

BRIEFING NOTE: WA STATE BUDGET 2016/17, HOUSING AND HOMELESSNESS

Friday, 13 May 2016

Introduction

The WA [State budget](#) was handed down in parliament yesterday by Treasurer, Mike Nahan.

This year's budget is set against a backdrop of falling State revenue, a budget deficit and increased State debt. The State Government is forecasting, higher unemployment, lower population growth, higher debt and less private investment. Notably, the State Government has announced significant asset sales in order to garner revenue and shore up the deficit. This includes significant land sales which will be discussed in more detail later in this paper. See table 1 below for more detail on the economic outlook. This briefing note will detail the main features of yesterday's budget in relation to housing and homelessness.

Table 1: Economic Forecast, WA.

Table 1

ECONOMIC FORECASTS
Western Australia, Annual Growth (%)

	2014-15 Actual	2015-16 Estimated Actual	2016-17 Budget Estimate	2017-18 Forward Estimate	2018-19 Forward Estimate	2019-20 Forward Estimate
Demand and Output ^(a)						
Household Consumption	1.3	1.75	1.75	2.5	3.0	3.0
Dwelling Investment	3.9	3.75	-8.75	1.5	3.25	3.25
Business Investment	-12.7	-17.5	-19.0	-9.5	-6.0	4.25
Government Consumption	2.4	2.5	3.25	1.75	3.0	3.0
Government Investment	-12.8	-8.0	10.75	7.0	-7.75	-3.25
State Final Demand	-3.6	-4.25	-3.75	-0.25	1.0	3.25
Merchandise Exports	8.6	5.5	5.5	4.5	3.5	2.5
Merchandise Imports	0.5	-6.75	-6.25	-2.0	-0.25	2.0
Net Exports ^(b)	13.2	11.5	10.0	6.75	4.75	3.0
Gross State Product ^(c)	3.5	1.0	1.25	2.5	2.5	3.0
Labour market						
Employment	1.5	0.25	0.25	0.75	1.5	2.0
Unemployment Rate ^(d)	5.4	6.25	6.75	6.5	6.25	5.75
Participation Rate ^(d)	68.6	68.2	68.0	67.5	67.3	67.1
Population						
Population	1.4	1.2	1.3	1.5	1.7	1.9
Working Age Population (15-64)	0.9	0.7	0.6	0.8	1.0	1.3
Prices						
Consumer Price Index	1.8	1.25	1.75	2.25	2.5	2.5
Wage Price Index	2.2	1.75	1.75	2.25	2.75	3.25
SFD Deflator	1.8	1.7	1.8	2.2	2.5	2.5
GSP Deflator	-10.0	-7.3	-1.3	3.0	3.4	3.5
Median House Price	1.8	-3.5	-0.5	1.3	2.7	1.0
Other key parameters ^(d)						
Exchange Rate \$US/\$A (cents)	83.6	73.3	75.7	74.7	73.8	73.0
Iron Ore Price (\$US/t) cost and freight inclusive (CFR)	71.1	50.9	47.7	49.2	51.6	54.0
Crude Oil Price (\$US/barrel)	73.5	41.1	44.4	47.1	49.1	50.9

(a) Based on 2014-15 annual State Accounts data, updated with the latest State Final Demand data for the December quarter 2015.

(b) Net exports refer to international trade in both goods and services.

(c) Forecasts for ownership transfer costs, international trade in services and the balancing item are not separately reported.

(d) Data expressed as annual average during the financial year.

Major Items

Social Housing Investment Package (SHIP)

CHIA was broadly welcoming of SHIP when it was announced in the 2015/16 budget.

According to the budget papers, *“The Package is on target to deliver an additional 1,000 social housing dwellings and halve the number of seniors and families with children who are on the priority waitlist for social housing by 30 June 2017.”*

Notably, that there has been a significant change in the proposed expenditure figures from last year’s budget to this year’s budget.

Last year’s budget stated that: *“...\$23.9 million to commence the implementation of the Social Housing Investment Package. This \$560 million initiative (that includes \$307.9 million capital expenditure) will see 1,000 additional social housing dwellings built, purchased or leased over 2015-16 and 2016-17, halving the number of seniors and families with children on the priority waitlist by 30 June 2017...”*¹

This year’s budget states that: *“...\$298.1 million to continue the implementation of the Social Housing Investment Package. This \$564 million initiative (that includes \$405.2 million capital expenditure) will deliver 1,000 additional social housing dwellings and halve the number of seniors and families with children who are on the priority waitlist for social housing by 30 June 2017...”*²

In other words, the total budget for SHIP has increased by \$4 million dollars and the proposed capital expenditure spend (newly built dwellings) has increased by \$97.3 million. Despite the increased budget and capital expenditure spend; however, the headline target of 1,000 additional social housing dwellings has not changed according to the budget papers. It is not clear to CHIA why the increased spend on the package is not translating to a corresponding increase in dwelling output.

Additionally, according to the budget papers, \$69.1 million was invested in SHIP in 2015/16. Forward estimates show that this will rise to the sum of \$404 million by FY 2018-19. CHIA will seek clarification regarding where the remaining \$200 million of the total projected \$564 million spend sits in terms of spending projections.

Finally, it should be noted that the projected spend of \$298 million in 2016/17 is, according to forwarded estimates, the largest annual investment in the package during its lifetime. This makes sense given the Housing Authorities’ goals in relation to waitlist reduction by June 2017.

¹ [Budget paper Vol 2](#), p 852

² [Budget Papers Vol 2](#), p 790

Continued Harmonisation/Increase in Public Housing Rents

The Housing Authority will continue in the coming year to adjust its rent setting practices so that all tenants pay at least 25% of their income in rent. As it stands, all new tenants need pay rent at 25%. According to budget papers, *“The rent for existing tenants will be adjusted incrementally, limited to a maximum rent increase of \$6 per week per household in 2016-17, as a result of this change. This will result in additional revenue and expenditure of \$13 million over the forward estimates from 2016-17 to 2019-20 that will be reinvested in social housing programs and follows on from the \$12 rental increase implemented as part of the 2015-16 Budget.”*³

CHIA will seek clarification from the Housing Authority as to what effect, if any, these changes will have on community housing providers. At present, a grey area has emerged given that new rent setting policy for community housing providers is being developed but, according to existing policy, unregistered CHPs are obliged to follow public housing rent setting policy.

Public Housing Cost Projections

This year’s budget papers reveal that the State Government is forecasting very significant falls in the costs associated with operating its rental housing portfolio (the public housing system).

The estimated actual spend for the financial year 2015/16 is \$974.9 million. This is projected to fall to \$644.3 million by financial year 2019/20 (See Table 2). If achieved, this would represent a 33% drop in expenditure. It is not clear to CHIA from the budget papers, how these expenditure reductions are to be achieved. The income statement suggests that it will not be from a sell down or divestment of public housing stock as revenue from ‘rental income’ is projected to increase to 2019/20.

Table 2: Falling expenditure on rental housing

Service Summary

Expense	2014-15	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual \$'000	Budget \$'000	Estimated Actual \$'000	Budget Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000
1. Rental Housing	763,241	880,854	974,914	838,817	747,503	653,987	644,296
2. Home Loans	130,396	163,797	123,619	124,448	137,412	163,509	182,107
3. Land and Housing Supply	339,662	578,367	465,695	487,786	504,895	491,656	447,996
4. Government Regional Officers' Housing	182,195	183,787	177,708	184,161	186,366	186,352	180,134
Total Cost of Services	1,415,494	1,806,805	1,741,936	1,635,212	1,576,176	1,495,504	1,454,533

No new Community Housing investment

As anticipated, no new initiatives were announced in this budget in relation to investment in community housing in respect of capital investment or transfer of housing assets to community

³ Ibid, p784



housing providers. In fact, the budget states that there will be a “\$132.8 million decrease in transfers of housing assets to the community housing sector in 2016-17 due to the bulk of the asset transfers planned to occur in 2015-16...”⁴

However, the sector does get a mention in respect of the Housing Authorities land development activities in conjunction with private property developers. The Budget states that this year will see “the development of 1,901 housing lots including 1,452 lots developed with Joint Venture partners. Significant land development will support affordable, public and community housing throughout metropolitan and regional areas.”⁵

CHIA will look to clarify with the Housing Authority how, specifically, this development activity will support community housing throughout the metropolitan area.

Major Asset sales still forecast

The Housing Authorities investment program is being largely funded by the sale of land, housing and other assets. According to questions tabled in parliament in October last year, the Housing Authority will divest 11% of its total assets by 2019-20.⁶

Table 3: Housing Authority asset divestment

Total Cost of Asset Investment Program	1,942,595	427,187	427,187	601,889	332,946	343,699	236,874
FUNDED BY							
Asset Sales.....			445,509	444,380	391,983	458,332	379,759
Borrowings.....			-	125,000	-	-	-
Internal Funds and Balances.....			(82,554)	(48,106)	(118,007)	(144,703)	(147,603)
Other.....			23,092	24,403	6,417	4,746	4,718
Drawdowns from Royalties for Regions Fund ^(a)			41,140	56,212	52,553	25,324	-
Total Funding			427,187	601,889	332,946	343,699	236,874

According to the budget papers, the Department’s land development activity is key to its initiatives in the creation of home ownership opportunities for people on low incomes.

⁴ Ibid, p792

⁵ Ibid, p 790

⁶ <http://www.parliament.wa.gov.au/parliament/pquest.nsf/Parliament/pquest.nsf/SrchQON/74DE0D24DF8CB-D3F48257EE4001FE6EB?opendocument>

Homelessness

There were no major new announcements in respect of homelessness funding or policy in the 2016/17 budget. Members will be aware that the National Partnership agreement on Homelessness was extended in 2015 until June 2017. The budget papers, it would appear, have factored in the loss of the Commonwealth monies arising from NPAH in its forward projections.

Table 3: Homeless Services expenditure

Service Summary

Expense	2014-15	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual \$'000	Budget \$'000	Estimated Actual \$'000	Budget Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000
1. Homelessness Services	49,167	54,170	53,105	51,984	33,010	33,293	33,819
2. Responsible Parenting Services	25,587	27,699	27,694	22,079	18,982	15,884	15,857
3. At Risk Youth Services	12,466	12,989	12,654	13,063	13,063	13,047	13,060
4. Family Support Services	35,463	38,351	37,313	37,950	30,672	30,394	30,191
5. Family and Domestic Violence Services ...	35,967	39,239	42,081	41,484	40,012	39,120	39,450
6. Working with Children Checks	12,545	13,130	13,426	13,854	13,942	14,029	14,109
7. Child Protection Assessments and Investigations	78,737	79,844	78,422	77,388	79,698	82,305	86,235
8. Child Centred Family Support Services.....	37,515	37,478	36,143	35,894	37,110	38,437	40,402
9. Care Arrangements for Children in the CEO's Care	242,004	250,412	242,167	257,164	268,693	280,906	301,308
10. Support Services for Children in the CEO's Care	80,416	82,728	87,847	89,313	91,229	93,352	91,907
Total Cost of Services	609,867	636,040	630,852	640,173	626,411	640,767	666,338

Conclusion

Although not unexpected, it remains disappointing that this year's budget does not contain plans for further investment in the community housing sector; particularly through further stock transfer.

It has also become clear that the Housing Authorities' development activities and land sales program have emerged as key initiatives for the State Government in terms of both economic stimulus and fiscal consolidation.

CHIA is hopeful that SHIP and the Department's other investment programs will provide opportunities for the community housing sector in the coming financial year.

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