


Submission

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Response to the Draft Report of the Inquiry into
Microeconomic Reform in
Western Australia

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Government of Western Australia



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About Shelter WA

Shelter WA is the peak body for affordable housing in Western Australia, and also undertakes a lot of work in the homelessness area. Shelter WA was founded in 1979 as an independent community based peak body committed to accessible, affordable and secure housing for Western Australians. Shelter WA provides a link between government and the community through consultation, research, systemic advocacy, and policy advice and development. Our role is to provide an independent voice on housing rights and options in the state along the housing continuum. Our work focuses on promoting the development of appropriate affordable and accessible housing options for low to moderate income earners, those who are otherwise disadvantaged in the housing market and people experiencing homelessness.

Shelter WA promotes a diverse range of affordable housing options including social housing, housing within the private rental market and affordable home ownership. Shelter WA also provides community education, and advice to government on housing policy issues. Our development of policy recommendations is based on sound research and consultation with housing consumers and organisations working on housing and related issues.

Response to Draft Report

Shelter WA welcomes the opportunity to provide a submission to the Economic Regulatory Authority's (ERA) draft report on the Inquiry into Microeconomic Reform. Shelter WA believes there are various ways in which the State Government can improve efficiency, performance and productivity of the State's economy, as detailed in our prior submission to the Inquiry.

However, Shelter WA strongly disagrees with the recommendation in the draft report to abolish Keystart. This would be counterproductive and negatively impact low and moderate income households in WA, without affecting efficiency for the State but in fact having an adverse influence on productivity. The Keystart program *also* achieves key community outcomes which are not fully captured by the ERA's review. The ERA draft report focuses on the cost and risk to government of Keystart, rather than the social outcomes for households (and costs of inaction), which should be a primary concern of governments.

Keystart has been successful in assisting over 85,000 Western Australian singles, couples and families into home ownership.ⁱ Almost 80% of these have transitioned to a mortgage with a private lender. Keystart assistance to these Western Australian individuals and families allowed scarce rental accommodation and social housing to then become available for other families. Transitioning more eligible people from social housing or private rental into home ownership allows scarce government resources to be focused on those with very low incomes rather than on those with the capacity to enter into home ownership.

The ERA draft report cites various concerns about financial risk. Keystart conducts rigorous due diligence, which includes the requirement for full documentation (unlike risky low documentation loans) and maintains strict criteria to ensure its clients are able to service the loan. In fact, unlike other lenders which assess borrowers on a 1% buffer above prevailing interest rates, Keystart assesses borrowers on a 2.5% extra buffer as part of its safety mitigation strategy. Keystart also requires a more rigorous savings justification process than other banks, provides a household budget education program, and works closely with its clients to restore their financial position after unforeseen impacting events, such as unemployment or illness. Due to its ability to manage risk, Keystart has historically had low rates of default. The current rate of accounts in arrears for Keystart loans sits at a low 0.26%. Private financial institutions currently have an arrears rate of 1.17%, which is 4.5 times higher than the Keystart rate. This demonstrates Keystart's ability to manage risk appropriately.

Keystart has *consistently* delivered profits to government. This is significant, as it includes the period during the global financial crisis when Keystart significantly increased operations. Over the last five years, Keystart has delivered over \$314 million in social dividends, making a significant contribution to social housing programs. There is no government subsidy provided to Keystart and unlike programs in other states, Keystart has not required any ongoing financial assistance.

Research from the Australian Housing and Urban Research Institute at Curtin University from February 2014, outlines the benefits of Keystart. Keystart has been able to deliver alternative housing products, including its shared equity scheme, which banks are reluctant to finance. This lending has helped thousands of low to moderate income earners into home ownership, providing a valuable social outcome.ⁱⁱ The research suggests that governments have an important role to play in demonstrating that these models can be effective and lower in risk than they suggest. This research also suggests 'there is a powerful argument for the adoption of similar programs elsewhere'.ⁱⁱⁱ By moving more people into home ownership, Keystart is facilitating movement and greater efficiencies in the housing system.

In 2012-2013 financial year, Keystart helped 4,655 households purchase a home. The ERA draft report suggests that Keystart loans may distort the housing market. Shelter WA does not support this assertion. Keystart loans are a niche, targeted product for eligible households that assist this target group secure mainstream home mortgage loans earlier than they would had they not obtained assistance through Keystart Loans. Keystart makes up only 4% of home lending, which is not enough to distort the market. It is enough, however, to provide targeted assistance to low and moderate income households to move into home ownership.

In regional parts of Western Australia, Keystart plays an important role in facilitating home ownership. Some banks are reluctant to lend in regional areas because there is not the economy of scale and profit available in establishing branches. In this regard, Keystart has been vital in assisting people in regional areas into home ownership.

The ERA draft report remarks there is a lack of transparency surrounding Keystart's activities and profits. Keystart, like all other government-funded entities, should provide information regarding their practices and, in doing so, be transparent and accountable in its processes. Transparency is needed to ensure its lending practices are efficient, productive and performing most effectively.

Conclusion

Home ownership provides stability, safety and security for many people, leading to financial and social well-being. Keystart assists low and moderate income families to transition into homeownership sooner than they would, had they waited to access a home mortgage through a private lender. Abolishing Keystart, as recommended in the ERA draft report, would be short-sighted and misguided, and do nothing to improve efficiency, performance or productivity of the State's economy, nor streamline efficiencies or minimise risk. In fact, the financial and social gains of Keystart would be lost.

Beyond individual clients, Keystart benefits others in the housing system by enabling transition through the housing continuum of those clients it supports, easing pressure on the private rental market, and reducing demand on social housing. This allows scarce resources to be directed at those with the greatest need.

In addition to the foregoing, Keystart generates vital and significant funding which is reinvested into social housing in WA. Keystart generated over \$300 million in social dividends in the past five years for social housing. If Keystart is abolished, those funds would need to be replaced by other government sources.

Keystart should be retained in its current form, with added transparency and accountability mechanisms in place. This would help ensure risks are managed appropriately and Keystart's operations continue to benefit Western Australians.

ⁱ The data included in this submission was obtained from Keystart.

ⁱⁱ Rowley, S., Costello, G., Higgins, D., & Phibbs, P. (2014). *The financing of residential development in Australia*. Perth: Australian Housing and Urban Research Institute at Curtin University.

ⁱⁱⁱ Rowley, S., Costello, G., Higgins, D., & Phibbs, P. (2014). p.67