing affordability for homepurchasers and renters
- a 5-year national affordable housing agreement between the Commonwealth, state/territory and local governments that would incorporate the current Commonwealth-State Housing Agreement
- a national strategy to improve the availability for affordable housing
- increased government expenditure on affordable housing (including public housing)
- tax reform to improve the equity and efficiency of taxes on housing affordability and on financing investment in affordable housing

A successor event, a 'national forum on affordable housing' was held in Canberra in July 2006. The forum hosts were the Housing Industry Association, Australian Council of Social Service, Australian Council of Trade Unions, and National Housing Alliance. The post-event document ('National affordable housing forum: achieving a new national affordable housing agreement 24-25 July 2006 Old Parliament House, Canberra – a summary of the forum') was not a formal statement or restatement of agreed policy positions, but a summary of matters discussed.

The National Affordable Housing Summit group released a statement, 'Improving housing affordability: a call for action', in June 2007.[66] This statement was focussed on Commonwealth issues with the federal election due this year in mind. It proposed a 5-year program focusing especially on assisting homebuyers in newly-developed suburbs and boosting low-rent housing. The elements of the proposed program were:

- a 'national affordable housing agreement'
- capital funding and recurrent funding to state public housing providers[67]
- a 'national affordable rental incentive' scheme to encourage investment in low-rent housing
- a residential infrastructure fund to assist state governments meet the cost of urban infrastructure in high-growth areas

The group released further information about its proposed 'national affordable rental incentive' scheme in July.

The states' position

The state governments had not formally participated in the various advocacy processes around post-CSHA options. However, the National Affordable Housing Conference in June 2005, organized by the NSW Department of Housing, provided an occasion for sharing of ideas around affordable owner-occupied and rental housing.

On 4 August 2005, a joint meeting of housing, local government and planning ministers adopted a 'Framework for National Action on Affordable Housing'. This statement usefully provided a definition of affordable housing that was broader than one used by some community housing providers and government agencies up to then (i.e. one which used the term to refer to rental housing provided to low-moderate income earners, distinguishable from social housing); it said: 'Affordable housing is housing which is affordable for low and moderate income households across home ownership, private rental as well as public rental tenures.'[68] The framework incorporated actions that the states and territories would undertake – it did not involve expectations of the Commonwealth government. The key action agreed to was the development of a 'sector development plan' for nonprofit (nongovernment) providers of affordable housing.

The then head of the Victorian Office of Housing, Owen Donald, gave a presentation in April 2007 that indicated what a major state government housing agency would be seeking in federal-state housing policy.[69]Donald's suggestions were based on assessments that the Commonwealth-State Housing Agreement was based on anachronistic ideas of the housing market and does not operate within a comprehensive policy framework. He suggested a successor agreement to the Commonwealth–State Housing Agreement differ from the current (and recent) agreements in nature and content. He said the states would be looking for a successful partnership, where the relation between governments is one of cooperation, and where the results from an agreement are defined in broad outcomes, or delivery of outputs, and where there is flexibility in program delivery. He suggested a successor agreement to the CSHA cover these issues:

- sustainability (but not growth of the public housing sector as such) for public housing, to upgrade and reconfigure stock – this required full indexation, debt forgiveness, and eradication of the efficiency dividend;
- development of a mature nonprofit sector, able to attract private investment; supported by regulatory and policy regimes that support sector development;
- more effective demand-side subsidies: better targeting of the First Home Owner Grant scheme and Commonwealth rent assistance; changes to the minimum and maximum thresholds of Commonwealth rent assistance, and responsiveness to regional submarkets;
- support for entry-level homeownership – better targeted the First Home Owner Grant scheme; shared-equity schemes; subsidy streams to assist first homepurchasers who incomes reduce significantly in the first 5 years of the mortgage; and
- national, state, and local affordable housing targets.

The former Commonwealth government's position

There are three initiatives or programs of the former (Liberal–National) government that the new (Labor) Commonwealth government will have to deal with in some way (e.g. overturn, ignore, or continue). Those are:

- the 'emergency response' interventions in Aboriginal settlements in the Northern Territory, and similar interventions in Queensland and Western Australia, where assistance packages to disadvantaged settlements have required communities to agree to changes in land tenure and housing providers;
- the proposed introduction of an Australian Remote Indigenous Accommodation program from July 2008;
- a Social Housing Supply Taskforce, set up in July 2007, whose work foreshadowed the Commonwealth might start direct-funding of social housing projects, bypassing the states.[70]

The Commonwealth government's position

The federal Labor party, during the federal election campaign, proposed the introduction of a National Rental Affordability scheme which would involve bundling incentives for investment in and construction of new social housing dwellings.[71] The scheme would involve: (i) an annual tax incentive of $6,000 a year per dwelling to investers in new rental housing, for up to 10 years; and (ii) a requirement that state governments contribute $2,000 a year for up to 10 years, directly or in kind, to the investers getting the Commonwealth tax incentives. The scheme would only operate in states and territories whose governments agree to contribute $2,000 a year for up to 10 years, directly or in kind, to the investers getting the Commonwealth tax incentives. The scheme would cost $603 million over its first five years.[72] The investers eligible for the scheme would be institutions who build new dwellings and where such dwellings after construction are leased to low-moderate income households at submarket rents. The Labor party estimates the incentives would generate construction of 50,000 new social housing dwellings over that period.

Eligibility for tenancy allocation in the completed units is broader than current eligibility for social housing (i.e. 'low and middle income', not very low and low income households). The rent policy to be applied to the dwellings (80% of the

market rate) is not the income-based rent-setting currently used in public housing. Tenants would get Commonwealth rent assistance (if eligible), and since public housing tenants are not eligible for Commonwealth rent assistance (unlike private renters, community housing tenants, and Aboriginal housing tenants), this characteristic of the scheme defines it as not a public housing financing scheme.

This proposal is not the same as a scheme with a similar name (National Affordable Rental Incentive) proposed by the National Affordable Housing Summit group (see page 28).

Who's who

National Summit on Housing Affordability group. An ad hoc coalition of organizations that organized a National Summit on Housing Affordability in 2004, comprising the Housing Industry Association, Australian Council of Social Service, Australian Local Government Association, Australian Council of Trade Unions, and National Housing Alliance. A subset of them hosted a successor event in 2006, the National Affordable Housing Forum: they were the Housing Industry Association, Australian Council of Social Service, Australian Council of Trade Unions, and National Housing Alliance (i.e. the Australian Local Government Association had dropped out). The coalition released 'A call for action' in June 2007, under the name **National Affordable Housing Summit**: its members then were the Housing Industry Association, Australian Council of Social Service, Australian Council of Trade Unions, National Shelter, and Community Housing Federation of Australia.

National Housing Alliance. An ad hoc coalition of organizations comprising the Housing Industry Association, Urban Development Institute of Australia, Construction Forestry Mining and Energy Union, Australian Council of Social Service, Community Housing Federation of Australia, and National Shelter. It was formed before the Housing Industry Association initiated the National Summit on Housing Affordability in 2004, and it disappeared sometime in 2007 at the same time as National Shelter and the Community Housing Federation of Australia emerged as members of the National Affordable Housing Summit group.

Australian Council of Social Service. The peak body for nonprofit nongovernment welfare agencies.

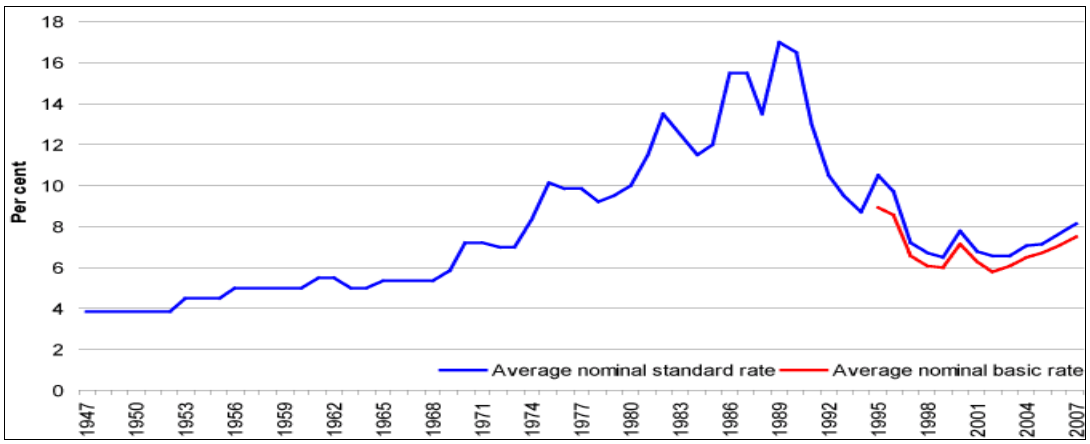
National Shelter. The peak body for state/territory Shelter organizations and some national sector-based peaks (Homelessness Australia, National Association of Tenant Organizations).

Community Housing Federation of Australia. The peak body for nonprofit nongovernment providers of affordable rental housing.

Interest rates

Interest rates are a key factor in influencing housing affordability and the level of interest rates is therefore usually a key issue in federal elections. While monetary power is a federal responsibility, the setting of official interest rates is done at arms-length from the Government by the Reserve Bank. However, government policy is relevant to the Board's decisionmaking in as much as government macroeconomic and microeconomic policy can affect economic trends. Low inflation rates and low interest rates are seen as desirable for people's standard of living and the overall soundness of the economy. The conservative parties present themselves as facilitators of lower interest rates, compared with the Labor party, and indeed this issue was a key factor in their re-election in the 1994 federal election.[73] This matter did not manifest as a negative for the Labor party in the 2007 federal election.

FIGURE 12: NOMINAL MORTGAGE INTEREST RATES



Source: Adrian Makeham-Kirchner, 'Home loan interest rates and payments', *Background Note*, no.3 2007-08, Parliamentary Library, Parliament of Australia, 10 August 2007, online at <www.aph.gov.au/library/pubs/BN/2007-08/08bn03.htm>, viewed 17 August 2007. Note: These date relate to benchmark home-loan interest rates.

Most homepurchasers who are buying a dwelling with the assistance of a loan use a loan that has a variable interest rate. Those homepurchasers naturally prefer the interest rate on their loan not to be varied upwards. While the interest rates they pay on their loans from a financial institution are set by the institution, the institutions use the cash rate interest target set by the Reserve Bank as their baseline.[74]

In 2006, nearly 2 and a half million households in Australia, living in 32% of occupied private dwellings, had a mortgage.[75] The median housing loan repayment was $1,300 a month. In New South Wales, the equivalent figures were three-quarters of a million households, living in 30% of occupied private dwellings. The median housing loan repayment was $1,517 a month. Variable interest rate loans comprise about three-quarters of loans taken out for dwellings for purchase or construction: 75.4% in Australia, 73.8% in New South Wales.[76]

So, we have half a million households in New South Wales and over one and three-quarter million households Australia-wide whose recurrent housing costs are influenced by federal interest rates. Mortgagees have in fact become more sensitive to interest rate rises since the mid 1980s.[77]

According to Saul Eslake, the sharp drop in interest rates in the 1990s (see Figure 12) was ‘capitalized’ into the price of housing. Consumers had more borrowing capacity and so those lower interest rates, in boosting demand, contributed to higher house prices.[78]

Land supply, infrastructure charges, and property taxes

Ironically, some of the issues being debated as 'national housing policy' are matters that are clearly state responsibilities and where the Commonwealth has no expertise and where its money is not critical.

Land supply

The degree to which limits or restraints on the supply of land have been the prime or even a significant factor in driving up dwelling prices (with flow-on effects to other housing tenures, such as prices (rents) in private rental) is an ongoing matter of debate in the market-based societies we live in.

A simple demand-and-supply approach says that house prices are high because of the high price of land supply, reducing the price of land will bring down house prices, and releasing more land will reduce its price. Former prime minister John Howard MP said: 'I think we do have to be willing to see even greater urban sprawl, of course we do.'[79]

This argument is much favored by the property industry. We see the arguments aired, to a regular timetable, when data reports are released by housing industry peaks, e.g. the Housing Industry Association of Australia, Property Council of Australia, Real Estate Institute of Australia, Urban Development Industry of Australia, and the NSW Urban Taskforce. These peaks produce either regular or ad hoc research reports/newsletters, and media releases, on home purchase affordability or land supply. A report that gets significant Australian-media coverage is 'Demographia', an online publication produced by US urban policy consultant Wendell Cox. This annual report on housing prices in 6 anglophone, developed countries, including Australia, is a key weapon on his campaign against governmental constraints on land use ('smart growth'/'urban consolidation'). Homegrown variants of this advocacy include the Institute of Public Affairs and the Great Australian Dream Project.

In the leadup to the federal election, 4 housing industry bodies campaigned for a Ministerial Council in Housing Affordability to address the key problems they believe have caused the current 'affordability crisis', namely:

- lack of adequate land supply
- costly processes for development approvals
- inappropriate funding mechanisms for the delivery of infrastructure

The campaigning by the housing industry has had an effect. Housing appeared to be a 'sleeper' in the NSW state election in March. However, during its term of office up to that election, the state's Labor government had got legislation passed (June 2005) that took development consent authority from local governments and gave it to the minister for planning for 'major infrastructure or other development that, in the opinion of the Minister, is of State or regional environmental planning significance' – a power that has led some critics to describe the changes as 'benefiting developers to the detriment of the environment and the community'.[80] It released a *State Plan* in which the major measure to address housing affordability was to set targets of 640,000 new dwellings in the greater metropolitan region by

2031 (30% of which will be in greenfield locations) and 300,000 new dwellings in regional areas by 2031. And in late 2007, the government reduced infrastructure charges in land release areas[81], and launched (another) wave of 'planning reforms', this time to fast-track and further centralize development approval processes.[82]

The major announcement from a Labor-organized conference on housing affordability held in Canberra on July 26, was the establishment of a National Housing Supply Research Council. The proposed body will publish a *State of supply report*, to measure and assess the supply of land and housing and its relationship with demand. Factors to be considered will include possible future shortfalls in land supply; structural barriers to the release of land, zoning, approval and the construction of new housing; and state and local government assessment procedures and planning frameworks. The media release from then Opposition leader (now prime minister), Kevin Rudd MP, announcing this initiative acknowledged calls by the Property Council and the Urban Development Institute for a national body to coordinate and analyse research on land supply.[83]

When the Productivity Commission considered the drivers affecting housing unaffordability for first homeowners in 2004, it did not regard constraints on land supply as the critical factor. It concluded that constraints on the supply of land contributed to housing price pressures (particularly in Sydney), but did not think that improvements to land release policies could have alleviated those pressures, because the price surges at the time were mainly due to demand in established areas.

The Commission also considered that matters other than housing unaffordability were relevant when considering public policy on land releases on the fringes of cities and towns. 'There are also important social and environmental dimensions to policy in this area to be taken into account, as well as economic costs and benefits'.[84]

Relevant environmental consequences of urban sprawl are:

- destruction of remnant bushland, as is happening at the former ADI site at St Marys (Sydney);
- air pollution, if new housing estates are sited in inappropriate locations, e.g. the 'growth centre' in the South Creek valley in south-western Sydney;
- greater demands on water catchments to cater to the water needs of the residents (without adequate demand management);
- greater demands on energy and increased generation of greenhouse gases if the dwellings are designed and built in ways that do not align with the natural environmental, for example, rely on airconditioning to provide cooling.

Relevant social consequences of sprawl are the dispersal of resources and opportunities in various parts of cities, expressed – in Sydney – in systemic differences in income and ethnic profiles between western Sydney and other parts of Sydney and within western Sydney between outer-ring suburbs and middle-ring suburbs.

Relevant economic consequences of sprawl are the crowding-out of other, productive purposes for which the land can be used, e.g. farmland.

Way back in 1991 the National Housing Strategy, in an issues paper on the efficient supply of affordable land and housing, identified a number of questions about whether housing development on the urban fringe would represent an efficient use of the available land. The matters it suggested were important to consider were (National Housing Strategy 1991, pp.19-20):[85]

- *specific user costs*, i.e. the cost of developing and providing resources to such land causing undue increases in the purchase price of dwellings, especially detached dwellings on large blocks;
- *social opportunity costs*, i.e. the loss of alternative benefits to society arising from the use of the land for non-residential purposes, such as parks, nature reserves, industrial estates, market gardens or farmland;
- *infrastructure costs*, i.e. the pressures on scarce public funds of having to provide billions of dollars worth of infrastructure to such residential land, including the diseconomies of scale arising from low-density development;
- *environmental costs*, in particular, air pollution arising from excessive private motor vehicle use in travelling across the urban sprawl, and water pollution caused by run-off into rivers and water-supply catchment areas.

These are still relevant criteria to assess whether a proposal that aims to achieve housing affordability is worthy of support.

Despite the 'conventional wisdom' that has now developed in industry and policy circles (the Productivity Commission excepted) around land releases, Australians generally are less convinced. An AC Nielsen poll of 1,412 conducted in early July 2007 found that only 8% of respondents thought that inadequate land releases by governments was the main reason for a generalized decline in housing affordability.[86] Rather, they thought the main reason was people wanting to better dwellings than formerly (27%), speculation by investers and developers (22%), and rises in interest rates (21%). See Table 6.

TABLE 6: REASONS FOR DECLINE IN HOUSE-PURCHASE AFFORDABILITY

Reason housing affordability has declined	All persons
People want better homes than they used to	27%
Speculation by investers and developers	22%
Interest-rate rises	21%
Increases in government charges	11%
Inadequate land releases by governments	8%
The first-home buyers grant	3%

Source: ACNielsen, *Sydney Morning Herald*, 16 July 2007.

Property taxes

There are two main types of property taxes: land tax, and stamp duty on transfers ('transfer duties'). Their importance for state government's revenues is indicated above (page 16). The extent that they might contribute to housing costs is a matter for debate, and if they do, whether there is a public interest in removing them is problematical since housing affordability is only one of many concerns of governments.

Infrastructure charges

In New South Wales, infrastructure charges and levies are special taxes that apply to the land development process and are collected from developers.

The most common type is those collected by local governments, and they are applied to meet the costs of providing local urban services generated by the development (the capital cost, not ongoing recurrent costs). The legal basis for them is the Environmental Planning and Assessment Act and they are commonly known as 'Section 94 contributions' after the relevant section of that Act.[87] The types of services financed by this means can be seen in Liverpool council's contributions plan for Edmondson Park, a new suburb that is estimated to have over 6,000 dwellings and some 20,000 residents. The council levies will finance transport (including pedestrian and traffic facilities, public transport facilities, frontage to public land uses, and subarterial roads) drainage (including natural creek corridors and basins), community facilities (including community centers), recreation facilities (including bushland reserves, outdoor passive facilities, sporting facilities, and bicycle paths).

There are some variations on this type of levy. One is a flat rate level of 1% applied by the City of Sydney applied to developments in the Sydney central business district.[88] Another is developer levies for affordable housing applied by Sydney City and Willoughby councils.[89] A third is developer levies applied for public amenities/services and affordable housing by the Redfern-Waterloo Authority.[90] What these schemes have in common is the geographic area of the services being financed: they are for local infrastructure in the local government area or a part of it.[91]

The second type is applied to meet the costs of providing regional or subregional services generated by development. These are applied by state government and are reasonably new, having first been introduced to help pay for transport infrastructure costs in parts of southwestern Sydney[92], and a variant applies to the growth centers in northwestern and southwestern Sydney. In this latter case, developers of land being released for these satellite cities will be charged a special infrastructure contribution to help pay some of the costs of providing state government infrastructure there.[93]

Ross Gittins has argued that the ultimate beneficiaries of (government) giving up tax revenue would be the people selling house and land packages, not the consumers buying them.[94] This is because any initial fall in price would be followed by higher demand which would push the prices up again.

Richard Kirwan has argued that if the price of serviced land was lower than it would be if full-cost recovery were in force, more land would be converted to urban use; that, is, urban sprawl would be encouraged.[95] Using Kirwan's argument, the National Housing Strategy suggested that the efficiency of land-use practices and the process of residential land supply would be enhanced by *not* giving subsidies (to developers) for infrastructure provision.[96]

Government charges are not the major concern of homepurchasers, in affecting housing affordability. As indicated in Table 6, they attribute high costs of home purchase to firstly, the preferences and behavior of consumer themselves, and secondly, to speculative activities of investers and developers.

In a survey of mid-range homebuyers in northwestern and northeastern Sydney, the majority said they were willing to pay upfront for community facilities through Section 94 development contributions.[97] They were comfortable with the idea that a proportion of the price of their dwelling was a contribution to public infrastructure. This was because they regarded themselves as buying a package that was not just about dwellings.

The development industry, not surprisingly, opposes these taxes. It argues that the taxes add to the price of serviced lots of land and that price is greater than what consumers are prepared to pay, and so consumers will not buy the lots, to the detriment of the development industry.[98] (Note that the development industry is being given this opportunity to make profits as a direct result of the government planning for this land to be used for urban purposes. That is, a change of allowable uses that follows from a government action such as rezoning can lead to higher value for the land: this is called 'betterment, and in the Australian Capital Territory there is actually a tax to capture some of the 'planning gain' back to the government.) It also argues that the taxes, in adding to the cost of the product being sold to consumers, increase unaffordability.

In October 2007, the state government indicated it would reduce the amount being charged for infrastructure contribution for land release areas.[99] The package provided for state government and local government infrastructure charges will only be able to fund infrastructure and land requirements attributable to development of land, not to infrastructure requirements driven by general population growth such as facilities benefiting existing settlements. It excluded state government infrastructure charges for works envisaged by the state government in Sydney's growth centers and it also excluded local government infrastructure charges for a number of purposes hitherto allowable by local governments across the state.

The federal Labor party, during the federal election campaign, promising to establish a Housing Affordability Fund, which would give grants to local governments to cover the cost of providing new urban infrastructure.[100] This Fund would be allocated up to $500 million over 5 years. The aim of the grants would be to reduce local government development charges, which savings would have to be passed on to home purchasers in lower dwelling prices. The grant funds would be made available to local governments on a competitive bidding basis. State governments would also be able to bid for the funds for innovative development-specific proposals.

Who's who

Housing Industry Association of Australia. The peak body for businesses involved in the building construction and supplies industry.

Property Council of Australia of Australia. The peak body for businesses involved in property generally. It has a division for investers in residential property.

Real Estate Institute of Australia. The peak body for businesses involved in real estate management.

Urban Development Institute of Australia. The peak body for businesses involved in property development in cities and towns.

NSW Urban Taskforce. An advocacy body for property development in cities and towns.

Indigenous housing

The 3 main Commonwealth activities that impact on housing for Indigenous Australians are the:

- establishment of an Australian Remote Indigenous Accommodation program;
- redevelopment of town camps in northern Australia;
- funding for Indigenous social housing under the Aboriginal Rental Housing Program, which is part of the Commonwealth–State Housing Agreement.

The former Commonwealth Minister for Families, Community Services and Indigenous Affairs, Mal Brough MP, announced the establishment of a new program, the Australian Remote Indigenous Accommodation (ARIA) program, on May 5.[101] The new program was to begin from 2008-09, replacing the Community Housing and Infrastructure Program, a program that the Department of Families, Community Services and Indigenous Affairs inherited from the former Aboriginal and Torres Strait Islander Commission. The focus of Commonwealth funding under the new program was be to construct new dwellings and repair and upgrade existing dwellings in remote locations.

It was also use to state/territory housing authorities as the providers, rather than Indigenous community housing organizations. In announcing the new program, the (then) minister said: 'The current Indigenous Community Housing Organisations (ICHO) model has not worked to benefit Indigenous people. While some have been well managed, there are too many where nepotism and poor management have become entrenched. The ICHOs will have the opportunity to upgrade their properties, where they agree to private ownership opportunities or to transfer title to state housing authorities.'

The review and its implementation have particular implications for New South Wales. The Community Housing and Infrastructure Program provides 21% of Aboriginal Housing Office's revenue.[102] Yet over 80% of NSW Aboriginal communities do not live in remote locations[103], which is where the new Australian Remote Indigenous Accommodation program will be focused.

One of the matters for the new (Labor) government to address is whether to proceed with the proposed Australian Remote Indigenous Accommodation program.

The second Commonwealth activity is the redevelopment of Aboriginal town camps in northern Australia. The former Commonwealth government linked its preparedness to finance upgrading of infrastructure and housing with transfer of dwellings into public housing (from community housing) or into owner-occupation. The latter involved change of land tenure ownerships to allow for private ownership on collectively-owned land. The new model met with resistance in some Aboriginal communities, e.g. in Alice Springs, but was being implemented in the Tiwi islands and Groote Eylandt in the Northern Territory, and in Hope Vale, Yarrabah, and Palm Island in Queensland.

This is another matter for the new (Labor) government to address: if it discontinues the intrusive interventions favored by the former government, how will it deal with those communities where deals have already been made?

The third matter is the Aboriginal Rental Housing Program. This program is that part of the Commonwealth–State Housing Agreement under which the Commonwealth has agreed to subsidize state housing programs specifically targeted to Aboriginals; the subsidy is ‘not tied’, i.e. the state governments do not have to match the Commonwealth subsidy from their own-source revenue. It contributes 30% of the Aboriginal Housing Office’s revenue.[104] The program is currently used by state/territory governments for Aboriginal housing mainly in urban and regional location. However, the current Commonwealth–State Housing Agreement also acknowledges that ‘… the Commonwealth’s policy is to target Aboriginal Rental Housing Program (ARHP) funds to rural and remote areas where there is high need and where mainstream public housing and private housing are unavailable’.

Supply of low-rent private rental housing

There is a shortage of supply of dwellings for rental in the private market for households with low-moderate incomes, i.e. a shortage of 'low market-rent' dwellings.[105] There was a shortage of 36,000 such dwellings in Sydney in 2001, for households with low-moderate incomes of up to $447 a week (the lowest 22% of household incomes). See Table 7.[106] While there was significant investment in private rental housing in the early 2000s, this was mostly at the upper segments of the market. The robustness of that market was undermined by a vendor transfer duty on property sales imposed by the state government, and its revival is probably adversely affected by Commonwealth government changes to superannuation in the 2006-07 budget that make superannuation contributions a more advantageous retirement saving option than property investment.[107]

TABLE 7: SHORTAGE OF AFFORDABLE PRIVATE RENTAL HOUSING IN NEW SOUTH WALES

	Weekly income $2001	Sydney	Rest of New South Wales
Low	< $ 223	-14,000	-9,000
Low	< $ 335	-24,000	-3,000
Low-moderate	< $ 447	-36,000	9,000
Low-moderate	< $ 558	-27,000	36,000
Moderate	< $ 670	13,000	51,000
Moderate	< $ 782	31,000	44,000
Moderate	< $ 893	49,000	38,000
Moderate-high	< $ 1,117	68,000	24,000
Moderate-high	< $ 1,340	68,000	14,000
High	< $ 1,675	52,000	7,000
High	< $ 2,234	10,000	0
High	$ 2,234+	0	0

Source: Judith Yates, Maryann Wulff and Margaret Reynolds, 'Changes in the supply of and need for low rent dwellings in the private rental market', Australian Housing and Urban Research Institute, Melbourne, June 2004, p.51.

Most of the proposals in the public policy arena assume that the solution to this shortage is to build more public housing and relocate the lower-income private renters in housing stress to those dwellings.[108] However, a proposal from the Australian Council of Social Service that does specifically address the matter of supply of low-rent supply in the private rental market is that of a tax credit targeted to new investment in 'low cost rental housing' (see page 11, above). This proposal for a low-income housing tax credit has often been proposed as a vehicle to create more community housing, rather than privately-owned and managed low-rent housing.

This deficiency might be a feature, too, of the federal Labor party proposal announced on July 9. The federal Labor party indicated it would consider such a scheme, and use it to the encourage private rental housing.[109] The federal Labor party scheme would involve giving a tax credit for investers in residential properties, whose properties where rents are charged 'below market'. They said such a scheme could target areas of high housing need (i.e. it might not be able to

residential investers in all parts of Australia). The federal Labor party scheme seems to envisage that a nonprofit housing provider would oversee the arrangements that would enable investers to get the tax credit. The arrangements would be administration and monitoring of the scheme, dealing with inquiries from investers, assessing applications, and policing compliance with conditions for getting the tax credit.

Private rental affordability for low-income private renters

The Commonwealth government provides the major assistance to low-income people renting in the private rental market, rent assistance, as an income supplement to those renters who get a social security payment (pension, benefit/allowance, or family support payment). See Figure 13.

The major beneficiaries are people who rent in the private rental market – over 90% of recipients have either formal or informal tenancy arrangements with a landlord, real estate agent, boarding house owner, or relative. The others are renters in some types of social housing, namely Aboriginal housing and community housing; and in other renting situations, such as retirement villages.[110]

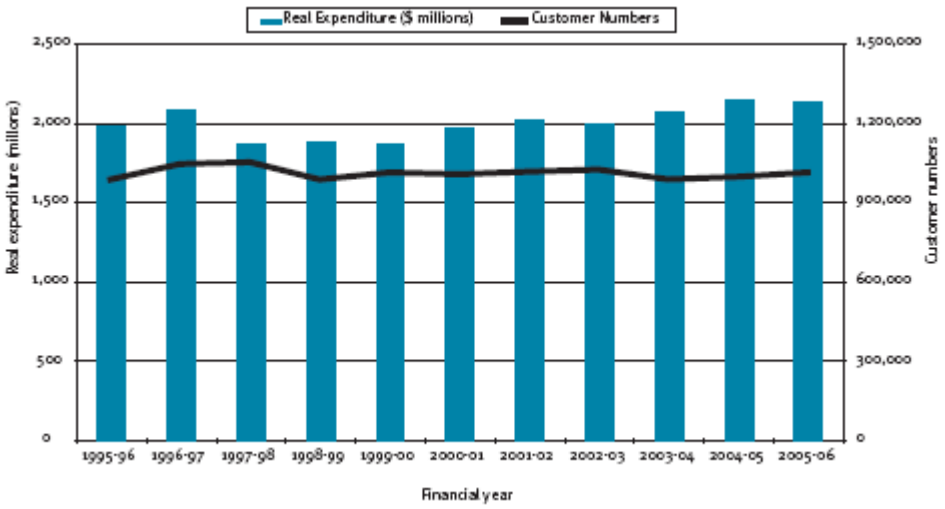
FIGURE 13: NUMBER OF INDIVIDUALS OR COUPLES GETTING COMMONWEALTH RENT ASSISTANCE, AUSTRALIA

	individuals or couples getting CRA		**gender of recipients**		
primary payment	number	%	female only (%)	male only (%)	both members of a couple (%)
Age pension	172,574	18	52	28	20
Disability support pension	183,444	19	42	50	8
Newstart allowance	161,092	17	42	55	3
Parenting payment partnered	28,760	3	90	9	1
Parenting payment single	198,829	21	93	7	0
Youth allowance	78,025	8	59	40	1
Family tax benefit	100,491	11	83	16	1
Other	32,977	3	69	22	9
Total	956,192	100	62	31	6

Source: Department of Families, Community Services and Indigenous Affairs, *Annual report 2005-2006*, Canberra, 2006, p77. Note: Number as at 9 June 2006.

The annual budget for this program is some $2.1 billion. See Figure 14.

FIGURE 14: RENT ASSISTANCE EXPENDITURE ($2006) AND CUSTOMER NUMBERS, AUSTRALIA



Source: Department of Families, Community Services and Indigenous Affairs, *Annual report 2005-2006*, Canberra, 2006, p78. The expenditure amount includes payments made by Centrelink on behalf of the Department of Employment and Workplace Relations and the Department of Education, Science and Training.

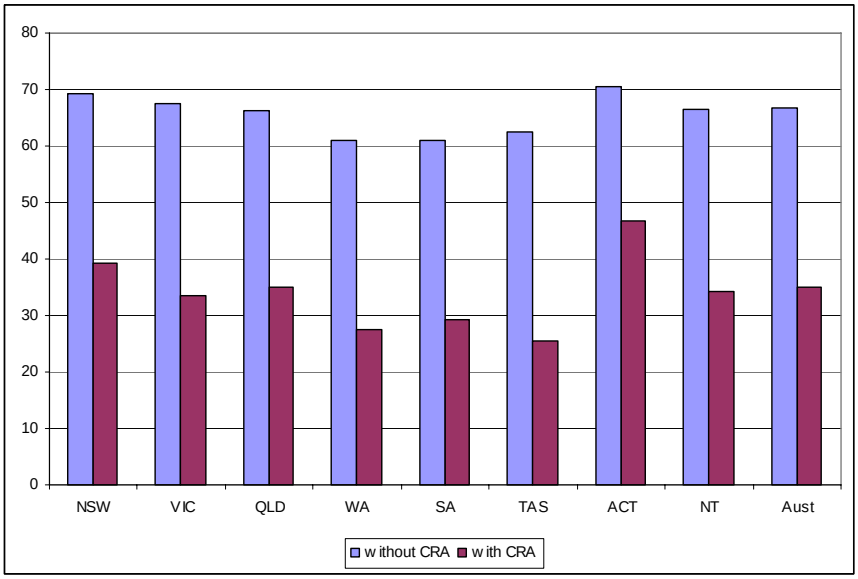
Rent assistance improves housing affordability for recipients. Figure 15 shows the ratio of housing costs to income for recipients, before and after getting rent assistance. Without getting rent assistance, 67% of recipients were in housing stress; with rent assistance, this proportion drops to 35%.

Rent assistance has the same beneficial impact in the capital cities, though slightly less marked as you would expect with higher housing costs in the capitals compared with the rest of the state. Figure 16 shows the ratio of housing costs to income for recipients, before and after getting rent assistance, for the state/territory capitals. Without getting rent assistance, 69% of recipients were in housing stress; with rent assistance, this proportion drops to 38%. In Sydney, without getting rent assistance, nearly three-quarters of recipients were in housing stress; with rent assistance, this proportion drops to less than half.

Research undertaken by the University of Canberra's National Center for Social and Economic Modelling found that the allocation for rent assistance would need to be increased by $1.33 billion a year to free all private renters from housing stress.[111] This would be a 62% increase in spending on the program, a massive expansion – though not as massive as the $15 billion required to build new dwellings to fill the gap in low-rent dwellings in the private rental market (see page 24).

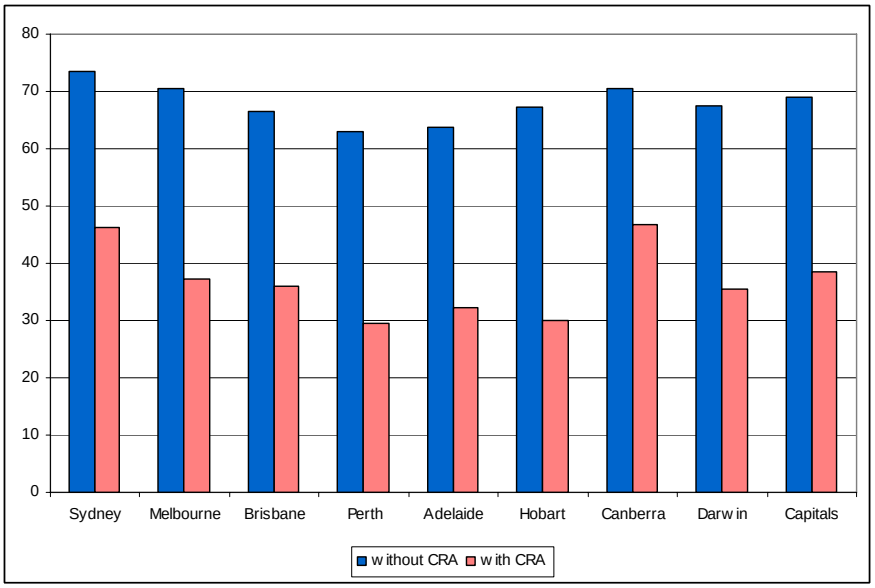
The Australian Council of Social Service has proposed that the maximum rent assistance payable be increased by at least $10 a fortnight, and eligibility be extended to single students aged 25 and over who are in receipt of Austudy payment and to 16 and17-year olds living in their parental home who are regarded as dependent for the purpose of Youth Allowance.[112]

FIGURE 15: PROPORTION OF CRA INCOME UNITS SPENDING MORE THAN 30% OF INCOME ON RENT, BY STATE



Source: Steering Committee for the Review of Government Service Provision, 'Report on government services 2007', Productivity Commission, Canberra, 2007, table 16A.62; data are for 2005-06.

FIGURE 16: PROPORTION OF CRA INCOME UNITS SPENDING MORE THAN 30% OF INCOME ON RENT, BY CAPITAL CITY

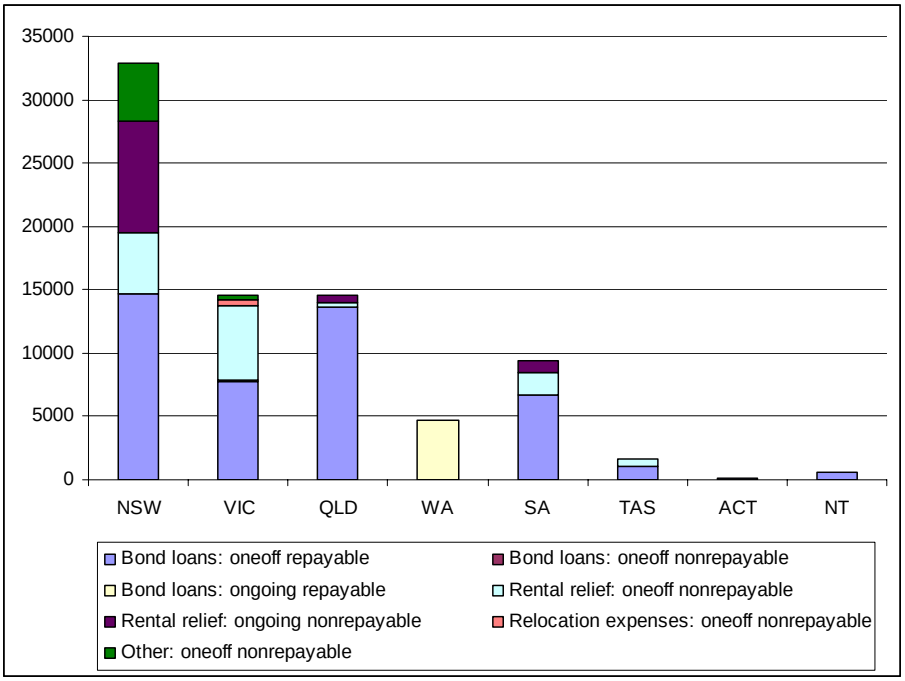


Source: Steering Committee for the Review of Government Service Provision, 'Report on government services 2007', Productivity Commission, Canberra, 2007, table 16A.62; data are for 2005-06.

The state rental assistance programs financed under the Commonwealth–State Housing Agreement are worth only 4% of the value of Commonwealth rent assistance. They also have a different role, focusing on market entry (i.e. costs of establishing a tenancy) and potential market exit matters (i.e. relief in a fiscal crisis that threatens sustainability of a tenancy). The income eligibility criteria are the same as that for other housing assistance programs, i.e. it is the same as eligibility for public housing. The total value of assistance provided in 2005-06 was $78,422,000 Australia-wide, and $32,918,000 in New South Wales (40% of the national total). See Figure 17.

Most of the assistance provided was repayable by tenants: 63% of the assistance was by repayable loans or grants Australia-wide, and 45% of the assistance was by repayable loans or grants in New South Wales.

FIGURE 17: VALUE OF RENTAL ASSISTANCE PROVIDED ('$000)



Source: Australian Institute of Health and Welfare, CSHA annual data reports.

Housing NSW also has some schemes for private renters for which there are no direct equivalents in other states, namely the special assistance subsidy (special) and special assistance subsidy (disability) scheme. These schemes pay the difference between what rent the tenant would pay as a public housing tenant and a reasonable market rent for the dwelling they occupy.[113] Renters have to be eligible for public housing to get this assistance: the special assistance subsidy (special) is for renters diagnosed with HIV/AIDS and who meet priority housing eligibility criteria; the special assistance subsidy (disability) is for people with a disability who have been approved for priority housing. The state government spent almost $8.8 million on the Special Assistance Subsidy Program in 2004-05. The 2007-08 budget for these programs is $10.2 million.[114]

In the last few years, Housing NSW has also piloted two new initiatives in the private rental market. A tenancy guarantee scheme supports people who are able to manage and sustain a tenancy in the private rental market, but who are experiencing difficulties securing approval to rent a property due to barriers such as discrimination, no tenancy history, or a problem with their rental history. A private rental brokerage service acts as broker between renters, support services and real estate agents for people with complex needs, such as serious health condition, social isolation, substance abuse, mental health issues, disabilities or dysfunctional behaviours.

Welfare support

The 2003-2008 Commonwealth–State Housing Agreement provided that the Commonwealth and states would strengthen links between housing programs and other relevant services to improve housing outcomes for those most in need, including by influencing other Commonwealth–state agreements.

In New South Wales, the key government initiative has been the 'Housing and Human Service Agencies Accord' of 2007. This allows state government human service agencies to nominate their clients (where eligible for public housing) for allocation of a public housing dwelling where those agencies commit themselves to ongoing welfare support of the client in relation to that person's nonhousing welfare or health care needs.[115]

The Australian Housing and Urban Research Institute released a review of the integration of housing and disability programs in September.[116] This review report noted the greater emphasis being placed by state/territory governments on housing for people with disability (including people with a mental illness).[117]

Supported housing for people with disability

Under Commonwealth-state disability agreements, responsibility for housing programs – whether supported accommodation or accommodation support – for people with disability has been with the states. This distribution of responsibilities has changed with the former Commonwealth government's unilateral announcement that it will directly fund supported housing for people with disability.[118] This change came as part of a package of new funding for new projects (the 'Disability assistance package'), outside of the Commonwealth State Territory Disability Agreement arrangements, announced in the Commonwealth budget for 2007-08.

The nature of the supported housing places to be funded had yet to be determined when the Liberal–National parries lost the federal election in November. The Commonwealth government discussion paper on this new funding, *Disability supported accommodation,* noted that this new disability assistance package 'interfaces' with other government programs, including the Commonwealth–State Housing Agreement. [119] Some 25% of customers of social housing programs are people with disability; thus, social housing is an important provider of affordable and appropriate housing to low-income people with disability. People with disability are one of the target groups for the new social housing that were to come from the former Commonwealth's Social Housing Supply Taskforce (see page 29).

Supported housing for homeless people

The Commonwealth–State Housing Agreement is directly linked to homelessness services through the Crisis Accommodation Program (see page 19), which provides capital funding for dwellings for homelessness agencies that provide supported housing. Recurrent costs of providing support to homeless people, whether in supported housing or not, come through another multilateral agreement, the Supported Accommodation Assistance Program (SAAP). However, under the

National Homelessness Strategy, the Commonwealth government is directly funding a number of demonstration projects and communication activities outside of SAAP deliberative mechanisms.[120]

The Labor party promised, during the federal election campaign, to fund new dwellings for crisis accommodation to the extent of $150 million over 5 years, yielding 600 dwellings over that period.[121] This funding would require the states and territories to provide: (i) a matching 'investment'; and also (ii) replacement dwellings to the scheme's pool of dwellings on a one-for-one basis when one of the dwellings constructed under the scheme is transferred to public housing (at the end of 12 months of a homeless person's residence in it). The dwellings provided under this scheme would not be allocated the same way as dwellings under the current Crisis Accommodation Program (under the Commonwealth–State Housing Agreement). Applicants for crisis housing would be allocated one of these special dwellings for 12 months and be able to stay in the dwelling after that period (no longer being in housing crisis). The dwelling would be transferred to a state's public housing stock after 12 months, and the resident would be given a tenancy 'in accordance with the normal tenancy arrangements applying for public housing'. This scheme would be part of a new National Affordable Housing Agreement to succeed the current Commonwealth–State Housing Agreement, be negotiated in 2008.

Attachment 1: Development of the CSHA

The 1945 CSHA
The first CSHA allocated funds for the construction of new dwellings only, and 50 per cent of such housing had to go to ex-defence force personnel. The housing was to be for rental only – the Commonwealth provided loan funding and the states were to be responsible for service delivery. Much of the housing constructed via the first CSHA was on large estates on the outskirts of the major cities in Australia and was partly responsible for the urban sprawl that characterized the post war years.

The 1956 CSHA
Over the period 1956 to 1973, the main aim of the CSHA was to encourage home ownership via the provision of low interest loans to home builders and the sale of houses on highly concessional terms. Public rental housing was still important, particularly for low income households who could not afford to buy a home. Throughout this period the States had considerable leeway under the CSHA (including the level of rents, type of rebates, eligibility criteria and even the level of funding) and this resulted in substantial policy and funding differences between the various jurisdictions.

The 1973 CSHA
In the 1973 Agreement the emphasis moved towards targeting housing assistance to low income earners and new eligibility requirements were introduced for both rental and home ownership. As well, it was specified that only 30 per cent of new CSHA housing could be sold to home purchasers.

The 1978 CSHA
The 1978 Agreement further limited housing assistance to those in most need — grants were given for pensioner assistance and others in need. This Agreement also saw an expansion in the types of housing provided under the CSHA including the leasing of dwellings, joint ventures, community housing and interest subsidies for those buying a home. In the context of the 1978–79 Budget the Commonwealth included a requirement that the States match Commonwealth CSHA advances.

The 1981 CSHA
Whilst broadly similar to the 1978 CSHA, the 1981 Agreement included formal State matching requirements in terms of funding and an increasing proportion of Commonwealth funding was earmarked for specific groups. However, with respect to untied funds the States were free to allocate money to rental or home purchase assistance without restriction.

The 1984 CSHA
The main aim of the 1984 Agreement was to increase the level of public rental housing. Various ‘ear marked’ grants were replaced with a number of specific programs aimed at particular groups and segments of the housing market: rental housing for Aborigines, rental housing for pensioners, crisis accommodation, local government and community housing and mortgage and rent assistance. Home purchase loan repayments were to be set at market levels and rent levels for public housing were to be set on a formula outlined in the Agreement.

The 1989 CSHA
This Agreement also emphasised the need for additions to be made to the level of public housing stock, or at least to halt the decline in the level of stock available. Commonwealth assistance was to be made in the form of grants, not loans as in the past, and the States were required to match at least half of the Commonwealth's untied grants with funding of their own. Joint Commonwealth-State assistance plans were introduced and an increasing emphasis was placed on user rights for those in rental housing.

The 1996 CSHA
One of the key features of this Agreement was an emphasis on housing outcomes for individuals as opposed to building up the stock of public housing. Another emphasis was on improving accountability for the housing assistance provided including the setting of targets and the measurement of outcomes.

The 1999 CSHA
The 1999 Agreement focuses on helping families and individuals who cannot be adequately housed in the private market. It builds on the 1996 Agreement in terms of strengthening accountability and reporting mechanisms and also how outcomes are measured. A key feature of this Agreement is that housing assistance should be based on need as opposed to the earlier notion of security of tenure. As well, bilateral agreements between each jurisdiction and the Commonwealth have become the norm.

Source: Greg McIntosh and Janet Phillips, 'The Commonwealth-State Housing Agreement', E-Brief, 29 November 2001, online at <http://www.aph.gov.au/library/intguide/sp/statehouseagree.htm>, viewed 3 September 2007.

Attachment 2: Labor party election promises 2007

First Home Saver Account

The proposed 'First Home Saver Account' is a special account with a superannuation fund that will assist purchase of a first-home for owner-occupation by helping eligible persons save for a deposit. People eligible to open such an account would be people aged 18 and over who meet the eligibility criteria for the Commonwealth's First Home Owner Grant scheme.

The saver would have to deposit a minimum of $1,000 into the account when opening it.

The saver would not be able to put more than $10,000 into this account in any one year, and would not be able to use it to save more than $50,000. Savings with the 'First Home Saver Account' would receive preferential tax treatment in two key ways, compared to ordinary savings accounts:

- Savers would be eligible for a tax rate of 15% on the first $5,000 of income they deposit in this account each year, rather than the ordinary tax rate they would pay.
- Interest earned will be taxed at the same rate as the tax rate on superannuation savings (ordinary earnings at 15% and capital gains at 10%).

In addition, the saver may contribute an additional $5,000 a year into a 'First Home Saver Account' from their after tax-income, without paying any further tax on that contribution.

The saver would not be able to put more than $10,000 into this account in any one year, and would not be able to use it to save more than $50,000.

Withdrawals from the accounts would only be permitted for the purchase of an eligible first home and would be tax-free. Savers would be able to withdraw savings from the Account after 4 years.

Amounts saved that are not used for an eligible first-home purchase would be accessible only after 4 years, and would be reduced (deducted) by the amount of tax concession the saver had got for that amount. Alternatively, the saver could choose to have any portion saved that they did not use for home-purchase into an existing superannuation account (where it would remain until preservation age).

The newly-created accounts would be separate to individuals' existing superannuation, and individuals would not be able to access their existing retirement savings.

The Labor party assumes that take-up of this scheme by people aged 40 and over would be negligible, because such persons have higher rates of homeownership and savings than people in their 20s and 30s or people aged 18-19. It estimates that some 255,000 such accounts could be opened in the first year of the scheme, with the total pooling growing to 395,000 in 2009-10 and to 535,000 in 2010-11.

The scheme will be administered by the Treasury and the Australian Taxation Office, and appears not be part of the proposed National Affordable Housing Agreement (the successor agreement to the Commonwealth–State Housing Agreement)

The Labor party scheme estimated the scheme would cost $600 million in tax revenue foregone in the first 3 years of its operation. The Commonwealth Treasury, in its costing of the proposal, estimated a lower take-up than Labor and estimated it would cost $450 million in tax revenue foregone in the first 3 years of its operation.

National Housing Supply Research Council
The proposed National Housing Supply Research Council will publish an annual *State of supply report*, to measure and assess the supply of land and housing and its relationship with demand. Factors to be considered will include possible future shortfalls in land supply; structural barriers to the release of land, zoning, approval and the construction of new housing; and state and local government assessment procedures and planning frameworks.

Revamp of Commonwealth Property Disposals Policy
The Labor government will revamp the Commonwealth Property Disposals Policy to release surplus Commonwealth-owned land for housing. Commonwealth government departments will have to demonstrate why any land they own should not be disposed of for housing (without adversely affecting surrounding housing prices), local amenities (such as parks, playgrounds, child acre centers or other facilities), or for commercial and industrial development.
The proposed National Housing Supply Research Council will coordinate the process of identifying and evaluating Commonwealth-owned land for release.

Housing Affordability Fund
The proposed Housing Affordability Fund would give grants to local governments to cover the cost of providing new urban infrastructure. The aim of the grants would be to reduce local government development charges, which savings would have to be passed on to home purchasers in lower dwelling prices. The grant funds would be made available to local governments on a competitive bidding basis. State governments would also be able to bid for the funds for innovative development-specific proposals.
The Fund would assist up to 500,000 new homebuyers in its first 5 years of operation.
The scheme will be administered by the Department of Families, Housing, Community Services and Indigenous Affairs.
It would cost up to $500 million over 5 years.

National Rental Affordability Scheme
The proposed National Rental Affordability scheme would involve bundling incentives for investment in and construction of new social housing dwellings. The investers eligible for the scheme would be institutions – such as superannuation funds, listed property trusts, and managed funds – not private individuals.
The scheme would involve:
(i) an annual tax incentive (as an ordinary tax offset) of $6,000 a year per dwelling to investers in new rental housing, for up to 10 years; and
(ii) a requirement that state governments contribute $2,000 a year for up to 10 years, directly (from their own-source revenue) or in kind, to the investers getting the Commonwealth tax incentives.
The Commonwealth tax incentive or credit would be allocated to institutions (alone, in consortiums with property developers) on a competitive basis.
The scheme would only operate in states and territories whose governments agree to contribute $2,000 a year for up to 10 years, directly or in kind, to the investers getting the Commonwealth tax incentives.
The institution would build new dwellings and then leased them to low-moderate income households at submarket rents. Eligibility for tenancy allocation in the

completed units would be broader than current eligibility for social housing (i.e. ‘low and middle income’, not very low and low income households). The rent policy to be applied to the dwellings will be 80% of the market rate (i.e. not the income-based rent-setting currently used in public, community and Aboriginal housing). Tenants would be eligible for Commonwealth rent assistance.
The Labor party estimated the incentives would generate construction of 50,000 new social housing dwellings over that period.
The scheme will be administered by the Department of Families, Housing, Community Services and Indigenous Affairs and the Australian Taxation Office.
It would cost $603 million over its first 5 years.

A Place to Call Home
This scheme would involve Commonwealth funding of new dwellings for crisis accommodation, yielding 600 dwellings over a 5-year period. The Commonwealth funding would require the states and territories to provide: (i) a matching ‘investment’; and also (ii) replacement dwellings to the scheme’s pool of dwellings on a one-for-one basis when one of the dwellings constructed under the scheme is transferred to public housing (at the end of 12 months of a homeless person’s residence in it). The dwellings provided under this scheme would not be allocated the same way as dwellings under the current Crisis Accommodation Program. Applicants for crisis housing would be allocated one of these special dwellings for 12 months and be able to stay in the dwelling after that period (no longer being in housing crisis). The dwelling would be transferred to a state’s public housing stock after 12 months, and the resident would be given a tenancy ‘in accordance with the normal tenancy arrangements applying for public housing’.
The scheme will be administered by the Department of Families, Housing, Community Services and Indigenous Affairs.
The Commonwealth contribution to this scheme would be $150 million over 5 years.

Low-emission Plan for Renters
This scheme would involve subsidies to owners or private rental housing to assist insulation of dwellings that are not currently insulated. The subsidy will take the form of a rebate of up to $500 for up to 30 percent of the cost of installing insulation in a dwelling. Landlords would be eligible for only 1 rebate for each dwelling the rent out. Three-hundred thousand rebates would be made available enabling 300,000 dwellings to be insulated. The am is to reduce power bills for private renter consumers and reduce greenhouse gas emissions.
The scheme will be administered by the Department of Environment and Water Resources, and will not be part of the proposed National Affordable Housing Agreement (the successor agreement to the Commonwealth–State Housing Agreement).
The scheme would cost $150 million over the 4-year period, 2008-09 to 2010-12.

Endnotes

[1] Greg McIntosh and Janet Phillips, 'The Commonwealth–State Housing Agreement', e-brief, Parliamentary Library, Parliament of Australia, 2001, online at <http://www.aph.gov.au/library/intguide/sp/statehouseagree.htm>, viewed 2 August 2007.
[2] Department of Housing annual reports 1999-00 to 2005-06.
[3] Department of Housing annual reports 1999-00 to 2005-06.
[4] Commonwealth-State Housing Agreement, s.4(19)(c).
[5] See 'Attachment 2: Labor party election promises 2007' for an outline of the major policy initiatives announced by the Labor party during the 2007 federal election campaign.
[6] Greg Craven, 'Commonwealth power over higher education: implications and realities', *Public Policy*, vol.1, no.1, 2006, p.7. The full court of the High Court in Davis v Commonwealth (1898) determined: 'So it is that the legislative powers of the Commonwealth extend beyond the specific powers conferred upon the Parliament by the Constitution and include such powers as may be deduced from the establishment and nature of the Commonwealth as a polity' (Davis v Commonwealth [1988] HCA 63; (1988) 166 CLR 79 (6 December 1988)).
[7] In 1926, the High Court upheld the Commonwealth directing specific purpose payments to the states in an area (main roads) that was not formally a constitutional responsibility of the Commonwealth (Victoria v Commonwealth [1926] HCA; 1926 CLR 399).
[8] John Wilkinson, 'Sovereign states and national power: transition in federal–state finance', Briefing Paper, no.14/06, NSW Parliamentary Library, 2006.
[9] In opposition, Whitlam had proposed use of Section 96 as a means of financing state government-owned businesses: 'In our obsession with Section 92, which is held up as the bulwark of private enterprise, we forget Section 96, which is the charter of public enterprise'. (*Labor and the Constitution*, Victorian Fabian Society, Melbourne, 1965, p.50) In government, Labor increased specific purpose payments from 26% of payments to the states in 1972-1975 to 52% in 1975-76 (Wilkinson, p.14.)
[10] Richard Webb, 'The Commonwealth budget: process and presentation', Research Brief, no.7 2006-07, Parliamentary Library, Parliament of Australia, 2007, p.39.
[11] A general purpose payment (GPP) is not subject to conditions for its use. The other major GPP in the late 1990s and 2000s were National Competition Policy payments, which were effectively compensatory grants to the states for having abolished some of their taxes.
[12] Commonwealth of Australia, 'Federal financial relations 2007-08', 2007-08 Budget paper no.3, 2007, p.18.
[13] Commonwealth of Australia, 'Federal financial relations 2007-08', p.21.
[14] Allen Consulting Group, 'Governments working together? Assessing specific purpose payment arrangements', report to the Department of Premier and Cabinet (Victoria), Melbourne, June 2006, p.1.
[15] Commonwealth of Australia, 'Federal financial relations 2007-08', p.5.
[16] Commonwealth of Australia, 'Federal financial relations 2007-08', p.20.
[17] Neil Warren, 'Benchmarking Australia's intergovernmental fiscal arrangements: final report', NSW Treasury, Sydney, May 2006, p.107.
[18] Allen Consulting Group, 'Governments working together? Assessing specific purpose payment arrangements'.
[19] Under the 'New Federalism' policy of the Fraser government in the late 1970s, the Commonwealth introduced payment to the states of a fixed share (just over one-third) of Commonwealth personal income tax collections, an arrangement that lasted until 1985 when financial assistance grants were re-introduced by the Hawke government (James, pp.17-18).
[20] John Howard, address to the Millennium Forum, Four Seasons Hotel, Sydney, 20 August 2007, online at <http://www.pm.gov.au/media/Speech/2007/Speech24507.cfm>, viewed 28 August 2007; John Howard, 'A new creed: nationalism, aspiration and fairness', *Sydney Morning Herald*, 21 August 2007; 'Howard sets wily re-election strategy', *Australian*, 21 August 2007; Peter Hartcher, 'A constitutional coup d'etat', *Sydney Morning Herald*, 21 August 2007; and see Phillip Coorey, 'But wait, there's plenty more where that came from', *Sydney Morning Herald*, 22 August 2007. Conservative High Court judge Michael Kirby labelled the approach – before 'aspirational federalism' was coined and rolled out – 'opportunistic federalism' in his dissenting judgment in New

South Wales versus Commonwealth of Australia (the Work Choices case) (2006 81 ALJR 34, per Kirby J at [543]).
[21] Craven, p.2.
[22] Greg Craven, 'Living dangerously with the Constitution', address to National Press Club, Canberra, 20 June 2007, p.2.
[23] Malcolm Farr, 'Secret Liberal dossier', *Daily Telegraph*, 6 August 2007; Phillip Coorey, 'Another bad poll, but Libs close ranks around PM', *Sydney Morning Herald*, 7 August 2007; Laurie Oakes, 'The comeback track', *The Bulletin*, 13 August 2007, online at <http://bulletin.ninemsn.com.au/article.aspx?id=284417>, viewed 21 September 2007.
[24] Oakes.
[25] Anne Twomey and Glenn Withers, 'Australia's federal future: delivering growth and prosperity', Federalist Paper 1, Council for the Australian Federation, 2007.
[26] Warren, p.13.
[27] Bob McMullan MP, 'After the war with the states is over: reform in a post-Howard era', speech to CEDA luncheon, 6 September 2007, online at <http://www.alp.org.au/media/0907/spefsr060.php>, viewed 27 November 2007.
[28] Denis James, 'Federal-state financial relations: the Deakin prophecy', Parliament of Australia Parliamentary Library Research Paper, no. 17 1999-2000, 4 April 2000, pp.4-5.
[29] Phillip Coorey, 'PM builds war chest to tackle states', *Sydney Morning Herald*, 21 August 2007, p.1. The Commonwealth was already in the game of funding local-significance projects like local roads.
[30] Stephen Smith, 'Labor's Building Australia Fund', media release, 11 May 2005, online at <http://www.alp.org.au/media/0505/msirii122.php>, viewed 22 August 2007; Kevin Rudd, 'Labor's major cities plan no minor matter', *Daily Telegraph*, 19 December 2006, p.17.
[31] Taxes on personal income and corporate profits comprise 18% of Australia's gross domestic product. This rate is 22% for New Zealand, 9% for Japan, 16% for Canada, 11% for the USA, 13% for Britain, 10% for France, 10% for Germany, 13% for Italy, and 9% for the Netherlands. The unweighted average for all Organization for Economic Development countries is 13% (Organization for Economic Cooperation and Development, 'Tax revenues on the rise in many OECD countries, OECD report shows', 11 October 2006, online at <http://www.oecd.org/document/11/0,3343,en_2649_34487_37504715_1_1_1_1,00.html >, viewed 17 September 2007).
[32] Saul Eslake, 'Affordability and taxation', 3 October 2007, online at <http://www.apo.org.au/webboard/comment_results.chtml?filename_num=176479>, viewed 4 October 2007
[33] Judith Yates, 'A distributional analysis of the impact of direct and indirect housing assistance', AHURI positioning paper no.40, Australian Housing and Urban Research Institute, Melbourne, August 2002, p.25.
[34] David Babic, 'Investment property tax allowances (Australia): the basics', 17 April 2007, Property Investors Association of Australia, online at <http://www.piaa.asn.au/index.php/news/Investment_Property_Tax_Allowances_(Australia):_The_Basics>, viewed 27 September 2007.
[35] Australian Council of Social Service, 'A fairer Australia: recommendations for the federal budget 2007-08', ACOSS Paper, no.147, Strawberry Hills NSW, April 2007, p.8. A tax credit is a claim a taxpayer can make against their tax liability (for income tax) by getting a reduction of their liability to the extent indicated by the maximum amount of credit allowed – the payment for the item is treated as a pre-payment for tax liability, e.g. nonprofit organizations and for-profit businesses may (from 1 July 2006) claim a credit in their GST returns for the Commonwealth fuel tax that is included in the fuel they buy for their motor vehicles as part of their business.
[36] Gavin Wood, Richard Watson and Paul Flatau, 'A microsimulation model of the Australian housing market with applications to Commonwealth and State policy initiatives', final report, Australian Housing and Urban Research Institute, March 2003, p.54.
[37] 'Rent crisis demands action says HIA', media release, 20 July 2007.
[38] Kevin Rudd, Tanya Plibersek and Wayne Swan, 'New directions for affordable housing: addressing the decline in housing affordability for Australian families', Australian Labor Party, June 2007, p.27.
[39] Eslake.

[40] About 2% of taxpayers are taxed at the top marginal tax rate (Hon. Peter Costello MP, Treasurer of the Commonwealth of Australia, 'Budget speech 2007-08 delivered on 8 May 2007 on the second reading of the Appropriation Bill (no.1) 2007-08', p.5, online at <http://www.budget.gov.au/2007-08/speech/download/Speech.pdf>, viewed 18 September 2007). This figure relates to the 2007-08 tax year.
[41] 'Negative gearing', *Choice*, vol.18, no.4, July 2006.
[42] Real Estate Institute of Australia, 'The Real Estate Institute of Australia's policy statement on negative gearing as at April 2006', p.3, online at <http://www.reiaustralia.com.au/policy/negativegearing.asp>, viewed 1 September 2007.
[43] 'Home loans: negative gearing and tax implications', online at <http://www.anz.com.au/aus/homeloans/investing/negGearTax.asp>, viewed 20 September 2007.
[44] Kevin Rudd, Wayne Swan and Tanya Plibersek MP, 'Federal Labor's low tax first home saver accounts – larger deposits and higher national savings', media release, 4 November 2007.
[45] Andrew Clennell, 'Iemma's gambling tax addiction out of control: now Keno spreads to pubs across NSW', *Sydney Morning Herald*, 19 September 2007, p.1.
[46] Warren, p.63.
[47] Warren, p.61, 63.
[48] Real Estate Institute of Australia, 'Taxation', n.d., <http://www.reiaustralia.com.au/government/taxation.asp>, viewed 14 June 2006; Access Economics, 'The economic impact of reducing state taxes on property', report prepared for the Real Estate Institute of Australia, Canberra, February 2000.
[49] Warren, p.61.
[50] Premier of NSW, 'Review to examine ways to improve NSW taxes', media release, 16 August 2007.
[51] Independent Pricing and Regulatory Tribunal, 'Review of state taxation: other industries – issues paper', Sydney, October 2007.
[52] This 3% figure does not include some 'new products' to assist low-income private renters, like tenancy guarantees and brokerage services, the funding of which is not separately identified in the Department's published financial statements.
[53] Australian Institute of Health and Welfare, 'Private rent assistance 2005-06: Commonwealth State Housing Agreement national data reports', AIHW cat. no. HOU 167, Australian Institute of Health and Welfare, Canberra, 2007, p.4.
[54] However, the Australian Institute of Health and Welfare, in its data reports for the CSHA, uses 'rent assistance' to refer to the programs this document calls 'rental assistance'.
[55] Jon Hall and Mike Berry, 'Operating deficits and public housing: policy options for reversing the trend', final report, Australian Housing and Urban Research Institute, 2007, p.3.
[56] Judith Yates and Michelle Gabriel, 'Housing affordability in Australia, research paper 3, National Research Venture 3: Housing affordability for lower income Australians', Australian Housing and Urban Research Institute, February 2006, pp.3,5.
[57] Judith Yates, Maryann Wulff and Margaret Reynolds, 'Changes in the supply of and need for low rent dwellings in the private rental market', Australian Housing and Urban Research Institute, Melbourne, June 2004, p.51.
[58] Allen Consulting Group with Australian Housing and Urban Research Institute, 'Policy options for stimulating private sector investment in affordable housing across Australia: Stage 3 report – Options for a private-public partnership to stimulate private investment in affordable housing', Affordable Housing National Research Consortium, 2001, p.33.
[59] This comprises the grants for capital purposes for the Crisis Accommodation Program, Aboriginal Rental Housing Program, community housing, and unmatched block grants, only. It does not include the Social Housing Subsidy Program in New South Wales. The amount budgeted for block grants is $765,224,000.
[60] Mike Berry and Jon Hall, 'Policy options for stimulating private sector investment in affordable housing across Australia: Stage 1 report – Outlining the need for action', Affordable Housing National Research Consortium, 2001; Jon Hall, Mike Berry and Geraldine Carter, 'Policy options for stimulating private sector investment in affordable housing across Australia: Stage 2 report – Identifying and evaluating the policy options', Affordable Housing National Research Consortium, 2001; Allen Consulting Group with Australian Housing and Urban Research Institute, 'Policy options for stimulating private sector investment in affordable housing across Australia: Stage 3

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[61] Allen Consulting Group with Australian Housing and Urban Research Institute, pp.66-67.

[62] Jon Hall and Associates, p.24.

[63] Vivienne Milligan, 'Directions for affordable housing policy in Australia: outcomes of a stakeholder forum', National research venture 3: housing affordability for lower income Australians research paper 2, Australian Housing and Urban Research Institute, July 2005.

[64] The documents for this event and a successor event in 2006, as well as policy statements released in 2007, are online at <http://www.housingsummit.org.au>.

[65] This was the first of two documents by that name issued by a coalition called initially the National Summit on Housing Affordability group (2004) and then the National Affordable Housing Summit group (2006). The second document of that name was released in June 2007.

[66] This document was in the name of the Housing Industry Association, Australian Council of Trade Unions, Australian Council of Social Service, National Shelter, and Community Housing Federation of Australia, a similar coalition to that which issued the 2006 'Call for action'.

[67] Current Commonwealth funding to the states for social housing is for capital purposes.

[68] The definition is narrow in reducing social housing to public housing and thus ignoring the mainstream community housing and Indigenous community housing subsectors.

[69] Owen Donald, 'What does a state government housing authority seek from federal-state housing policy?', presentation to 'New perspectives on federal-state relations in housing policy' conference , AHURI, Melbourne, 19 April 2007, online at <http://www.ahuri.edu.au/downloads/2007_Events/AHURI_Conf/Donald_State_Desires_from_Commonwealth_State_Housing_Relations.pdf>, viewed 4 September 2007.

[70] Hon. Mal Brough MP, Minister for Families, Community Services and Indigenous Affairs, 'Howard government looking to the future for public housing', media release, 26 July 2007, and documents on the Department of Families, Community Services and Indigenous Affairs's website under 'Increasing social housing supply', online at <http://www.facsia.gov.au/internet/facsinternet.nsf/aboutfacs/programs/house-social_housing.htm>, viewed 2 August 2007.

[71] Kevin Rudd, Tanya Plibersek and Wayne Swan, 'Federal Labor's national rental affordability scheme', media statement, 13 August 2007.

[72] It is not clear from the federal Labor party media statement whether this $603 million includes the compulsory/matching state government contributions.

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[76] Australian Bureau of Statistics, 'Housing finance, Australia, July 2007', ABS cat. no. 5609.0, 10 September 2007.

[77] Tony Kryger, 'Home loan affordability: measurement and trends', Research Note, no. 8 2006-07, Parliamentary Library, Parliament of Australia, 9 November 2006, p.4.

[78] Eslake.

[79] Cited in AAP, 'Sprawl trade off for cheap housing: PM', *Daily Telegraph*, 30 August 2006, online at <http://www.news.com/dailytelegraph/story/0,22049,20302097-5001028,00.html>, viewed 30 August 2006.

[80] Nature Conservation Council of NSW, 'Frank Sartor approves 101 developments without a single refusal', 21 June 2007.

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[82] Department of Planning, 'Improving the NSW planning system: discussion paper', November 2007.
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[85] National Housing Strategy, *The efficient supply of affordable land and housing: the urban challenge*, National Housing Strategy issued paper no.4, Canberra, 1991, pp.19-20.
[86] Sherrill Nixon and Jessica Irvine, 'Suffering in the heartland, where dreams can be too big', *Sydney Morning Herald*, 16 July 2007, pp.1, 4.
[87] In 2006, the NSW parliament amended the Act to insert a new section, 94A, which allows councils to levy those charges at a flat rate across the local government area. This modification did not change the essential role of the levy.
[88] This levy is authorized by the City of Sydney Act 1988, not the Environmental Planning and Assessment Act.
[89] These levies are authorized by Section 94F of the Environmental Planning and Assessment Act 1979, not Section 94.
[90] These levies are authorized by Section 31 and Section 30 of the Redfern-Waterloo Authority Act 2004.
[91] A 2007 amendment to the Act (Section 94C) allows a levy to be made for the benefit of a local government area (or part) adjacent to the local government area in which the development takes place.
[92] These are referred to in the report of the Ministerial Inquiry into Sustainable Transport ('Parry report') of 2003.
[93] Growth Centres Commission, 'Special infrastructure contribution', n.d., online at <http://www.gcc.nsw.gov.au/information/special-infrastructure-contribution.aspx>, viewed 11 September 2007.
[94] Ross Gittins, 'Some hope for first home buyers', *Sydney Morning Herald*, 6 August 2003, p.11.
[95] Richard Kirwan, *Financial urban infrastructure: equity and efficiency considerations*, National Housing Strategy background paper 4, Australian Government Publishing Service, Canberra, 1991, p.121.
[96] National Housing Strategy, *The efficient supply of affordable land and housing: the urban challenge*, National Housing Strategy issues paper 4, Australian Government Publishing Service, Canberra, 1991, p.66.
[97] Kay Anderson and Anne Humi, '"Not just all houses": homebuyer preferences and developer contributions in new release areas in Sydney', Urban Development Institute of Australia New South Wales & University of Western Sydney, Penrith South, 2006, pp.32-34, 37-44.
[98] See NSW Urban Taskforce, 'What infrastructure: a report into how infrastructure levies are crippling land releases in western Sydney', Sydney, 3 September 2007, p.3.
[99] Premier of NSW, 'Levies on new homes slashed to improve housing affordability', media release, 12 October 2007; Warren Gardiner, 'Cuts to developer levies threaten growth area infrastructure plans', *NCOSS News*, vol.34, no.9, November 2007, pp.1,3; Department of Planning, 'Infrastructure contributions', Planning Circular PS07-018, 6 November 2007.
[100] Kevin Rudd, 'Federal Labor to invest $500 million in housing plan saving homebuyers up to $20,000 on new homes', media statement, 30 July 2007.
[101] Hon. Mal Brough MP, Minister for Families, Community Services and Indigenous Affairs, 'Government tackles overcrowding in remote Indigenous communities', media release, 8 May 2007.
[102] Russel Taylor, 'NSW Aboriginal Housing Office budget 2007/2008', slide presentation, 19 June 2007.
[103] Australian Bureau of Statistics, 'Housing and infrastructure in Aboriginal and Torres Strait Islander communities, Australia 2006', ABS cat. no. 4710.0, 2007, p.19. This figure refers to the some 5,000 Aboriginals living in 'discrete communities', not to the 139,000 NSW Aboriginals as a whole.
[104] Taylor.

[105] Policy issues around the supply of low-rent private rental housing and public policy responses to that are discussed more fully in Robert Mowbray, 'Private rental: can it deliver affordable housing to low-income tenants?', Shelter Brief, no. 28, June 2006.
[106] Yates, Wulff and Reynolds, p.48. The shortage of 36,000 affordable rental dwellings for low–moderate income households in Sydney compared with 9,000 dwellings in Melbourne and 4,000 dwellings in Brisbane.
[107] Peter Costello, 'Budget speech 2006-07 delivered on 9 May 2006 on the second reading of the Appropriation Bill (no. 1) 2006-07', p.6. The government's plan to encourage more investment in superannuation involves exemption of Australians aged 60 or over from any tax on their end-benefits where these are paid from a taxed superannuation fund. This will apply from 1 July 2007. There will be no tax on a lump sum and no tax on a superannuation pension. See also National Shelter, 'Superannuation changes require a rethink on rental investment', media release, 5 October 2006.
[108] There are two fundamental problems with the suggestion that the common community sector proposal that the answer to low-income private renters' housing stress is to build more public housing. The first is that those people might not want to live in public housing. Yates and Milligan report 60% of such households as 'pragmatists' or 'aspirant purchasers', both of which categories see benefits in renting privately (Judith Yates and Vivienne Milligan with Mike Berry, Terry Burke, Michelle Gabriel, Peter Phibbs, Simon Pinnegar and Bill Randolph, 'Housing affordability: a 21st century problem', National research venture 3: housing affordability for lower income Australians final report, AHURI final report no.105, Australian Housing and Urban Research Institute, Melbourne, September 2007, pp.25-26). The second is that the amount of money required (see page 24) is a very ambitious demand in light of other demands on public monies.
[109] Kevin Rudd, Tanya Plibersek, and Wayne Swan, 'Rudd to consider tax credits to create affordable rental properties', statement, 9 July 2007, online at <http://www.alp.org.au/media/0707/mshoulootre090.php>, viewed 27 July 2007.
[110] Maryann Wulff, 'The 1998 survey of rent assistance recipients: a report on key findings', Australian Housing and Urban Research Institute, Clayton Vic, 2000, p.23. The data are for 1998.
[111] St Vincent de Paul Society, 'Don't dream it's over: housing stress in Australia's private rental market', July 2007, p.8.
[112] Australian Council of Social Service, 'A fairer Australia: recommendations for the federal budget 2007-08', ACOSS Paper no.147, Strawberry Hills NSW, April 2007, p.8.
[113] Department of Housing 'Policy SAS0100A: Special Assistance Subsidy – Special 6 November 2006; Department of Housing 'Policy SAS0100B: Special Assistance Subsidy – Disability', 6 November 2006.
[114] Department of Housing with Aboriginal Housing Office, '2007/08 New South Wales Budget: housing commentary', June 2007, p.23.
[115] Department of Housing, 'NSW housing and human services accord (the accord) between the Department of Housing and NSW human service agencies', n.d. (2006); 'NSW housing and human services accord: trial shared access schedule', June 2006.
[116] Selina Tually, 'A review of the integration of state and territory housing and disability policies in Australia: August 2006', research paper, Australian Housing and Urban Research Institute, Melbourne, September 2007.
[117] The Northern Territory presents a different picture because the focus of housing, welfare and health policies there is on improving primary health care outcomes, especially for indigenous Territorians (p.2.)
[118] Senator the Hon. Nigel Scullion MP, Minister for Community Services, 'Government calls for input from Townsville community', media release, 20 August 2007.
[119] Australian Government Department of Families Community Services and Indigenous Affairs, 'Disability supported accommodation: a discussion paper', n.d. (c. August 2007).
[120] Australian Government Department of Families, Community Services and Indigenous Affairs, 'National homelessness strategy', updated 26 September 2007, online at <http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/house-nhs_home.htm>, viewed 27 September 2007.
[121] Kevin Rudd and Tanya Plibersek, 'A place to call home – federal Labor's plan to build more homes for homeless Australians', media release, 5 November 2007.