



**Australian Government**  

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**Commonwealth Grants Commission**

**2020 REVIEW**

**HOUSING**

**STAFF DRAFT ASSESSMENT PAPER**  
**CGC 2018-01/14-S**

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# HOUSING

- 1 This paper provides the Commission staff proposals for the assessment of Housing expenses for the 2020 Review.

## 2015 REVIEW APPROACH

### Services included in this category

- 2 The Housing category includes expenses on:
  - all social housing services provided by the general government sector and public non-financial corporations (PNFCs) and subsidies to community housing providers
  - first home owner expenses, such as First Home Owner Grants (FHOGs) and stamp duty concessions
  - private rental assistance and other forms of home purchase assistance.
- 3 The category excludes spending on:
  - accommodation for State employees, such as teachers and police officers in remote areas, which is assessed in the relevant functional categories
  - residential institutions mainly providing living quarters for people with special needs such as the young or the disabled
  - homeless persons assistance.
- 4 Revenue from rents for social housing is also included.

### Category and component expenses

- 5 Assessments are made for each of the following components:
  - gross operating expenses net of depreciation (services expenses)
  - revenue
  - first home owner expenses.
- 6 Investment and depreciation expenses for housing are included in the capital assessments.
- 7 Table 1 shows the breakdown of State expenses in 2016-17.

**Table 1 Housing category expenses by component, 2016-17**

	Amount
	\$m
Service expenses	5 452
Revenue	-3 241
First home owner expenses	1 216
<b>Total</b>	<b>3 427</b>

Note: Excludes depreciation expenses.

Source: Australian Bureau of Statistics (ABS) Government Finance Statistics data, adjusted to exclude expenses funded by 'no Impact' Commonwealth payments.

## Data sources and assessment methods

### Service expenses

- 8 This component includes State expenses on all four types of social housing.
  - Public housing, which is the public rental housing owned (or leased) and managed by State governments. It is provided both by the general government sector and PNFCs. Most States provide public housing through public housing authorities, but Queensland, Tasmania and the Northern Territory provide it through State government departments.
  - State-owned and managed Indigenous housing (SOMIH). In 2017, SOMIH operated in New South Wales, Queensland, South Australia, Tasmania and the Northern Territory.
  - Indigenous community housing organisation (ICHO) dwellings.
  - Mainstream community housing managed by not-for-profit organisations. It offers medium- or long-term tenure for low-income individuals and families.
- 9 Public housing is the dominant component of the social housing stock but community housing has been growing rapidly in recent years.
- 10 The assessment recognises that the use and cost of providing social housing services is affected by the income, Indigenous status and location of households.
- 11 Social housing use is measured using ABS Census data on the number of households in social housing broken down by income, Indigenous status and location. For this purpose, low-income households are defined as those with an equivalised total household income<sup>1</sup> of less than \$650 per week at the time of the 2016 Census. This definition broadly accords with the average income eligibility thresholds for access to public housing by a single person. The Census household data are inflated by State population growth to obtain data for each assessment year.

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<sup>1</sup> An equivalising factor is used to adjust the actual incomes of households in a way that enables analysis of the relative wellbeing of households of different size and composition.

- 12 The extra costs of maintaining housing for Indigenous tenants are taken into account by applying an Indigenous cost weight to the number of Indigenous households living in Indigenous-specific dwellings. The number of those households is estimated using data in the Productivity Commission's *Report on Government Services*.
- 13 Maintenance costs, which are estimated as 25% of State expenses on social housing, are affected by influences such as wage level differences and the cost of materials. The latter are better captured by differences in construction costs, which the Commission derived from data in the Rawlinsons Australian Construction Handbook. Using judgement, the factor applied to maintenance expenses was derived as a 50% weighting of the housing location factor and a 50% weighting of the Rawlinson's constructions cost factor.

### **Revenue**

- 14 Social housing is targeted at low-income households and rents are set as a proportion of household income.
- 15 The revenue assessment recognises the effects of household income, Indigenous status and remoteness on rent revenue. Again, ABS Census data are used to measure household numbers.

### **First home owner expenses**

- 16 Data on the costs to States of FHOGs and stamp duty concessions are obtained via State data requests.
- 17 These expenses are assessed on an equal per capita (EPC) basis because the Commission was unable to find a policy neutral, reliable measure of factors which may drive them.

### **Investment and depreciation**

- 18 Investment<sup>2</sup> and depreciation expenses are assessed as part of the assessments for the capital categories. Those assessments measure the need for housing investment and depreciation by reference to the cost weighted number of households in social housing derived for the Housing category's services expenses component. The following cost weights are applied in the assessment.
  - Indigenous cost weight. It is applied only to housing built specifically for Indigenous tenants (SOMIH and dwellings managed by funded ICHOs) because

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<sup>2</sup> A quarter of National partnership on remote Indigenous housing (NPARIH) funding was excluded from State investment spending and from the NPP treated as affecting the GST distribution, based on new housing constituting some 50% of NPARIH funds at the national level, part of which was geared to lifting the overall stock in each State so that service standards approached or equalled those provided in non-remote communities.

this type of housing is often larger and with higher specifications than public housing or mainstream community housing.

- A capital cost disability. It allows for interstate differences in wage levels, the price of materials and other unavoidable factors affecting the cost of infrastructure. It is a simple average of the Rawlinsons-based construction cost factors and the Commission’s wage costs and regional costs factors.

19 The Investment assessment recognises the impact of differences between States in population growth on the need for infrastructure.

20 The first home owner assessment does not affect State infrastructure requirements.

### GST redistribution

21 Table 2 shows the GST redistributed by each component of the Housing category.

**Table 2 GST redistribution, Housing category**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Service expenses	-99	-182	55	62	76	9	-31	110	312
Revenue	27	44	-16	-11	-48	3	13	-13	89
First home owner expenses	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>-72</b>	<b>-137</b>	<b>39</b>	<b>51</b>	<b>27</b>	<b>12</b>	<b>-18</b>	<b>97</b>	<b>227</b>

Note: The GST impact of housing investment and depreciation is excluded.

Source: Commission calculation, 2018 Update.

## ISSUES AND ANALYSIS

22 The main issues to be considered are:

- the relative merits of Census and Australian Institute of Health and Welfare (AIHW) data on household numbers
- the impact of the cost of land
- the impact of policies on affordable housing
- the assessment of FHOGs and stamp duty concessions.

23 The review also affords an opportunity to update the Indigenous cost weight and the estimate of the share of housing expenses represented by maintenance costs.

### Census data versus AIHW data

24 Data on households in social housing are available from the Census and the AIHW. However, significant discrepancies between the two data sets were found in the 2015 Review, and the size of the discrepancies varied across States (see Table 3).

**Table 3 Comparison of Census and AIHW data on social housing household numbers, 30 June 2011**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT (a)	Total
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Census households	127 025	64 339	64 140	37 454	45 146	11 890	10 083	9 425	369 502
AIHW households	142 424	75 068	68 656	39 878	47 102	12 165	11 464	12 198	403 955
% difference	12.1	16.7	7.0	6.5	4.3	2.3	13.7	29.4	9.3

Note: Census data cover State housing authorities and Housing co-operative/community/church groups. AIHW ICHO data for all States are the number of permanent dwellings managed by funded ICHOs.

(a) AIHW note their data for the Northern Territory exclude around 5 000 remote Indigenous dwellings. These 5 000 dwellings are included in this table.

Source: ABS, 2011 Census; Productivity Commission, *Report on Government Services 2018*, Tables 18A.4 and 18A.3.

- 25 Even though the AIHW data were available annually, the Census data were used in the 2015 Review because they were more comprehensive for community housing and the number of households with unknown Indigenous status was much lower.
- 26 That approach needs to be revisited because the discrepancies between the 2016 Census data and the AIHW data are larger than previously, especially for community housing (see Table 4). The 2016 Census count of households living in Housing co-operative/community/church group is lower than the 2011 Census count, despite the recent growth in community housing numbers.
- 27 The discrepancies suggest two main factors may be at play.<sup>3</sup>
- First, the Census household/dwelling counts are affected by the incidence of non-responding (including non-response to the tenure and landlord type question) and unoccupied dwellings.
  - Second, in completing their Census forms, many community housing tenants (especially ICHO tenants) may think their properties are regular private sector rentals rather than government-supported community housing. This is illustrated by the observation that 2016 Census data show only 7 285 Indigenous community housing households whereas the AIHW data show around 21 000 Indigenous community housing households in mainstream community housing and Indigenous community housing.

<sup>3</sup> Another factor contributing to the discrepancies is that there is no neat fit between the Census categories and AIHW social housing collections. For example, Census State housing authorities household counts may include tenants of land councils which report in the AIHW Indigenous Community Housing collection.



**Table 4 Comparison of Census and AIHW data on social housing household numbers, 30 June 2016**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT (a)	Total
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Census households									
State housing	105 347	52 140	53 092	31 186	33 872	9 263	8 576	7 645	301 121
Community housing	17 692	9 886	8 690	4 524	6 734	1 743	553	1 214	51 036
Total	123 039	62 026	61 782	35 710	40 606	11 006	9 129	8 859	352 157
AIHW households									
State housing	113 143	62 995	53 326	32 208	37 646	7 259	10 606	9 728	326 911
Community housing	29 901	15 415	16 306	9 607	7 898	5 812	634	2 299	87 872
Total	143 044	78 410	69 632	41 815	45 544	13 071	11 240	12 027	414 783
% difference									
State housing	-6.9	-17.2	-0.4	-3.2	-10.0	27.6	-19.1	-21.4	-7.9
Community housing	-40.8	-35.9	-46.7	-52.9	-14.7	-70.0	-12.8	-47.2	-41.9
Total	-14.0	-20.9	-11.3	-14.6	-10.8	-15.8	-18.8	-26.3	-15.1

Note: Census data cover State housing authorities and Housing co-operative/community/church groups. AIHW State housing data are the sum of public housing and SOMIH household numbers. Its community housing data are the sum of mainstream community housing and ICHO households. AIHW ICHO data for all States are the number of permanent dwellings managed by funded ICHOs.

(a) AIHW SOMIH data for the Northern Territory are dwelling numbers for June 2017. Mainstream community housing household numbers for the Northern Territory are not available; the figure included in the table is the number of dwellings.

Source: ABS, 2016 Census; Productivity Commission, *Report on Government Services 2018*, Tables 18A.4 and 18A.3.

28 Nevertheless, the 2016 Census data show a consistent and comprehensive picture of the key characteristics of social housing households counted.<sup>4</sup>

- Indigenous households accounted for 15.9% of social housing households (compared to 15.1% in the 2011 Census)
- 82.6% of social housing households were on low incomes (defined to be those with an equivalised income of less than \$650 per week), compared to 84.6% in 2011 (defined to be those with an equivalised income of less than \$600 per week) (see Table 5)
  - an equivalised income of less than \$650 per week broadly aligns with average income eligibility thresholds for access to social housing for a single person (Table 6).
  - this low-income threshold equates to the bottom 34% of households in the 2016 Census (the bottom 37% of households in the 2011 Census).

<sup>4</sup> Census data by remoteness are not currently available.

**Table 5 Low-income share of social housing households, 2016 Census**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Low-income share of social housing households	82.8	83.6	81.8	81.4	83.1	85.8	76.8	83.2	82.6

Source: CGC calculations.

**Table 6 Social housing gross weekly income eligibility limits, 2016**

	NSW	Vic (a)	Qld	WA (b)	SA	Tas (e)	ACT	NT (f)
	\$	\$	\$	\$	\$	\$	\$	\$
Single person	610	549	609	430	978	536	706	766
Couple, no dependants	840	949	755	580 (c)	1 279	926	883	995
Single parent with two children	1 010	1 018	877	695	1 429	960	1 001	1 158
Couple with two children	1 240	1 018	999	815 (d)	1 580	994	1 119	1 329

(a) The limits shown in the table are the income limits for 'Priority Access' housing which is for people most in need of housing. Higher limits apply to 'Register of Interest' housing which is for people who do not have an urgent housing need.

(b) Around 40% more for North West and remote areas. Higher income limits apply for people with a disability.

(c) \$580 for single income, \$670 for dual income.

(d) \$815 for single income, \$930 for dual income.

(e) Eligibility for public housing is limited to Commonwealth Health Care Card holders, but income limits also apply. For consistency purposes, the income limits provided by the Tasmanian Department of Treasury and Finance in April 2017 in their response to the Commission staff's review of what States do (Staff Research Paper *CGC 2016-14-S, What States Do - Housing Services*) have been included. Community housing providers may have different eligibility criteria.

(f) Eligibility limits are public housing eligibility limits.

Source: State government websites, March 2018.

29 While the AIHW data also contain dissections of households in social housing by equivalised total household income, Indigenous status and remoteness, there are significant gaps in the data for some States. For example, households with unknown Indigenous status account for close to 30% of public housing households in the AIHW data<sup>5</sup> (compared to 0.9% of the Census total households number,<sup>6</sup> although the Census Post-Enumeration Survey indicates a significant Indigenous undercount). Nor are there comprehensive dissections by socio-economic characteristics of households in mainstream community housing in Queensland while no dissections are available for mainstream community housing and SOMIH in the Northern Territory.

30 Overall, staff have concluded:

<sup>5</sup> The rate of unknown Indigenous status across the public housing collection is around 16% for Victoria, Tasmania, South Australia, Western Australia, the Northern Territory, Queensland and the ACT combined; for New South Wales it is 100%.

<sup>6</sup> ABS, [Census of Population and Housing: Understanding the Census and Census Data](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/2900.0main+features100362016), Australia, 2016, Cat. No. 2900.0, (<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/2900.0main+features100362016>), [accessed February 2017].

- The AIHW data provide a more complete picture of the total number of social housing dwellings, especially for Indigenous community housing.
- The Census data generally provide a more reliable and more comprehensive picture of the socio-economic characteristics (income, Indigenous status and remoteness) of households in social housing than the AIHW data. They also provide a comprehensive breakdown by rent range, thereby enabling rents to be taken into account in the housing revenue assessment.

- 31 Staff, therefore, propose combining the more reliable features of both data sets. Under this approach, the more detailed Census data would be scaled up to accord, to the extent possible and appropriate, with available AIHW data for each State on households in State housing (public housing plus SOMIH) and community housing (mainstream community housing plus ICHOs). The scaling up could be done in every update because the AIHW data are available annually.
- 32 It is acknowledged this approach applies the socio-demographic characteristics of the households covered by the Census data to the extra households included by the scaling process. Staff further propose to test the validity of that assumption and make adjustments to mitigate any undue effects by reference to the detailed socio-economic data in the AIHW collections that are considered reliable and comprehensive. Sufficient work has not yet been completed to determine what, if any, adjustments might be desirable.
- 33 The revenue assessment would require a similar scaling of Census rent data to accord with available AIHW data.

Staff propose to recommend the Commission:

- agree to develop an approach which scales the more detailed Census data to accord, to the extent possible and appropriate, with available AIHW data for each State on households in State housing (public housing plus SOMIH) and community housing (mainstream community housing plus ICHOs).
- agree to staff undertaking further investigations into the possible scaling of Census rent data to accord with available AIHW data.

## The impact of the cost of land

- 34 The 2015 Review assessment of investment in land is on an EPC basis. In its response to the Commission staff's review of what States do (Staff research paper *CGC 2016-14-S, What States Do - Housing Services*), New South Wales argued that the user cost of land is the most significant element in the provision of social housing in urban areas. It argued that higher underlying land prices in metropolitan Sydney result in higher housing rental prices compared to markets in other States. This,

combined with contribution limits for tenants, means that the current assessment methodology may be underestimating the long term cost of service delivery.<sup>7</sup>

- 35 While the value of land underneath social housing dwellings may differ between States, it would not affect the recurrent cost of providing services. The user cost of capital is a notional amount that is not reflected in the States' actual expenses. In addition, land is not depreciated.
- 36 Differential land prices would affect the value of the purchase and sale of land. However, ABS Government Finance Statistics (GFS) data show that between 2013-14 and 2015-16:
- costs of land purchases have averaged less than \$500 million
  - this expenditure was largely offset by the receipts from the sale of land
  - as a result, net investment in land is very small (see Table 7).
- 37 Therefore, a disability assessment would not be material.

**Table 7 General government and PNFC purchase and sale of land for housing purposes by State**

	NSW	Vic	Qld	WA	SA	Tas	ACT (a)	NT	Total excl ACT
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Purchase									
2013-14	40	-37	216	0	0	10		136	365
2014-15	96	-8	212	0	1	16		95	412
2015-16	65	1	304	1	1	10		152	532
Sale									
2013-14	-29	-71	-98	0	-91	-15			-325
2014-15	-42	-65	-91	0	-75	-22			-326
2015-16	-136	-58	-99	0	-70	-17			-390
Net investment									
2013-14	10	-108	117	0	-91	-5		115	39
2014-15	54	-73	121	0	-74	-6		64	86
2015-16	-71	-58	205	1	-69	-7		141	142

(a) Data for the ACT have been omitted as there appear to be some associated classification issues.

Source: ABS GFS.

<sup>7</sup> New South Wales' comments on Staff Research Paper *CGC 2016-14-S, What States Do - Housing Services*.

States are welcome to develop a case for the assessment of the impact of land prices on the costs of providing housing services. Staff propose to recommend the Commission:

- not pursue a differential assessment of housing related land costs because recurrent expenses would not be affected by land prices and net investment in land is too small for an assessment to be material.

## The impact of policies on affordable housing

- 38 Commission staff's review of what States do (Staff Research Paper *CGC 2016-14-S, What States Do - Housing Services*) suggested that Commonwealth and State governments are now giving greater policy and funding attention to affordable housing. For example, a number of States are working more intensively with the community and private sectors to increase the supply of affordable housing, while the National Affordable Housing Agreement and the successor National Housing and Homelessness Agreement both include a specific focus on affordable housing.
- 39 Affordable housing refers to housing targeted at low-to-moderate income households with rents set as a proportion of market rent. In contrast, traditional social housing is targeted at low-income households with rents set as a proportion of household income. Affordable housing is usually managed by community housing providers, and dwellings can be owned by private developers or investors, local governments, charitable organisations or community housing providers.<sup>8</sup>
- 40 At this juncture, staff have no information on State spending on affordable housing. However, we would assume that it would be small, especially compared with spending on social housing. Most affordable housing for low-to-moderate income households with rents set as a proportion of market rent and supported through government funding has to date been developed under the National Rental Affordability Scheme (NRAS). A number of States (and local governments) have however also introduced their own 'affordable housing' programs, incentives and planning mechanisms.
- 41 AIHW's mainstream community housing dwellings data have some limitations in this area. At this juncture, there are significant inconsistencies in reporting on NRAS dwellings between jurisdictions. It is also unclear whether other affordable housing so defined is included in the data.
- 42 Therefore, staff consider it appropriate not to make a separate assessment of spending on affordable housing. Our proposal is to treat those expenses the same way as those for social housing.

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<sup>8</sup> See Community Housing Federation of Australia, *Allocation, Eligibility, and Rent Setting in the Australian Community Housing Sector*, April 2014. Available from the [Parliament of Australia website](https://www.parliament.gov.au/), (<https://www.aph.gov.au/>) [accessed August 2016].

43 States are welcome to provide further information on this issue.

Staff propose to recommend the Commission:

- not pursue a separate assessment of affordable housing because State expenses are likely to be small.

## The assessment for First Home Owner Grants and stamp duty concessions

44 State expenses arising from FHOGs and stamp duty concessions expenses are currently assessed on an EPC basis and therefore do not affect the GST distribution. Most States accepted this was the most appropriate approach in the 2015 Review.

45 Staff consider an EPC assessment remains the most appropriate approach.

- The only available dataset on first home owners which might be used in a differential assessment (ABS data on dwellings financed by first home buyers) was found to be not fit for purpose, partly because it covers much more than the newly built homes to which the grants are now restricted.
- An actual per capita assessment is not appropriate because it would be affected by the differences between States in their policies on grants and concessions. Furthermore, the GST impact of such an assessment would be immaterial — it would have been only just material in the 2015 Review and the associated expenses have fallen somewhat since then.

Staff propose to recommend the Commission:

- retain the EPC assessment of FHOGs and stamp duty concessions expenses.

## Updating weights ahead of the Draft Report

### *Indigenous cost weight*

46 Western Australia and the Northern Territory have previously argued the Indigenous cost weights are too low and did not take account of the larger Indigenous household sizes. Conversely, Tasmania has queried the wide divergence across States in the average cost differential between SOMIH and non-Indigenous public housing.

47 Staff intend to update the Indigenous cost weight, calculated as operating expenses per SOMIH dwelling relative to operating expenses per public housing dwelling (excluding Indigenous households living in public housing), using more recent State data.

### **Location factor**

- 48 Staff propose updating the share of housing expenses represented by maintenance costs (currently an estimated 25%). This share is based on State-provided data on maintenance and tenancy management costs per dwelling.
- 49 Staff propose to seek data from States on the maintenance and management costs for public housing and SOMIH dwellings (and Indigenous community housing dwellings where available), dissected by region and Indigenous status. We will also seek details of the number of dwellings used to derive those costs. The Indigenous breakdown will be used in the calculation of the Indigenous cost weight.

Staff propose to recommend the Commission:

- agree to update the Indigenous cost weight and the location factor using the latest available data.

### **Other issues considered and settled**

- 50 A location disability will be retained in the social housing expense assessment.

## **CONCLUSION AND WAY FORWARD**

- 51 The only issue requiring fresh attention in staff's view is how best to combine Census data with AIHW data, with their respective limitations, to obtain a breakdown of social housing households by Indigenous status, income and remoteness to undertake the assessment.
- 52 Staff will undertake some more detailed work comparing the Census and AIHW data with a view to scaling, to as fine a level as possible, Census dissections to AIHW total State housing (public housing plus SOMIH) household numbers at the State level and total community housing (mainstream plus ICHO) household/dwelling numbers at the State level.

### **Proposed assessment structure**

- 53 Staff propose the following assessment structure in the 2020 Review.

**Table 8 Proposed Housing category structure**

Component	Disability	Influence measured by disability
Social housing expenses	SDC	Recognises that income, Indigenous status and remoteness affect the use and cost of providing housing services. An Indigenous cost weight is applied.
	Location	Recognises the differences in wage costs between States and in the cost of providing services to different areas within a State.
Revenue	SDC	Recognises that income, Indigenous status and remoteness affect the number of social housing households as well as the rent paid by households.
First home owner expenses	None	EPC assessment as there is no policy neutral reliable measure of first home owner expenses.

## Data / information sought from States

- 54 Staff propose seeking updated data later this year on operating expenses per SOMIH dwelling and per non-Indigenous household in public housing dwellings to review the size of the Indigenous cost weight and to update the share of housing expenses represented by maintenance costs.