

SWA Housing Update 15 August, 2007

In this Update:

Shelter WA response to Federal Labour's Rental Tax Incentive Scheme

Giving the chronic shortage of affordable housing and the fact that we are getting close to a Federal election, it is not surprising that over the last few weeks there has been some significant proposals to reform Australia's housing systems.

In our previous update we argued that the Federal Coalition proposal to put the public housing system out to tender was fundamentally flawed and will never get off the ground unless there is substantial government investment to make the current public housing system financially viable. But what do Labour propose for the future of affordable housing in Australia?

Their proposal aims to develop an affordable private rental incentive scheme through committing \$603m to the scheme over 5 years. Shelter WA welcomes this significant commitment made by Federal Labour. Key elements include:

- Providing institutional investors with a \$6000 tax subsidy for each house every year for 10 years (requires state government input of \$2000 a year in direct or 'in-kind' support)
- Targeting households that met income tests (must receive max Commonwealth Rental Assistance and Family Tax Benefit and pay at least 30 per cent of gross household income on rent to be eligible). Typically, for a family with two children, the threshold will be \$67,000.
- Charge up to 20 per cent below the market rate for the area.

At first glance the proposals look great, but what do we compare this funding proposal with? The question may be asked that if Australia governments had continued to adequately index and fund their social housing systems – would we be left in this position of throwing more taxpayers money to the private sector to house many low income and median income households. Social rental markets in countries such as the UK and Sweden are able to meet housing demand from a variety of income groups, whilst at the same time operating financially viable systems. In some instances taxpayers provide subsidies for these systems but they also see a return for their taxpayer contribution through rental revenue and the stock remains in public ownership.

Let us take a longer term look at this proposal and its possible costs to the taxpayer. It appears the sum of \$603 million is also factoring in the costs of setting up a framework and management process to implement the programme. But what about the long term prospects even if Community Housing organisations are earmarked for the management role? Will the large

scale institutional investors continue to maintain supply as shareholders demand high appreciation returns particularly during periods of housing inflation? And this is precisely when we need to maintain the supply of low cost rental.

Another key issue worth pointing out is that as well as capital gain, and negative gearing flowing to the investor, the taxpayer will also fund the Rental scheme through Commonwealth Rental Assistance flowing from the taxpayer to the household to the private landlord.

Shelter WA is strongly supportive of increasing the supply of low cost rental, and this is the key objective of the Federal Labour proposal. But we would have welcomed a similar commitment to modernise and adequately fund social housing. There is no reason why Federal Labour could not commit to developing a housing incentive proposal where public housing tenancies are also able to access Commonwealth Rental Assistance. If there is what is it?

Such a payment could be quarantined and used to cover some of the difference between the household rent (capped at 25% of household income) charged by the State Housing Authorities and the market rents they also charge. This would at least enable the State Housing Authorities to start to look at long term viability and help towards modernising a system in dire need of additional funding.