

SHELTER NSW UPDATE

2018-19 Commonwealth budget goes quiet on housing

The May 8 Commonwealth budget, probably the last before the next election, was mainly built around two things – tax cuts and a path to budget surpluses. It was a budget built on top of very substantial unexpected increases in revenue collection. There were some social policy initiatives, mainly focused on older Australians. But housing was not one of them.

The picture of the Australian economy in the future was distinctly optimistic. The growth in real GDP for 2016-17 was 2.1%. 2017-18 is forecast to finish at 2.75%. And the following two years are projected to grow at 3%. This is projected to further increase employment. Wages are also projected to grow and higher wages and inflation will contribute to a rise in the level of nominal GDP over coming years.

Despite softening house prices in some States, investment in housing is expected to remain fairly strong despite falling from a peak of 6% of GDP in 2016-17. Its continued strength is partly due to the current pipeline – particularly in NSW. Investment is expected to rise by 1.5% in 2019-20 and then remaining flat in the following year. ¹

Despite substantial tax cuts, the current surge in revenue has allowed this budget to project a return to surplus in 2020-21. Revenue increased by almost \$30 billion over 2016-17. But revenue is projected to *continue* to grow from 25.5% to 26.2% of GDP in 2020-21. These projections rely on the assumptions of increased economic growth and a rapid increase in wages growth which may be very optimistic indeed.

But even with these qualifications, this year's budget received an income boost that could have provided ample room for investment in significant new initiatives in social and affordable housing and homelessness to help realise the potential created in the last Budget with the announcement of an affordable housing bond aggregator. Many commentators have argued that without specific subsidy streams, the aggregator will have little impact on increasing affordable housing supply.

Apart from the increased tax collections the major new **revenue raising** measures were to target the black economy – with a particular emphasis on tobacco. These are

projected to raise \$6.7 billion over the forward estimates. There were also measures to tighten tax collection from global entities and large corporations. While there is no surprise that the Budget made no changes to the tax subsidies housing and economics experts have been saying would significantly contribute to reducing speculation driven housing unaffordability – negative gearing and the capital gains tax discount – the failure to do so will clearly mark the Coalition off from the Opposition at the coming election.

But the headline tax measure is the changes to personal income tax rates. There are 3 stages to this.

- The first, targeting lower (\$48,000 pa) and middle to higher income (up to \$90,000)¹ income earners introduces a ‘low and middle income tax offset’ to deliver a higher tax return of up to \$530 a year for the next 4 years.
- The second adjusts the top threshold for the 32.5% marginal tax rate to prevent middle and higher income earners paying more tax due to ‘bracket creep’. The threshold will be increased from \$87,000 pa to \$90,000 pa starting July 2018; then from \$90,000 pa to \$120,000 pa from July 2022. In addition, in 2022 the threshold for the 19% tax rate will be increased from \$37,000 to \$41,000 and the existing *Low Income Tax Offset* will be increased at the same time from up to \$445 to up to \$645.
- The final stage, from July 2024, removes the 37% marginal tax bracket altogether, and raises the threshold for the 47% marginal tax bracket from \$180,000 to \$200,000. This dramatically flattens income tax with everyone earning between \$41,000 and \$200,000 paying a top marginal rate of 32%, with the big winners being high and very high income earners.

While the final stage is so far out that the budget contains no estimate of its cost, these huge boosts to the incomes of middle, high and very high income earners are the centre-piece of a budget that provides nothing to lower the housing costs or increase in incomes of very low income households struggling in a completely unaffordable rental market.

The functional areas where **spending** will be biggest are social security and welfare, health, and education, which make up 59% of the government’s spending. Social security and welfare is by far the largest at 36% of all spending. But while spending on older people, child care and the NDIS meant that this area increased – there was still no catch up in payments to those on the very lowest income – Newstart or Youth Allowance. This means that they will remain in the most extreme rental stress.

Spending on the ‘**housing and community amenities**’ policy area is well down the pecking order, with 1.1% of budget spending. This area groups the Commonwealth’s programs on housing, urban and regional development, and environment protection. See Table 1.² The housing component includes spending on the Defence Housing Authority (DHA) and ‘other’.

This year, housing spending will fall with the end of the National Partnership on Remote Indigenous Housing (NPRIH) – only slightly offset by a new remote Indigenous housing

¹ 87% of women and 73% of men earn less than \$90,000 – meaning that the measure includes ‘higher income’ earners in the fourth income quintile. 50% of all women and 32% of men earn less than \$48,000, so again the measure targets more middle than lower income households.

program only for the Northern Territory (See Table 2). From 2021 it will fall again due to a reduction in the construction and acquisition of DHA properties.

Table 1: Expenses: housing and community amenities

	Actuals		Estimates		Projections		
	\$m	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Housing		3094	3340	3124	3208	3161	3097
Urban and regional development		533	846	1315	992	444	254
Environment protection		998	1250	944	919	849	875
		4625	5436	5383	5119	4454	4226

The Commonwealth's **payments to the states for their affordable-housing services** are the largest part of the Budget's housing spending (52.8%) although a substantially lower share than last year which was 66.4% of housing spending. Once again, this is due to the completion of NPRIH and an increase in DHA construction. Affordable housing payments to the states are shown in Table 2.³

The programs included under 'affordable housing' in the Budget undergo significant change this year with the implementation of the new affordable housing Special Purpose Payment (SPP) announced in last year's Budget. This replaces the previous National Affordable Housing Agreement (NAHA) and the National Partnership Agreement on Homelessness (NPAH) with a new SPP – the National Housing and Homelessness Agreement (NHAHA).

The NHAHA includes the previous fixed term NPAH as an ongoing component, indexes it, and requires the States to match this part of the NHAHA. The only new funding is \$110 million for remote Indigenous housing in the NT, a much reduced share of the NT remote Australia strategy, and \$1 million a year to trial social impact investment for youth at risk of homelessness and other vulnerable priority groups (starting in 2019-20).

Table 2: Payments to support states' affordable-housing services

	\$ million	2017-18	2018-19	2019-20	2020-21	2021-22
National affordable housing SPP						
NAHA		1,360.0				
NHAHA (a)			1,535.8	1,564.9	1,596.0	1,562.5
National partnership payments:						
First Home Owners Boost		0.1				
Homelessness		117.2				
Nat CH regulatory system (b)		0.6	0.5			
Remote Indigenous housing		526.6	110.0	110.0	110.0	110.0
NT remote Australia strategies		50.9	3.5	3.5	3.7	3.7
Social impact investment: (b)						
Youth at risk of homelessness				0.5	0.5	0.5
Vulnerable priority groups				0.5	0.5	0.5
		2,055.4	1,649.8	1,679.4	1,710.7	1,677.2

a) Funding includes \$121.1 million in 2018–19, \$125.0 million in 2019–20, \$129.1 million in 2020–21 and \$121.8 million in 2021–22 for homelessness.

Funding includes \$40.2 million in 2018–19, \$48.3 million in 2019–20, \$56.7 million in 2020–21 for the Social, Community and Disability Services Industry Equal Remuneration Order 2012.

(b) State allocations from 2017–18 have not yet been determined.

The reduction in funding to the states under the NHAHA in 2021-22 is due to the ending of Commonwealth payments to support the Social, Community, Home Care and Disability Services Industry Equal Remuneration Order 2012.

The Commonwealth's **payments to New South Wales** for its affordable-housing services are shown in Table 3.⁴ NSW receives 31% of the NHAHA and partnership payments – excluding the remote Indigenous housing payments to the Northern Territory.

Table 3: Payments to support NSW affordable-housing services

	\$ million	2017-18	2018-19	2019-20	2020-21	2021-22
National affordable housing SPP						
NAHA		434.8				
NHAHA			476.8	484.7	493.3	493.3
National partnership payments:						
First Home Owners Boost						
Homelessness		30.3				
Remote Indigenous housing						
		465.1	476.8	484.7	493.3	493.3

Other housing measures

The Defence Housing Authority received \$595.447 million from government this year (\$43.2 million less than last year). DHA is not directly appropriated. Appropriations are made to Department of Defence which are then paid to DHA and are considered "departmental" for all purposes.⁵ Its total revenue in 2018-19 is, \$1,307 billion, compared to \$1,135 billion in 2017-18.⁶

Two housing programs for **Aboriginal Australians** are located in the Prime Minister and Cabinet portfolio.⁷

- Aboriginal Hostels Limited provides safe, comfortable, culturally appropriate and affordable accommodation for Indigenous Australians who must live away from home to access services and labour markets. It receives at budget appropriation, and receives some funds through the Department of Prime Minister and Cabinet. In 2018-19 it will receive \$36.323 million appropriation and \$2.4 million direct from PM&C with a further \$2.975 million from the NT government.⁸
- The Indigenous Home Ownership program is provided by Indigenous Business Australia. In 2018-19 it will receive \$9.762 million from the Budget (about 10% of its total revenue). This is a 3.7% reduction over last year.⁹

The **social security** system also assists in the housing wellbeing of low-moderate income renters in private, community, and Indigenous rental-housing, with the Commonwealth Rent Assistance (CRA) payment. Rent Assistance payments are projected to be \$4.53 billion in 2018-19 – a 2% increase over the previous year.¹⁰ The rate of payment will be the same (apart from the usual indexation). Despite the failure of CRA to keep pace with rising rents over many years, yet again, there was no response in this Budget.

Infrastructure funding has regularly been presented as contributing to housing affordability by supporting increased housing supply or by reducing levies on developers to fund local infrastructure. The largest activity of the new body, the National Housing Finance and Investment Corporation (NHFIC)², announced in last year's Budget and which includes the affordable housing bond aggregator, was a \$1 billion National Housing Infrastructure Facility.

This year's budget gave significant priority to transport infrastructure. It is worth noting that this includes a \$1 billion Urban Congestion Fund¹¹ to tackle urban congestion; and to make the observation that that perhaps *the* major driver of congestion is the inability of households to afford to live close enough to available employment. The Budget has done nothing to address this problem.

For NSW this Budget also provides \$15.0 million to accelerate planning and zoning reforms to support housing supply in Western Sydney as part of the Western Sydney City Deal.

Better housing data: The Budget provides \$4.8 million over four years from 2018-19 (\$1.3 million in the first year) to the **Australian Bureau of Statistics** to construct better estimates of the stock of affordable housing and to improve existing survey-based planning and zoning data and dwelling construction cost collections.

It will also provide \$0.2 million in 2018-19 to the **Australian Institute of Health and Welfare** to bring together all major housing and homelessness data in a user friendly dashboard

The **Australian Housing and Urban Research Institute** will be refunded, with \$5.5 million over three years from 2018-19 (\$1.8 million in the first year) from the Commonwealth to continue funding to the National Housing Research Program. The program provides an evidence base to support the development of future housing, urban development and homelessness policies.

From 1 July 2019 the ATO will deny deductions for expenses associated with holding vacant land. This is an integrity measure to address concerns that deductions are being improperly claimed; but will also **reduce tax incentives for land banking**, which deny the use of land for housing or other development.

Overall

With some very minor exceptions, it is clear that this Budget has done nothing new to address the continuing crisis of housing affordability – particularly for lower income households – in Australia. In fact, with the National Partnership on Remote Indigenous Housing coming to an end, there has been a \$406 million reduction in Commonwealth effort.

Rather than build on the 'Comprehensive Plan to Address Housing Affordability' that was a centrepiece of last year's Budget, this Budget is silent. Is this because last year's

² NFIC will commence operations this financial year with external (not Budget appropriations) of \$54.532 million

measures left nothing to be done? On the contrary, the effectiveness of some of those measures – such as the affordable housing bond aggregator – requires new investment to leverage the cheaper private finance it could make possible; and the new national agreement announced in last year’s Budget, the NHAHA, has been delivered with no increase in funding that might allow any increase in social housing supply. And while the new agreement – still to be finalised with the States – requires States and Territories to develop housing and homelessness plans, no such *national* housing affordability strategy has been announced in this Budget.

Clearly, housing affordability is not seen to be an issue to be carried into the coming election.

Notes

¹ *Budget strategy and outlook: Budget paper 1 — 2018-19*, May 2018, pp.2-5.

² *Budget strategy and outlook: Budget paper no.1 — 2018-19*, May 2018, p.6-28.

³ *Federal financial relations: Budget paper no.3 — 2017-18*, May 2018, p.41.

⁴ *Federal financial relations: Budget paper no.3 — 2018-19*, pp.41-42.

⁵ Australian Government Department of Defence, *Portfolio Budget statements 2018-19: Budget related paper no. 1.14A — defence portfolio*, May 2018, p.180.

⁶ *Portfolio Budget statements 2018-19: Budget related paper no. 1.14A — defence portfolio*, p.180

⁷ Australian Government Department of the Prime Minister and Cabinet, *Portfolio Budget Statements 2018-19: Budget Related Paper No. 1.14 — Prime Minister and Cabinet portfolio*, Department of the Prime Minister and Cabinet, Parkes ACT, May 2018.

⁸ *Portfolio Budget Statements 2018-19: Budget Related Paper No. 1.14 — Prime Minister and Cabinet portfolio*, p68

⁹ *Portfolio Budget Statements 2018-19: Budget Related Paper No. 1.14 — Prime Minister and Cabinet portfolio*, p.185.

¹⁰ Australian Government Department of Social Services, *Portfolio Budget statements 2018-19: Budget related paper no. 1.15a — social services portfolio*, May 2018, p.44.

¹¹ *Budget strategy and outlook: Budget paper 1 — 2018-19*, May 2018, p1-18