9 Homeswest

Introduction

Public housing authorities such as Homeswest now serve two main purposes: they manage very large assets, with a view to obtaining commercial returns for the taxpayers who own those assets; and they provide welfare assistance to those deemed unable to provide for their own housing needs. Although in principle the two objectives are distinguishable, the relation between them is inherently confused. In the case of Homeswest, evaluation of how well these objectives are being achieved is made all the more difficult by the recent growth of elaborate forms of cross-subsidisation, particularly from Homeswest's land development arm to its welfare renters. The position is further confused by Homeswest's semi-autonomous status, which has permitted it to operate with very little public accountability. In this discussion it will be impossible to make sense of the whole of this labyrinth. The main points of the argument will be to demonstrate that it *is* a labyrinth, to show that such complexity is contrary to the public's interest in accountability, efficiency and fairness, and to suggest ways in which State housing policy can be simplified and streamlined.

Homeswest is a large operation. It is, as one of its recent publications says, Western Australia's largest land developer, builder and property manager. Its house and land assets are estimated to be around $3 billion.[129] It operates about 35,000 rental properties, or roughly five per cent of Western Australia's housing stock. Its annual expenditure from all sources exceeds $600 million a year. As mentioned in Chapter 3, Homeswest's debt, now standing at $892 million, is a significant constraint over the government's ability to manage its fiscal policies with appropriate flexibility. Although its rental stock has grown only moderately (up from 27,000 in 1980), in

129 Homeswest, *Homeswest Housing in the 1990s*, Perth, n.d., page 1.

recent times its land and loan activities have grown rapidly. In 1980, Homeswest developed only about 200 residential lots for sale or rental; in 1989 it developed an exceptionally high 4,000.[130] In 1989–90, government agencies, of which Homeswest was the largest, developed half of all serviced residential lots in the Perth metropolitan area. In 1991, it had 10,000 subsidised home loans on its books, making it a significant player in the home finance market.[131]

The size and importance of Homeswest is obvious enough; its success or failure is another matter. To judge this, we need both good information about its operation and some agreement about its objectives. Much has been done by its executive in the past five years to improve the management and administration of the organisation. But at a fundamental level its goals and strategy remain unclear.

According to its 1991 *Annual Report*, 'Homeswest operates a series of housing services for people who would otherwise have difficulty gaining access to or remaining in suitable housing. These include lower-income home buyers, disadvantaged groups, people in the private rental market and borrowers who experience financial difficulties'.[132] We can accept (at least for the sake of the argument) that the government has a role in helping people to satisfy their housing needs. The obvious question which follows is: why should the state own and manage a large housing stock in order to achieve this goal? Why not use more direct means to assist people financially, whether to purchase their own housing, or to rent in the private sector?

It would be easier to evaluate Homeswest's performance if we could put aside these basic questions. Why should a government agency determine the housing choices for the poorer members of society? Why should a government agency have control of such a massive asset, to use however its executive—or its minister—chooses? Public enterprises, with unlimited government backing, tend towards inefficiency and are open to political influence, and, sometimes, to corruption. Private choice tends to maximise efficiency, liberty and even fairness. Those who today disagree with those tenets are likely to emphasise the necessity for government action to ensure fairness; but that claim only shows the need for government assistance, not government ownership.

The question of fairness in housing—particularly the eligibility conditions for housing assistance—is a matter which is properly to be

130 *Ibid.*, page 2.
131 Homeswest, *Annual Report 1991*, Perth, page 10.
132 *Ibid.*, page 1.

answered by open and informed political decision. Nevertheless, in practice, eligibility criteria for housing assistance have been vague and loose, and Homeswest has had remarkable discretionary power in the application of these criteria. This too is a reason for questioning its usefulness. But the issue does not stop there.

After 1945, the then State Housing Commission embarked on a large programme of housing expansion, designed to provide cheap but adequate housing for young families. Today, Homeswest housing is more than ever before 'welfare' housing. The transition from 'public' housing for young families to welfare housing for those deemed to be poor began slowly in the late 1960s and accelerated in the 1980s, until today 83 per cent of public renters are welfare recipients. This process has had two direct effects: it has reduced returns to the State, as an increasing proportion of tenants has become eligible for rental rebates; and it has heightened the role of Homeswest as a welfare agency, a branch office of the welfare state. (Much is now being done by Homeswest management—quite justifiably—to try to reduce the 'stigma' which, they say, is associated with this welfare role. But this is only cosmetic; Homeswest rental housing remains mainly welfare housing, however stylish it may be.)

Homeswest as developer

The squeeze on rental returns caused by the gradual shift to the welfare function has had profound secondary effects on the shape and purpose of Homeswest. Reduced rental income has induced a search for new income sources. Through the 1980s, Federal funding under the Commonwealth–State Housing Agreements remained more or less static. A large input of State government funding in the mid-1980s has now dried up to nothing, as the excesses of WA Inc have compelled tighter budgeting. Today, however, Homeswest claims that at least 80 per cent of its expenditure is 'self-funded'.[133] How can a State agency which is not a trading enterprise be self-funding? Homeswest's income is (roughly) one-fifth from rents, one-fifth from Commonwealth grants, one-fifth from land and property sales, one-fifth from home loan repayments, and one-fifth from Keystart loan repayments.[134]

Both rentals and loans are taxpayer-subsidised programmes. The loan subsidy ($7 million in 1990-91, $3 million in 1991–92) is much

133 Homeswest, *Homeswest Housing in the 1990s*, page 1.
134 *Ibid.*, page 3.

smaller than that to rentals ($56 million in 1990–91, $63 million in 1991–92). In reality, as will be shown later, the subsidy to rentals is much larger than this suggests—perhaps twice as large. In practice, then, the loans subsidy is relatively insignificant; it is rentals which matter. Since Commonwealth grants have been insufficient to cover the rising cost of the rental programme, the shortfall has been met by expansion in the land and property sales department—which, as we saw above, has grown dramatically since 1980. In 1990, land purchase and land development made up 12 per cent of Homeswest's capital works expenditure; land and property sales produced 19 per cent of Homeswest's income. Since 1986, sales of land and houses have brought in an average of $32 million per year, most of it from land sales. This money is being used to make up the rental shortfall.

The rationale for this cross-subsidisation is weak at best. To the extent that Homeswest sells its assets at prices higher than would otherwise be the case, the profit is generated at the expense of new home buyers; to the extent that the land is purchased by Homeswest at less than market prices, the profit is at the expense of the taxpayer. It is not obvious that this cross-subsidisation in any way serves the public interest. If it has any purpose, it can only be to disguise the size of the subsidies to welfare rentals. Open and accountable government requires that such transfers be made explicit. Off-budget welfare transfers conducted by semi-autonomous agencies are undemocratic and unfair, procedurally if not substantively. In a democracy, the final say on public spending rests with all citizens, who must be able to know how and for what purposes public moneys are being used.

Homeswest as asset manager

The 1991 *Annual Report* presents a chart which purports to show that Homeswest's return on its rental properties is around 14 per cent before subsidies, and around 8 per cent after subsidies. These figures are an accurate deduction from the data presented in the *Annual Report* ($142 million from 35,000 properties valued at $850 million). This is, however, an obvious undervaluation of Homeswest's rental assets, for it implies that the average value of the properties is $24,000.[135] A more plausible figure is perhaps $60-70,000.[136] On that

135 That this is an undervaluation seems to be admitted at page 42 of the *Report*, where it is noted that 'The State Housing Commission in conjunction with the Department of Land Administration is to be involved in an ongoing

basis, Homeswest's before-subsidy return on rental assets worth about $2,275 million is 6.2 per cent; after subsidies, this is reduced to 3.8 per cent.

These figures are gross returns. After costs are taken into consideration, the position looks much worse. Administration costs alone amount to $40 million, at least two-thirds of which will be spent on the rental programme. Maintenance is around $20 million and rates are around $25 million. These expenditures reduce the gross return of $142 million to a mere $70 million, or a return of 3.1 per cent. Other expenses, such as depreciation and interest on loans from the Commonwealth government, are too complex to be factored in here, but they can be assumed to be significant, eating up much of that $70 million. The true net return is likely to be very small. After the $56 million subsidy to rentals is counted in, the net figure is substantially in the negative.

In effect, then, Homeswest's considerable rental assets are virtually non-productive in an economic sense. This does not, of course, assign a value to the welfare role they perform. It does, however, show that the rationale that some of the rental properties are productive is specious—*all* of the properties and their tenants are being subsidised by the taxpayer, in the sense that the assets are earning less than their market value would permit. This must cast doubt on Homeswest's financial accountability—or perhaps rather the ability of its managers to manage free from political influence. It suggests that we need ways of separating the commercial and the welfare functions, so that both can be made to perform more efficiently, and ways of ensuring that the appropriate commercial and welfare policies operate in a context where political influence is clarified.

The size of the subsidies

The median rent for a three-bedroom house in the private rental market in 1990–91 was $130 per week.[137] For two-bedroom flats it might have been around $85 per week. For a mixture of housing

process to verify its rental asset base'. A reliable valuation would involve input from private-sector valuers.

136 This is conservative. In 1992, Homeswest sold 474 houses to tenants at an average price of $55,000. These are likely to have been the older homes of long-term tenants, and so well below the median value of all Homeswest housing—except to the extent that some older housing stock will be in inner suburban areas where unimproved land values will be relatively high.

137 Homeswest, *Annual Report 1991*, page 13.

stock such as Homeswest's, the median might have been $115 per week. Homeswest's stock is probably somewhat below average market value—its median market rent might be $105. Before subsidies, Homeswest receives $142 million, or $80 per week per property. This suggests that all tenants are receiving a 'hidden' subsidy of $25 per week. Rental rebates are officially stated as $56 million in 1990–91, amounting to an additional subsidy to 27,000 rebated tenants of $40 per tenant per week.

If we go further and ask what return might be earned on an asset worth (at a very rough guess) $2,275 million, then a larger figure is suggested. At present that asset appears to be earning little or nothing. In effect, then, all of the asset's earnings potential is being sacrificed to serve a welfare function. On that way of reckoning the matter, many Homeswest renters will be receiving a subsidy worth perhaps $100 per week.

Housing support as welfare

Homeswest's programmes are designed, as we have seen, 'for people who would otherwise have difficulty gaining access to or remaining in suitable housing'. Who are these people? The question opens up some well-known difficulties. One answer might be, most families with young children—a very broad cross-section of the population. Another answer might be, only those who are chronically destitute—a very small percentage of the population. Between these two extremes a variety of positions is possible. At present, almost all of Homeswest's tenants are welfare beneficiaries or pensioners. In effect, then, present policy is to tie housing eligibility to welfare recipiency. What is the rationale for this policy?

Homeswest does not report its finances with much clarity. It is even less open about its tenant population. The 1991 *Annual Report* shows that of the 7,705 new rentals allocated, 74 per cent went to 'families', 16 per cent to 'seniors', and 10 per cent to 'singles'. No information is given about the composition of the overall current population. No such information has been made public since the 1987 *Annual Report*. That report showed that of the then 21,342 rebated tenants, 37 per cent were sole parents and widows, 30 per cent were age pensioners, 14 per cent sickness and invalid beneficiaries, and 14 per cent unemployed. At that time, 66 per cent of all tenancies were rebated; since then that figure has risen to 83 per cent. Between 1975 and 1986, the proportion of elderly tenants doubled and the proportion of sole parents and widows almost tripled.[138] Much of the remainder is likely then to have been young couples with children. Today, however, very little Homeswest rental housing goes to two-parent families with children (unless—improbably—much of the 17 per cent non-rebated population falls into this category).

What one thinks about this trend depends upon some complex calculations. The conventional view, which has dominated both welfare discussion and policy since the mid-1970s, is that the elderly and sole parents are particularly disadvantaged sections of our society. This consensus is quite mistaken. In general, there is no difference between the economic status of sole-parent families and two-parent families, despite the radical difference in their incomes and their dependency upon welfare. In general, also, the elderly are very much better off than families with children (whether sole-parent or two-parent), despite the much higher incomes of families. The full proof of these claims is complex and will have to be presented elsewhere, but it is possible here to refute a conventional defence of present policy criteria.

The current National Housing Strategy, in a paper entitled *The Affordability of Australian Housing*, has laid down a 'benchmark' for public housing assistance.[139] It has termed this eligibility criterion 'financial housing stress', and defined it as covering all income units in the lowest 40 per cent of the income distribution range which are spending more than 30 per cent of their income on housing. (It also regards long-term, low-income renters who spend more than 25 per cent of income on housing as likely to be suffering 'housing stress'; but the 30 per cent criterion is the primary definition.)

This criterion is faulty in at least four ways:

(1) 'Income' here is gross or pre-tax income. But obviously a household's real standard of living is a function not of income it never receives, but of its disposable income. Most households will have a disposable income about 25 per cent less than gross income.

(2) Similarly, real living standards are a function not just of income but also of household size. A household of one adult and one child will have a very different capacity to meet its housing costs than will a household of two adults and four children. We need to use not a simple monetary measure, but an 'equivalent income' measure, which takes into account the number of people in the

138 Homeswest, *Annual Report 1987*, Perth, page 17.

139 The National Housing Strategy, *The Affordability of Australian Housing*, Issues Paper 2, AGPS, 1991, Chapter 3.

household and the economies of scale made possible by shared living. In what follows, we will use the widely-accepted OECD equivalence scales, which count the first adult in a household as 1.0, the second as 0.7, and each child as 0.5.[140]

(3) Non-monetary income also needs to be counted, including the fringe benefits that go with pensions and benefits. Non-monetary government support can be quite substantial, sometimes amounting to about $3,000 a year.

(4) More controversially, leisure should be counted as a form of non-monetary 'income'. In the case of the involuntarily unemployed, spare time is not to be counted as leisure because it is not chosen; in the case of sole parents who could work more than they do, it may be a factor to be counted.

Even if we put aside (4) as too contentious, counting in (1) and (2) makes a radical difference to the incidence and prevalence of what the National Housing Strategy calls 'housing stress'.

The NHS paper goes on to present a set of income statistics designed to determine which sections of Australian society are most in need of housing assistance. Comparisons are presented between the housing expenditures of various standard types of low-income household unit. These are taken to show that couples with dependent children and sole parents have a far higher proportion of income unit types facing 'housing stress' than any other type of income unit.

The NHS figures suggest that there is little overall difference between the stress levels of these two groups—sole parents come out as slightly more 'stressed' than couples with dependants. But the comparison makes no sense, because the criterion is absurd. Sole parents, on average, pay very little income tax, whereas the couples will, on average, pay at least twenty per cent of gross income. And the sole-parent income unit will be on average one adult and half a child smaller than the couple family.

When the effect of taxation is included in the equivalence calculations implied by the OECD scale, it will be seen that the gross income needs of the two-parent unit will be very substantially higher than those of the sole-parent unit. The net effect of these two considerations will be that the 'housing stress' of the sole-parent group will fall away to less than half the proportion represented in the NHS paper, while that of the couples with dependants might rise by fifty per cent.

140 Organisation for Economic Co-operation and Development, *The OECD List of Social Indicators*, Paris, 1982, page 37.

If we now include the third point (above), the value of the fringe benefits which go with pensions and benefits, the comparison is even further tipped in favour of sole parents and against couples with children. Without access to all the relevant data, no exact measurement of these changes is possible here, but it is obvious that the NHS figures bear only a very rough relation to real housing needs.

Similar points need to be made about the other conclusions drawn from income unit data by the NHS. The paper claims that private renters, recipients of social security payments and—surprisingly—single-person income units contain the highest proportion of all units facing housing stress (relative to their proportion of the overall population).

For instance, we are told that '...single income units comprise one-third of all income units, but 53 per cent of those in housing stress' (defined by the 30 per cent benchmark).[141] These single income units turn out to be mainly older women, and women aged between 35 and 64 renting privately. But, again, such older women have lesser needs than other income unit types. Most over-60s pay no tax, and they have no dependants to support; taking those considerations into account would give us a very different picture. Only by the very artificial criterion of the NHS could this group be counted as 'stressed'. The younger (under-60) single women are equally unlikely to be stressed.

Pre-tax income figures are therefore very unreliable guides to housing 'needs'. Yet it is just such income figures which Homeswest uses to allocate its housing assistance. In 1992, income eligibility limits (for metropolitan and rural applicants) were as follows:

Size of household	Single income	Double income
One person	$335	—
Two persons	$441	$507
Three persons	$528	$607
Four persons	$571	$657

(Additional persons: Add $43 per child)

These figures heavily favour small households and disadvantage large households. They thus favour singles, most sole parents and the elderly, and disadvantage couples with two or more children. Because they are based on pre-tax income and do not count non-monetary welfare benefits, they are even further biased against

141 NHS, *op. cit.*, page 28.

working families (whether couples or sole-parent families) and favour pensioners and beneficiaries. Specifically,

(1) A sole parent with one child is eligible on an income of less than $441 per week, whereas a single-income 'standard family' of two adults with two children is eligible up to $571 per week. The OECD equivalence scales would count the sole-parent family as 1.5 (1.0 for the parent and 0.5 for one child) and the two-parent family as 2.7 (1.0 for the first adult, 0.7 for the second adult, and 1.0 for two children). This gives a ratio of 1 to 1.8 for this comparison. The Homeswest eligibility ratio is 1 to 1.3 (441:571) which favours the first family over the second.

(2) Elderly pensioner couples are given similarly favourable treatment in comparison with the 'standard family' (1 to 1.3); though the OECD scale rates them as 1.7 as against 2.7, or a ratio of 1 to 1.6.

(3) The OECD ratio for young singles and single age-pensioners to a family of four should be 1 to 2.7. The Homeswest eligibility criterion is $335 compared with $571, or a ratio of 1 to 1.7, which heavily favours single people.

These disparities are magnified considerably when we take taxation into account. A family of four with a disposable (or post-tax) income of $528 per week would have an earned (or pre-tax) income of about $33,000 per annum. This would make many working families with children eligible for Homeswest rentals. Their present ineligibility is a form of unjustified discrimination against these working families, and in favour of pensioners and welfare recipients.

If the eligibility limits are a guide to its allocation practices, then Homeswest is quite inequitable in the allocation of its rental resources. The published evidence supports this suspicion. In the period 1988 to 1991, singles were allocated 310 rentals, seniors 1,668, and families 2,099.[142] Sixteen per cent of the waiting list for seniors have obtained Homeswest accommodation, as against only seven per cent of families and less than four per cent of singles. It is quite likely that much of the 'families' category would be sole parent families, though no figures are published on this subject.

Two-parent families with children are likely to be getting very little Homeswest assistance, even though their needs are as great as, or greater than, the needs of those who are supported. If sole parents occupy one quarter of Homeswest's housing (a reasonable guess

142 Homeswest, *Annual Report 1991*, page 22.