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SUBMISSION - AFFORDABLE HOUSING WORKING GROUP ISSUES PAPER

The Council of Capital City Lord Mayors (CCCLM) welcomes the opportunity to provide comments to the Affordable Housing Working Group's Issues Paper on financing models to improve the supply of affordable housing in Australia.

The CCCLM represents the interests of the Lord Mayors (and ACT Chief Minister) of Australia's eight capital cities. Australia's capital cities drive national economic growth, innovation and creativity.

AFFORDABLE HOUSING

There is clear evidence that affordable housing is a major issue in Australia's cities. And that these problems are worsening, particularly in our larger cities, as a result of increasing city populations which place increasing pressure on land and infrastructure, and are driving up housing prices in our inner cities.

CCCLM believes that affordable housing must be regarded as essential basic infrastructure that is vital to the social and economic wellbeing of our cities and local communities, and is committed to working with all key stakeholders to develop solutions to Australia's housing problems.

CCCLM notes that over the past decade there have been a number of reviews by the Federal Government into affordable housing, so the issues regarding the adequate provision of affordable housing in Australia are well known to policy makers.

Leadership, a clear vision, commitment and collaboration are urgently needed – at all levels of government, plus the community and private housing sectors – in order to develop the required policy solutions and directions.

ROLES OF KEY STAKEHOLDERS

The Commonwealth and State Governments have primary responsibility for the facilitation of affordable housing supply, particularly through:

- Direct development of affordable housing.
- Provision of grants, funding and/or land resources to community housing and development sectors.
- Development of other innovative funding/partnership models such as housing supply bonds, superannuation investment etc.

In comparison with other tiers of government, the role of Local Government in facilitating affordable housing is limited, however it does provide a vital role in partnering with state governments for the co-ordination of planning and development of housing, employment and essential infrastructure.

The not for profit Community Housing Sector plays a critical role and contribution in delivering social and affordable housing in Australia, and CCCLM believes that the growth and development of the community housing sector provides one of the most effective and efficient strategies to facilitate the supply of affordable housing.

The sector is best placed to identify specific needs, create partnerships with the private sector, efficiently develop property and manage tenancies especially where there is a need for integrated service provision, and CCCLM believes that appropriate government development and funding of the community housing sector is vital for the provision of affordable housing.

INTEGRATED PLANNING AND DENSITY

Integrated housing and infrastructure planning is essential for the provision of affordable housing in our cities, and must be a focus of all levels of government.

The need for affordable housing should be considered throughout the planning process. Coordinated planning including transport, economic development and social services is critical to reducing pressures on inner city land and housing supply.

Critical to integrated planning is the effective management of density, increased density enables infrastructure delivery. Density brings economies of scale, making infrastructure more viable to build and run, in turn benefiting local communities.

CCCLM believes that the Federal and State/Territory governments should focus the development of more affordable housing in inner city regions where there is access to jobs, education, facilities and services and public transport networks, thus maximising use of existing public infrastructure.

By contrast the provision of affordable housing in low density communities, such as those in newer outer suburban fringe areas, is likely to require additional infrastructure provision and therefore additional costs.

FINANCING MODELS FOR AFFORDABLE HOUSING

The Working Group is seeking information on reforms that would enable the implementation of new financing models for affordable housing. Potential reforms for the Working Group's consideration are outlined below:

A. TAXATION

Changes to the taxation system could have significant impacts on the cost of housing in Australia, increasing the provision of affordable housing.

The Federal Government has yet to announce its 2016 taxation policy, however CCCLM notes that the Henry Review of Australia's Future Tax System (AFTS) made a series of recommendations regarding the housing market in 2010ⁱ that would assist in the provision of more affordable housing. These include:

- Removing land tax-related disincentives to institutional investment in rental housing schemes, including through equal treatment of land tax across all property classes;
- Reducing, and ultimately removing, transfer taxes on property;
- Reforming capital gains tax; and

- Neutralising personal income tax concessions associated with rental income from residential investment properties.

In relation to potential taxation measures to assist in the provision of affordable housing, CCCLM notes that the United States provides tax credits for low income housing developers to incentivise private investment.

This system has encouraged private investment in housing for low and moderate income tenants by enabling a housing developer to sell earned tax credits to corporations with a tax liability. It has generated over 3 million affordable housing units in the United States which is the largest market with private investment in permanent low income housing supply (around 100,000 dwellings per annum), ahead of Canada.

CCCLM recommends that the potential of this scheme to boost affordable housing production and increase private investment be investigated by the Working Group, and potentially trialled in the Australian Market.

B. VALUE CAPTURE AND TRANSPORT CONNECTIVITY

Land value capture or 'value sharing' models, through which the government and developer share the increase in land value generated when land is rezoned for a higher use or benefits from nearby infrastructure investment may assist in the funding of affordable housing provision. This is outlined in greater detail in CCCLM's submission to the House of Representatives Standing Committee on Infrastructure, Transport and Cities (see Attachment A).

C. FINANCE FOR COMMUNITY HOUSING SUPPLIERS

The cost of finance is a significant impediment to the provision of affordable housing by Community Housing Suppliers.

Attracting institutional investors and financiers to the community housing sector is critical to enable its growth and success. To achieve this, the Federal Government has an important role in resolving risks and barriers to private investment.

The Federal Government could lower the cost of finance for Community Housing Providers (CHPs) by going guarantor on banking sector loans to CHPs, similar to when the Federal Government went guarantor on the entire Australian banking system during the Global Financial Crisis.

This has been implemented in Britain where it has had the effect of lowering the cost of loans to CHPs because there represent 'no risk' loans. By getting finance more cheaply, CHPs are made more competitive in the market against private market competitors in relation to the cost of finance.

As there have been few, if any, CHP defaults to date, the risk for the Federal Government is extremely low based on the financial track record of CHPs. This initiative has no or minimal budgetary implications for the Federal Government but would have a significant positive effect on the sector.

CONCLUDING COMMENTS

Thank you for the opportunity to provide a submission to the Working Group. CCCLM understands that some member cities will be making separate submissions to the Working Group focusing on the affordable housing issues specifically impacting on their cities.

CCCLM welcomes the work of the Affordable Housing Working Group, and looks forward to continuing to work with the state and federal governments on this critical issue.

