



Shelter WA Update, November 23 2007

In this Update

1) *The 2007 Federal election: a missed opportunity to modernise social housing in Australia?*

Sometimes it is worthwhile looking back on housing policy development, to try come to an understanding as to why the 2007 Federal election offered very little in the way of re-building Australia's ailing social housing sector.

Back in November 1993 one of the most in-depth inquiries into Australia's public housing systems took place. The report was undertaken by the branch of economists who work for the Federal government's Industry Commission (now called the Productivity Commission).¹

Two things stick out in this report. The first was the participants' submissions on public housing and I quote from one:

*... "the state should not see public housing as a stepping stone to homeownership, but a viable tenure in itself. Some of the working class don't want to aspire to home ownership regardless of federal and state subsidies and public housing can and should fill a gap"*²

This view was reflected in much of the public submissions. We never hear alternative views such as this in the mainstream press.

In 2007 the 'Australian Dream' has become even more elusive for a higher number of households, probably the highest number since homeownership reached its heyday back in the 1960's.

Yet apparently to have alternative housing motivations is seen as merely "second rate". Have we become too narrow and negative in our views on what is an acceptable form of housing tenure?

The second highlight of the report was the economists' view of the cost effectiveness of public housing over private rental assistance. These were based on the following arguments:

¹ See Industry Commission, 1993: *Public Housing: Report No. 34*, Commonwealth of Australia

² Ibid

Discrimination

Some renters face discrimination in the private rental market for reasons other than lack of income.

Self insurance

One reason why rents in the low cost private market appears high, given the nature and condition of the dwellings rented, is that many private landlords are risk adverse, which is costly to get adequate insurance. Whereas, a large organisation like the State Housing Authority can self-insure.

Sovereign risk

There may be a reluctance to invest in low cost rental dwellings if prospective investors believe there is a risk that level of rent assistance may not be maintained in real terms (as is the case in the current environment).

Administrative cost of effective rent assistance

If vouchers and rent assistance do not vary with the level of rent paid (which is the case in Australia) their effects are very similar to those given an equivalent sum of extra income. The benefit of having housing assistance targeted toward housing is largely lost.

Financial saving to the government when rent increases

Rent assistance is only effective if it increases the supply of accommodation. However, supply will only increase if rents (and therefore returns) increase. The higher rents are paid to owners of existing dwellings as well as those of new dwellings.

This would lead to a significant quantity of public funds going in to the private rental market for them to increase supply. However, by its ownership of public housing stock the government receives part of the benefit of any rent increases.

All of these arguments have not been touched on during the current Federal election. And they are as relevant in 2007 as they were back in 1993. Put simply:

- By retaining the ownership of public housing stock the financial gains of increased rents will go to the State Housing Authority;
- The overall cost to the government of not selling of public stock and continuing to maintain supply is lower than it would be if we use the previous arguments to compare Kevin Rudd's private rental incentive proposal. In Rudd's model the cost to government will continue to increase for existing and new private dwellings.³ In contrast under public ownership the cost to government will only be that which is necessary to build new stock.

³ For a detailed analysis of the Federal opposition rental incentive scheme see Shelter Housing Update, 15 August 2007: *Shelter WA's response to Federal Labour's rental tax incentive scheme*, www.shelterwa.org.au

The Australian social housing sector has been severely hampered as a result of stigmatisation, excessive targeting and stringent income eligibility. This has curtailed its ability to be of any service to the hundreds and thousands of low income workers in receipt of the minimum wage (\$520 per week).

If we got rid of the many barriers which impede the public housing system from growing, the potential for the social housing sector to play a larger part in the housing system would become clearer. So why are politicians and bureaucrats ignoring the potential of this valuable public resource?

As this is my last official working day as Shelter WA's Research Manger, I would like to take this opportunity to thank all of those organisations and individuals that have commented and provided feedback on Shelter WA's Updates and Reports over the past 6 months