

## Inquiry into Homelessness in Victoria

Mr Lev Lafayette

**Organisation Name:**Isocracy Network

**Your position or role:** President

### SURVEY QUESTIONS

**Drag the statements below to reorder them. In order of priority, please rank the themes you believe are most important for this inquiry into homelessness to consider::**

Rough sleeping,Services,Public housing,Indigenous people,Family violence,Housing affordability,Mental health,Employment

**What best describes your interest in our Inquiry? (select all that apply) :**

An advocacy body ,Academic & research ,Concerned citizen

**Are there any additional themes we should consider?**

### YOUR SUBMISSION

**Submission:**

**Do you have any additional comments or suggestions?:**

### FILE ATTACHMENTS

**File1:** [5e33a35d50324-2020201isocracyhomelessness.pdf](#)

**File2:**

**File3:**

**Signature:**

Lev Lafayette

# Victorian Parliament Homelessness Inquiry Isocracy

## Submission

On 7 June 2019, the Legislative Council directed the Legal and Social Issues Committee to inquire into homelessness, and in particular, directed that the Committee should:

- \* provide an independent analysis of the changing scale and nature of homelessness across Victoria;
- \* investigate the many social, economic and policy factors that impact on homelessness; and
- \* identify policies and practices from all levels of government that have a bearing on delivering services to the homeless.

The Committee has since called for public submissions to this inquiry.

The following is the submission of the Isocracy Network, Inc., an incorporated non-profit association in Victoria (A0054881M).

### Scale and Nature of Homelessness

The Australian Bureau of Statistics (ABS) defines a person as homeless "if they do not have suitable accommodation alternatives and their current living arrangement:

- \* is in a dwelling that is inadequate;
- \* has no tenure, or if their initial tenure is short and not extendable; or
- \* does not allow them to have control of, and access to space for social relations."

The ABS Census on Housing and Population recorded (Australian Bureau of Statistics, 2016) that 116,427 people were counted in the Census as being homeless on Census night, of which 24,817 were in Victoria. This is an increase from 102,439 in the 2011 Census, which itself was an increase from 89,728 in 2006. Of that number, 58% were male, 42% were female, 20% (or 23,437) are Aboriginal and Torres Strait Islander Australians, a figure down from the 26% in 2011, but still

vastly disproportionate to the percentage of the population which is 3%, as determined by the ABS. Homelessness increased in all 18+ age groups, with the most significant increase being in the 25-34 year old group.

Only the ACT and WA saw a reduction in the number of homeless between 2011 and 2016. The largest percentage increases were in New South Wales, Queensland, and Victoria was with the Northern Territory, at +11%. On the night of the census, the ABS recorded 24,817 people as homeless or 41.9 people per 10,000. Victoria's homeless rate was lower than the Northern Territory (599.4), New South Wales (50.4) and Queensland (46.1) and below the national average of 48.9.

The Homelessness Categories used by the ABS showed a 20.4% increase in the number of people "sleeping rough", that is, persons living in improvised dwellings, tents, or sleeping out. The number of persons living in 'severely' crowded dwellings (i.e., four more bedrooms would be required in the housing unit) increased by 23.5%, and in boarding houses increased by 17.1%. Those in supported accommodation for the homeless declined by 0.1% as did an "other" category, by 0.6%. Two categories in Victoria are significantly different from the national average. In Victoria, 34% of the homeless are in supported accommodation, compared to 20% of the national average, and 27% are in overcrowded buildings compared to 39% of the national average. In all other categories, Victoria's results are within 2% of the national average.

Attention is drawn to the fact that the Census was in 2016. As the causes of homelessness are systemic, it is almost certain that the number has increased since then.

## **Costs and Causes of Homelessness**

The debilitating and humiliating experience of homelessness itself is horrendous enough to the individuals who experience it. There are also significant social costs that are borne by the entire community. As an editorial of the Medical Journal of Australia (Steen, 2018) states:

"Homelessness results in significant social and economic costs not just to individuals and their families, but also to communities and the nation as a whole. For individuals and families, homelessness makes it difficult to engage in education and training and can leave people vulnerable to violence, victimisation, long term unemployment and chronic ill-health. Some health problems are a consequence (but can also be a cause) of homelessness, including poor nutrition, poor dental

health, substance misuse, and mental health problems. Australians experiencing homelessness are often excluded from participating in social, recreational, cultural and economic opportunities in their community. At the national level, people who are homeless are less likely to be employed, more likely to interact with the criminal justice system, and impose a disproportionate demand on publicly funded medical facilities."

The editorial goes on to reference studies that have estimated the annual community cost of "rough sleepers" to be around \$25000 per person, and that youth homelessness costs Australia \$626 million per year in additional health and criminal justice costs. A national study by Zaretsky et al., (2013) uses differential rates between those at risk of homelessness and the population in general, concludes:

"The potential annual cost offset per client if health, justice, welfare, children in care and eviction rates were to be reduced to population averages, ranges from \$14 712 per client/year for street-to-home services to \$44 137 per client/year for single men. If this offset were able to be maintained over the average remaining lifetime, this equates to a cost offset of between \$352 826/client for street-to-home and \$1 058 491/client for single men. Even if cost savings only relate to a five-year period, they range from \$67 377 for street-to-home clients to \$202 135 for clients of services for single men."

The ABS states that domestic and family violence is a significant cause of homelessness and that this figure is difficult to enumerate, in part because "the home in which they were subject to domestic violence is not considered a safe alternative accommodation to their homeless situation". This concurs with multiple reports from the Specialist Homelessness Services (Australian Institute of Health and Welfare, 2019), which rates family and domestic violence as one of the three major reasons why specialist homeless services are sought. In Victoria, 1 in 57 people received homelessness assistance, much higher than the national rate (1 in 86). The main reasons were:

- \* family and domestic violence (44%, compared with 38% nationally)
- \* financial difficulties (44%, compared with 41% nationally)
- \* housing crisis (37%, compared with 37% nationally)
- \* mental health issues (18%, compared to 17% nationally)
- \* lack of family or community support (17%, compared to 20% nationally)
- \* medical issues (10%, compared to 9% nationally)
- \* problematic drug or alcohol use (8%, compared to 9% nationally)

"Housing crisis" means that the client has inadequate or inappropriate dwellings. Note that the figures can equal over 100% as multiple reasons can apply. Note that these values are at significant variation to conventional wisdom on the causes of homelessness, which seem to be often based on the perception of effects of homelessness rather than the cause (e.g., drug and alcohol abuse).

With regards to family and domestic violence, the Finance and Public Administration References Committee of the Australian Senate (Commonwealth of Australia, 2015) conducted a detailed review with public submissions that reviewed prevalence, causes, and public policy matters. The submission by VicHealth at the time, from "Preventing violence against women: A framework for action", highlighted the gender imbalance in family and domestic violence, and noted a number of contributing factors to the incidence and severity of violence which had the main causes being attitudinal support towards victims, previous experience or witnessing of family, domestic, or collective violence, etc. That is primarily experiential and cultural norms. Alcohol, as a substance that affects impulse control, was involved in almost 2/3rds of family violence incidents. As the submission from Australian Women Against Violence Alliance stated: "Domestic Violence is the single biggest driver of homelessness for Australian women. According to Homelessness Australia, 55 per cent of female clients and 25 per cent of all clients who present to specialist homeless services cite domestic violence as their reason for leaving their home."

The second category is financial difficulties, the most obvious being the capacity of people to afford housing. As a 25-year study of property values by AHL Investments (2019?) states: "Affordability, as distinct from serviceability, hasn't been as resilient", leading to a decline in first-home buyers and an increase in investor purchases. Melbourne, from 1993 to 2018, has witnessed an 8.1% annual change in house prices, reaching a median value of \$824,955, whereas apartments in the same period have increased at a rate of 6.6% per annum to a median value of \$574,003. These rates of increase are greater than the national average of 6.8% and 5.9% respectively. These increases have resulted in an increase in the proportion of income dedicated to mortgage servicing (Melbourne, 42.6%) and the proportion of annual income required to raise a 20% deposit (159.7%). Similar figures can be discerned in the rental market, using time series data from the Victorian Department of Human Services (2019) which notes, for example, an increase in rents for a single bedroom flat from \$120 pw in Victoria in June 1999 to \$360 in June 2019, and \$165 pw for a three-bedroom house to \$380 pw in the same period.

The third category, housing crisis, is systemically related to the second. Housing economists will be very quick to point out two major influences in what is conventionally called "housing price". The first major influence requires distinguishing between land price and building price is essential, as the cost of real housing prices, despite significant short-term changes is actually quite stable over a thirty-five year period, with short-term changes heavily correlated with total building approvals and the real-variable mortgage rate (Saunders and Tulip, 2019). The substantive driver of land prices is both natural demand (e.g., population increases) and land-speculation for economic rents. The second major influence also involves recognising that housing demand is very elastic. Where housing supply is plentiful and inexpensive in real terms home density will tend to decrease. Where supply is low and expensive in real terms, home density will increase, leading to crowded residences. The first major influence can feed into the second; where economic rents can be derived in preference to housing an environment will be created which actually encourages higher rents for lower quality houses.

## **Solutions to Homelessness**

All other things being equal, intervention to prevent homelessness should be prioritised in order of the causes of homelessness, with the top three being family and domestic violence, financial difficulties, and housing crises. Of course, different types of intervention have different levels of success based on their ability to address the cause and the association of the cause with the homelessness status. There is, of course, limits to what the Victorian State government can do and for those matters outside of its control, we can only recommend policy advocacy at peak levels and leadership by example. For example, there is a strong correlation between housing approvals and interest rates (Saunders and Tulip, 2019, op cit) which would certainly affect the rate of homelessness, however that is outside of the control of the state government. Mention must be made of the effects of negative gearing and capital gains benefits that the Federal government continues to provide against the advice of housing advocates and economists, as Grattan Institute research illustrates (Daley, Wood, 2016); convincing the real-estate industry and powerful vested recipients of such subsidies is another matter entirely as The Australia Institute has implied (Grudnoff, 2016). According to Monash University's Centre of Population and Urban Research declared a social catastrophe (Birrell, 2016). Even The Economist describes Australia's current policies as "crazy" (The Economist, 2016):

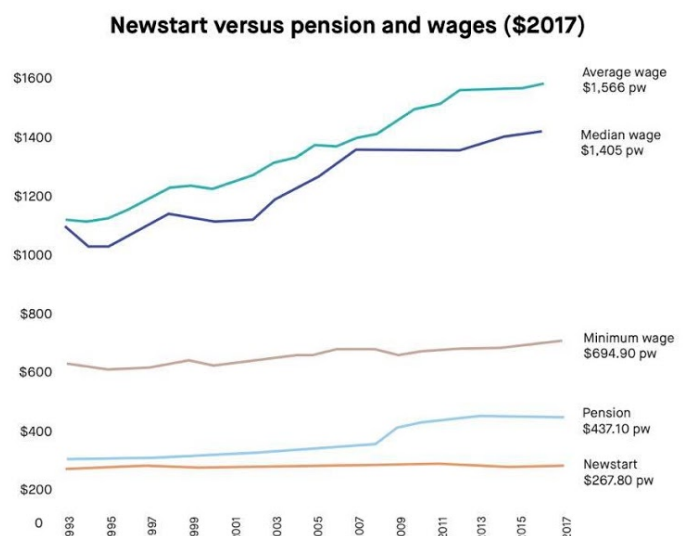
*The crazy practice of "negative gearing", which allows investors in property to write nearly everything off against tax, has also helped push up prices beyond the reach of Australians in their 20s and 30s (many of whom, even if they are able to buy a property, still have to live with their parents to afford it).*

Addressing the major causes of homelessness it is noted that the Victorian Royal Commission into Family Violence (Neave, et al 2016), made three specific recommendations relating to housing. This include:

- \* Recommendation 017. Establish a Family Violence Housing Assistance Implementation Task Force
- \* Recommendation 018. Give priority to victims gaining stable housing as quickly as possible
- \* Recommendation 020. Annual reporting on the demand for housing and crisis accommodation

Of the three immediately relevant recommendations one, Recommendation 017, is currently marked as "Implemented", whereas the other two are "In Progress". A partial response to the recommendation for providing stable housing included investment of \$209 million to house 1,800 as part of the "Building New Homes to Fight Homelessness" initiative, of which "[a] number of these properties will be targeted to particularly vulnerable homeless Victorians including victim survivors of family violence". If the number of homeless people increases by a conservative 10% (i.e., 2481) between the ABS figure at 2016 and 2022, that will be an additional shortfall of over 600 persons. Clearly, the proposed expenditure is insufficient and draws attention to the report of the Productivity Commission, which noted that Victoria has the nation's worst expenditure per person on social housing at a mere \$82.94 per person for 2016-2017 (down from \$95.92 per person in 2014-2015), whereas the national average was stood at \$166.93 (Henriques-Gomes, 2019).

Under such circumstances, the State government should implement the Whittlesea Declaration of the national Everybody's Home alliance as endorsed the Council to Homeless Persons, (CHP), Victorian Council of Social Service (VCOSS), and Justice Connect



et al of 3,000 public and community housing options to be built every year for the next decade, which is derived from Infrastructure Victoria's recommendations.

*With the best information we have been able to obtain, we believe that the provision of approximately 30,000 new affordable dwellings within 0-10 years could be an appropriate infrastructure response to contribute to the current unmet demand for access to housing. While it is unlikely this quantum will fully meet demand, it represents an achievable and significant response. However, further investigation and the development of a comprehensive housing plan is required to confirm the final target.*

(Infrastructure Victoria, 2016, p104)

With regard to housing affordability and housing crises, the Victorian Parliament has noted that for low-income households "rental affordability has declined significantly since 2000 in metropolitan Melbourne and the rest of Victoria. In metropolitan Melbourne in 2017 only 6.6 per cent of rentals are considered affordable, down from a high of 28 per cent in 2005" (Raynor et al 2017, p13), which correlates with previous references in this document concerning housing affordability. The same report notes an increased proportion of the population in Melbourne, increased housing stress, and increased mortgage stress, and places blame on low-interest rates coupled with housing debt, increased borrowing, the effects of capital gains tax and negative gearing, and the failure of wages to keep up with property prices.

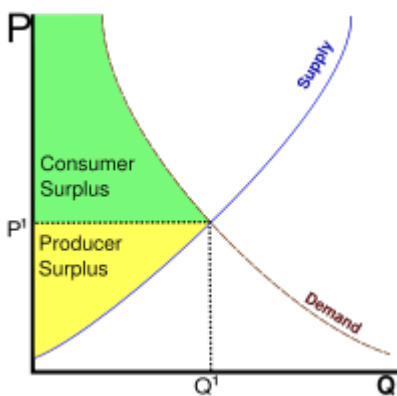
The report makes only passing mention of what would be a very effective tool for combating the disparity of wages with property prices, and one which is in the power of the State government; that is the use of land tax; "Many parties advocate the use of an annual land tax to replace stamp duty in order to reduce transaction costs of purchasing and selling property" (Raynor, *ibid*, p30). Whilst this is correct, it does not fully explain the efficiency of this approach, nor the degree that it can be extended.

For produced goods and services, any sort of tax is an impost upon existing market prices. Sometimes this is deliberately desired, such as taxed on cigarettes and alcohol. The impost raises the price of the good and therefore reduces demand. This loss of trades is a deadweight loss, and is a cost in addition to any administrative cost involved in the collection of the tax. The loss is borne primarily by the producer and consumer, depending on the elasticity of supply and demand. Land, however, is an unproduced good. It exists prior to any production. Its value is determined by the productive potential of its location, being both any innate unimproved value and the local

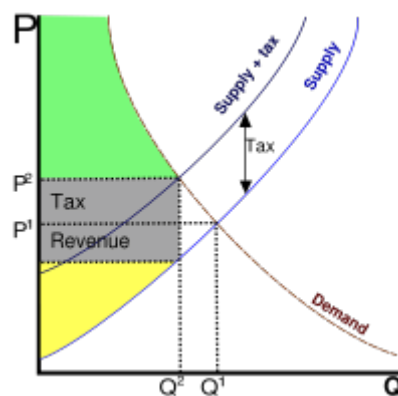


infrastructure. Ownership of land generates economic rent, where income is raised without contributing to production itself.

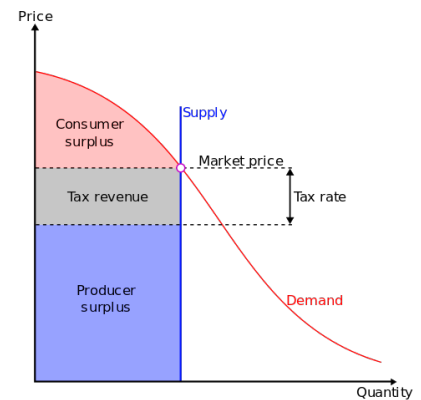
Where land tax is low, there is an incentive to engage in the purchase and rent of land with the minimal provision of housing. If it seems that the government is unlikely to increase a land tax, it also gains a future speculative value. Conversely, where a land tax is high and taxes on relevant produced goods and services are low, investors will tend towards the latter. The result is more buildings, higher-quality buildings, more employment, and more efficient use of land. At a high enough level, a land tax can actually cause the price of land to decline as it removes the speculative component.



*Price determination under perfect competition*



*Price determination under perfect competition with taxation*



*Price determination with taxation for inelastic supply. No change in market price or deadweight loss.*

This is no mere theory, even if it is widely acknowledged through the profession of economics although unfortunately not as much among politicians. Where the public acquisition of economic rents is widespread in preference to the acquisition of normal profits, prosperity is the norm. A particularly illustrative Victorian example compared economic growth with rating systems used by local councils (Anderson, 1991), with those councils using Unimproved Site Value recording vastly superior results. Even in recent years, it is noted by the State Revenue Office that land tax revenues have increased (from \$1.8bn in 2015-2016 to \$3.5bn in 2018-2019) and Land Transfer Duty (Stamp Duty) revenues have shown variation (from \$5.8 bn in 2015-2016 to \$6.0bn in 2018-2019) it is clear that much more needs to be done to address this disparity. If one add payroll tax - effectively a tax on employing people - on top of land transfer duty there is a total of \$7.0bn (payroll tax) and \$6.0bn (land transfer duty) in two revenue streams which *increase unemployment* and *increase the price of housing*, whilst there is a paltry \$3.5bn in revenues designed to prevent private economic rent.

Systemically, a reduction in payroll tax will free up money for employment and a reduction in stamp duty will reduce the price of housing. An increase in land tax will encourage investment in productive activities and remove economically damaging speculation and rent-seeking. As much as expenditure in social housing etc can alleviate the symptoms that generate increased homelessness, it cannot and will not remove the cause. There is no single better systemic action that the Victorian government can undertake to remove the causes of homelessness, increase employment and wages, and improve the number and quality of buildings than to change how the government acquires income. The public acquisition of 100% of unimproved site-rental values by all levels of government, along with a corresponding reduction on taxes on goods, services, and transactions, is the optimal value and one which will generate the best level of public income and economic productivity (Stiglitz, 1977; Arnott, Stiglitz, 1979). This approach may, of course, be implemented in a step-wise manner; each reduction in payroll tax and stamp duty is matched with an equivalent increase in land tax, with the additional income going to social housing.

## **Recommendations**

\* That the Victorian State government advocate on a national level the removal of capital gains tax benefits and negative gearing in the property market which have encouraged poor investment choices, have resulted in forgone public income, and have not improved housing stock.

\* That the Victorian government adopts the recommendation of Infrastructure Victoria and the Everybody's Home alliance and produce 30,000 new affordable dwellings within ten years.

\* That the Victorian government reduces the rates of payroll tax and stamp duty and increase the rates of land taxes proportionally until no public income is derived from the production of goods and services, all public income comes from economic rents.

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