

SHELTER WA HOUSING INFORMATION SHEET

COMMUNITY SERVICE OBLIGATION: A NEW WAY TO FUND PUBLIC HOUSING IN WA? By Jim Anthony

Introduction

Over the last two years market rents and house prices in Western Australia (WA) have escalated well beyond the reach of low and median income households.¹ There are now a significant number of low income households experiencing housing stress in WA.²

There have been few alternative options for low income households to turn to with private rental vacancy rates in Perth dropping to an all time low of less than 1%. With vacancy rates so tight indicates demand is outstripping rental supply. In these conditions it is difficult for low income households to negotiate affordable rental leases.

Does public housing provide an alternative to low cost private rental?

Over the last decade government funding for public housing has reduced by 25%.³ During this period:

- public housing stock declined by nearly 2,000 dwellings reducing its market presence as a proportion of total housing stock from 6% in 1996 to 4.2% in 2006;
- the creation of new public housing tenancies declined

from 6,559 in 1996 to 3,704 in 2006 (a 44% decline).

The figure for 2006 represents a ten year low in households on the waiting list accessing public housing.⁴ Many low income households must surely give up waiting with allocations having shrunk so much and with waiting times increasing in some metropolitan areas to 6 years.⁵

Clearly public housing has been taken out of the equation as alternative form of tenure to house low income households encountering housing stress in the private market.⁶ Public housing is now mostly targeted at pension recipients who made up 85% of all public housing tenancies in 2006.

The aim of this *Housing Information Sheet (HIS)* is to demonstrate why and how public housing could still play a key role in housing low income working people in WA.

What are the other funding options for public housing?

The State Housing Authority could apply for additional funding to make the public housing system financially viable through applying for a Community Service Obligation (CSO) from the State Government. As will be revealed

in this *HIS*, the role of State Housing Authority as a key provider of low cost public rental, fulfils the criteria required to be eligible for Government funded CSO.

What is a CSO?

A CSO arises when a government specifically requires a public enterprise to carry out activities relating to providing services and resources which it would not elect to do on a commercial basis.⁷

Most Australian governments' accept this definition of a CSO.⁸ And there are some key elements of this definition which would make it workable in a public housing context. For example:

- It requires a CSO to be a Government directive to a public enterprise on a specific service (i.e. for the provision of public housing only);
- The specified service or function must provide an identified social benefit;⁹
- The costing of CSOs can be carried out by Treasury and made transparent for reasons of public accountability and in order to better assess the financial performance of say the State Housing Authority.

Why Should Government Fund a CSO for Public Housing?

In other government services such as electricity and water utilities the difference between the commercial price and the amount paid by the recipient of a concession is recognised as a

CSO. The Western Australian Government funds it's identified CSOs (performed by Westrail, the Water Corporation and Western Power) directly from the budget.¹⁰

There appears to be no distinguishing reason why the principle applying to CSOs in other government organisations should not be applied to the State Housing Authority?

The issue is not whether this principle should be violated, but whether or not the current concessional price is appropriate to Government housing objectives. If the answer is 'yes', then the principle applying elsewhere should be applied to public housing.¹¹

How can this be achieved?

The State Housing Authority receives no compensation from the Budget or the State Treasury for providing subsidised public housing for low income households. The subsidy is the difference between the household rent which tenants pay as 25% of their income and the market rent which is calculated by the State's Valuer General Office (VGO).

The State Housing Authority subsidised their public housing tenancies by \$85.4 million or (\$2,455 per dwelling in 2006).¹² See Figure 1 below.

Shelter WA has estimated that the SHA rental operations are currently running at a loss of \$2,570 per public housing dwelling (See Figure 1).¹³ If Treasury covered the cost of the rental subsidy (\$2,455 per

dwelling) then the deficit would be reduced significantly to just \$115 per dwelling per year or \$2 per dwelling per week.¹⁴

For an outlay of approx \$85 million per annum the State government would be showing a significant commitment and funding contribution to the long term financial viability of the State's public housing system.

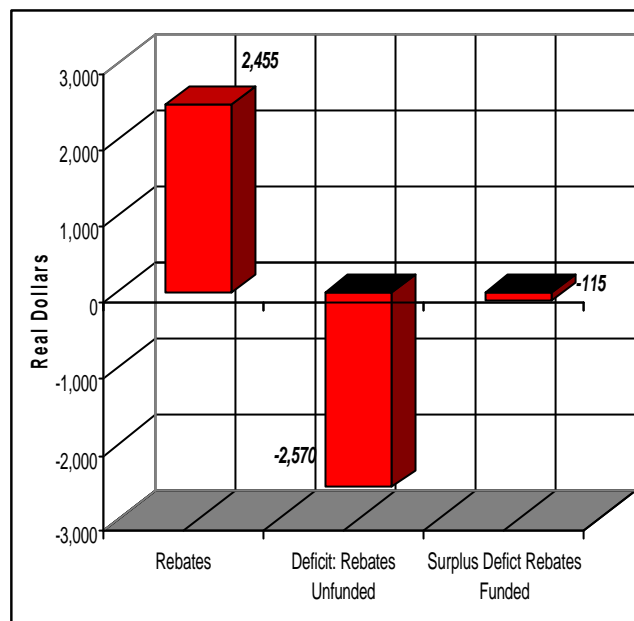
Public housing offers an affordable alternative to the private sector - particularly during periods when private rental and housing prices have accelerated well beyond wage growth.

And we have now gone well beyond housing affordability for a growing number of households in Western Australia.

Shelter's most recent estimate of the State of Affordable Housing in WA for March 2007 revealed that that there are no suburbs left in the metropolitan region where households in the bottom 40% of the income distribution (\$51,000 and less) and households in receipt of the median income (\$61,000 per annum) can afford to purchase a median priced house.

The 'affordability gap' is now 110% which means that a median income household have to double their income to be able purchase the median price house in Perth (i.e. \$452,000)

Figure 1: WA State Housing Authority Operating Surpluses/ Deficits Per Public Housing Dwelling 2005-06



(Sources: Adapted from Berry and Hall, 2004; State Housing Commission, 2006)

Potential Benefits of CSO for Public Housing

Public housing represents the key component of the various ways in which affordable housing is provided in Australia.

The fact that net rental incomes need to be heavily subsidised to cover operational costs is a key constraint to attracting additional funding to build more public housing. The CSO payment could, in theory, wipe out this rental deficit overnight.

The funding of a CSO to the State Housing Authority could enable the rental operations to return to financial viability. The flow on effect of this could be significant:

- o Increase rental revenue income and attract private investment in public housing;

- Establish public housing as an alternative tenure for low income households, show government commitment to developing and funding a modern social housing system; allow the State Housing Authority to plan for expansion.

Perhaps its greatest potential is that although it will come at a cost to the State government, it provides an opportunity to build and plan for a social housing system better prepared to address future shocks in the West Australian housing market

Concluding Remarks

This *Housing Information Sheet* has provided a brief but detailed explanation on what a CSO is and how it can be used to sustain and develop public housing in WA.

It is but one of many avenues in which the State government can provide funds for a specific housing service. The fact the Government sets mandatory conditions for use of CSOs ensures that the funds are not siphoned off for other uses.

In West Australia and across all Australian jurisdictions we are working through some significant policy reforms in relation to the ways affordable housing and social housing is to be funded and provided.

It is for this reason that Shelter WA will continue to provide information on the evolving policy regime in Australia and highlight opportunities for practical policies such as CSO's to become part of

the development of a modern social rental system. One that has the capacity to address the unmet housing needs of low income Western Australians.

Footnotes

¹ See Shelter WA, 2006, *State of Affordable in WA in 2006*, www.shelterwa.org.au.

² Ibid.

³ See Berry, M & Hall, J, 2004, *Operating Deficits and Public Housing: Policy options for reversing the trend*, www.ahuri.edu.au.

⁴ See Shelter WA, 2006, *State of Affordable in WA in 2006*, www.shelterwa.org.au.

⁵ See Department of Housing and Works, 2006 *State Housing Commission Annual Report 2005-06*, DHW, Perth.

⁶ See Department of Housing and Works, 2007, *Waiting Times for Homeswest Housing*, www.dhw.wa.gov.au

⁷ See Industry Commission, 1997, *Community Service Obligations: Policies and practices of Australia governments*, Commonwealth Australia.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ See Berry, M & Hall, J, 2004, *Operating Deficits and Public Housing: Policy options for reversing the trend*, www.ahuri.edu.au.

¹² These figures relate to mainstream public housing stock and Indigenous public housing stock and are valid up to December 2006. Please note that the housing subsidy represents foregone rental income that the State Housing Authority would otherwise receive if they were paid the subsidy from Treasury.

¹³ See Department of Housing and Works, 2006 *State Housing Commission Annual Report 2005-06*, DHW, Perth.

¹⁴ The cost is based on total mainstream public housing stock and Indigenous public housing stock (total 34,771 as at Dec, 2006).