

Supplementary Submission to the Select Committee Inquiry into Privatisation of Public Services in South Australia

Introduction

SACOSS' primary submission proposed a new approach to looking at the impact of the privatisation of public services on inequality of income and wealth. Beyond the generic theoretical and methodological approaches outlined, that submission looked at the privatisation of the energy network as a key case study.

As the Committee is now taking evidence on the privatisation of housing services, SACOSS is providing this supplementary submission as a contribution to thinking about privatisation and public housing. Again though, we are only dealing with the impact on income and wealth inequality and we accept that inequality is not the only relevant consideration – although it is important and often overlooked.

SACOSS' original submission put three propositions on inequality

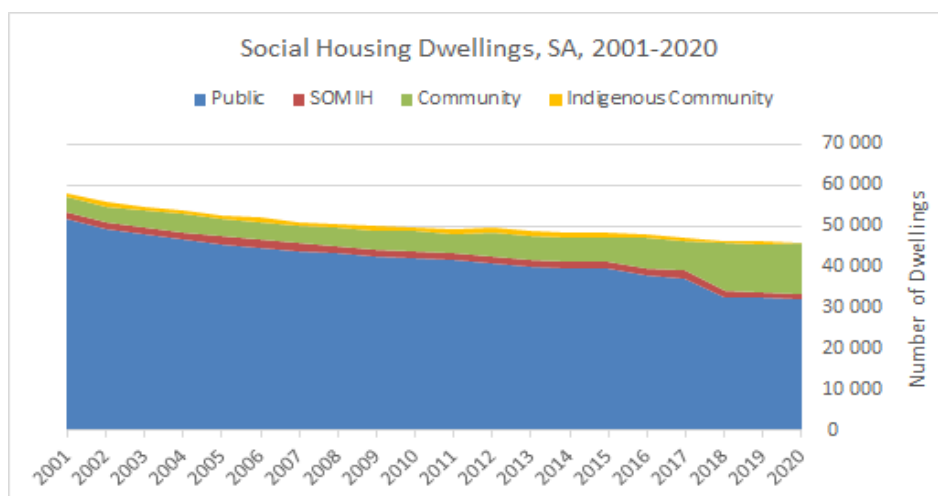
- That if, or to the extent that outsourcing of government services is based on cost savings due to lower labour costs outside of government, then that privatisation will increase income inequality;
- That, where privatisation results in returns to capital for the private investor higher than the growth rate of the economy, then inequality will increase; and
- Where consumer expenditure patterns for a commodity are more regressive than the incidence of state taxes, then (if there is no decrease in prices) a privatisation of service provision will result in a more unequal outcome than direct government investment and service provision.

We argued that these are all empirical questions and the outcomes will be different depending on what has been or is proposed to be privatized. Accordingly, this submission considers these propositions in relation to housing.

SACOSS' main submission also distinguished between outsourcing and full privatisation. Both apply to public housing:

- Outsourcing to community housing providers (where SAHA retains ownership)
- Privatisation
 - where title is transferred to community housing provider or third parties
 - where government housing is sold off (even to tenants)
 - where government land is sold off (or given away) for new housing developments.

As the graph below shows, over the last 20 years there has been both a transfer of public housing to the community sector and a reduction (selling off) of public housing overall.



The following sections consider these processes in relation to the three SACOSS propositions around privatisation.

Outsourcing public housing to community housing providers

As identified in SACOSS' main submission, the key question is the rationale for outsourcing. There may be several good reasons for outsourcing, including old-style co-operatives being closer to or empowering people, or community housing providers may deliver other efficiencies and wrap-around servicing, but there is also a significant driver around securing Commonwealth Rent Assistance (CRA).

CRA is not payable to tenants in public housing, but it is payable to tenants in private and community housing. It is paid at 75c for every dollar of rent over a minimum threshold and up to a set maximum value. As at 1 July 2021, the minimum threshold for a single person was \$62.90 rent per week, with a maximum payment of \$70.40 when rent reaches \$156.76 per week. By outsourcing public housing management to community housing providers, tenants' incomes go up by the amount of CRA paid. However, the rental arrangements for community housing providers are such that tenants continue to pay rent of 25% of their pre-CRA income, plus the entirety of the CRA. This is a net zero change for tenants, but as the table below shows, the housing providers garner significant increases in rent.

	Single Pensioner \$pw	Single JobSeeker (no child) \$pw	Single JobSeeker with 2 children \$pw
Centrelink income in public housing	476.55	314.80	615.93
Rent (25%)	119.14	78.70	153.98
CRA at 25% rent level	42.18	11.85	53.59
Rent in community housing	161.32	90.55	207.57
Percent increase in income for provider	35%	15%	35%

Note: income figures include Energy Supplement, and Age Pension Supplement.

It is not clear where this increase in rent funding ends up. Community housing providers pay a yearly sum to the government to enable their use of public assets so some of the money received presumably contributes to that payment, while the community housing providers are also responsible for property maintenance and may make significant investments to cover those costs. However, in terms of the impact on income or wealth inequality, the outsourcing to community housing providers makes no difference – so the argument about whether such outsourcing is advisable will rest on other issues.

Selling Public Housing and Land

Returns to Capital

The second SACOSS proposition around privatisation (Piketty's argument that inequality increases where the return on capital is greater than the economic growth rate: " $r > g$ ") can be applied to selling public land or housing to private landlords.

The easiest way to calculate return on capital is the gross rental yield, which is simply the rental return as a percent of the current market value of a property. [CoreLogic's 2020 report](#) suggests the gross rental yield in Adelaide in June 2020 was 4.2% for houses and 5.2% for units, with the average of 4.4% changing little over the preceding decade. This is above recent economic growth rates.

However, this does not account for, on one hand, landlord costs which should be deducted rental income return, and on the other hand, tax advantages and the method of financing. The method of financing is important because in the Piketty sense the rate of return on capital also includes the return to the bank/financier. That is, the interest on an investment loan is a cost to a landlord (which should be deducted from their return on investment), but is still a return on the capital tied to the property – the return just goes to the bank rather than the landlord. The Commonwealth Bank is [currently quoting](#) investment home loan rates (comparison rates) at between 2.7% and 4.27% interest, that is, it is getting a return above recent economic growth rates. Even after tax on that return, it is still likely to be above current economic growth rates.

There is a caveat though in that in the gross rental yield calculation, an increase in the value of the property (without any rent increase) decreases the yield (return to capital), whereas in fact it is a capital gain which is an income to the owner and an increase in their wealth.

Clearly a more complex metric is required to calculate " r " in the Piketty sense, but the broader point is that, whatever the metric, at the highest level of abstraction:

- if we accept that the rate of return on real estate rentals is higher than the economic growth rate, and
 - if those buying such properties are predominantly in the middle or higher income and wealth quintiles,
- then selling public housing to private landlords will increase inequality in the long term because returns to capital outstrip other incomes and are mostly obtained by those with greater wealth.

Again, this $r > g$ argument applies in relation to landlords, but public housing may also be sold to owner-occupiers, in which case different considerations apply as below.

Regressive Consumption

The third situation examined in the main SACOSS submission refers to particular situations when the user/customer base is essentially the same people as the tax base – in which case if it is a regressive expenditure pattern then privatisation would increase inequality.

This does not apply to housing because the cost of public provision is borne by all taxpayers, but the cost of private provision is borne only by the renters or owners immediately affected. Costs are not borne or passed on to all housing users (or not in the same way as they are in an energy market).

However, we can still ask similar questions about where the costs and benefits of public and private housing accumulate. This can be done with reference to the recently announced Seaton housing redevelopment. In doing this, we make no overall conclusion about the redevelopment. The aim is simply to explore the questions of impacts on income and wealth inequality.

[According to the government](#), the Seaton redevelopment replaces 35 aging public housing residences with:

- 43 affordable homes
- 16 social housing residences
- 42 house and land market sales, and;
- A new 2600sqm landscaped reserve.

While there is a net gain of 66 residences from this development (more if the previous public housing was uninhabitable), this still represents a privatisation of public assets – both because a significant proportion of public land will be put into the new private residences, and because there is a net loss of 19 social housing residences.¹ This stands in stark contrast to the recent [UnitingSA project in Kurralta Park](#) which transformed a single property into nine modern rentals for low-income households.

This net loss of public housing in Seaton (and across the board) is important because social housing subsidises rent at below market levels, and thus there is effectively an imputed income (rent payments forgone) to those in social housing. According to RoGS data, 99% of public housing and 95% of community housing tenants are in the lowest two income quintiles (*Productivity Commission, Table 18.A21*), so in terms of income inequality, the loss of residences from the social housing estate represents a loss of income from the bottom income quintiles. This transfer of income is paid for from the state tax base which, as noted in the main SACOSS submission, is relatively evenly spread across income quintiles so that

¹ In highlighting the net loss of social housing in the Seaton development, SACOSS understands that Seaton may be considered part of a broader four site project (including Blair Athol, Felixstow, and Woodville Gardens). Combined, these projects will see a net increase of social housing provision, but overall the combined project still creates three times more private housing than public housing.

any such transfer represents a redistribution of income from the general tax base to those in the lowest income quintile, thus increasing equality overall.

The income argument above applies simply because of the net loss of public housing, regardless of what is done with the former public housing land. However, in relation to Seaton (and elsewhere), rather than selling the land for 85 private houses the government could have built the whole estate for social housing – in which case there would have been a greater transfer of income to the lowest income quintiles. There may be good reasons why the government did not do this, but in terms of income equality the loss of public housing and the lack of investment in social housing clearly mean that we do not get the same redistribution of income. Accordingly, we have greater income inequality.

The situation in relation to wealth inequality is more complicated, including because of the privatisation of housing in “affordable” housing schemes.

The [SA government](#) defines affordable housing as being priced at \$367,000 or less, or in certain circumstances up to \$422,050. SACOSS calculates² that, even with significant starter-capital and support, a single person borrowing \$300,000 for such an affordable house and having payments of less than 30% of gross income would require an income of \$48,640 – which would put the person in the 40th household income percentile (i.e. on the threshold of the middle-income bracket). For a couple, the required income level would be at the 21st income percentile (that is, lower down, but still above the bottom income quintile) – meaning that these “affordable houses” are not affordable for the lowest income quintile.

More specifically, a single age pension (with supplements) is approximately \$25,000 per year. Income support (including FTB) for someone on JobSeeker with two children is around \$32,000 per year. Clearly, homes requiring income of around \$48,000 per year are nowhere near affordable for such social security recipients.

Accordingly, the privatisation of public land or houses to create these “affordable homes” generally represents wealth creation in the middle-income quintiles.

This is confirmed by the [eligibility criteria for the government’s HomeSeeker scheme](#) which offers a range of supports for home buyers. The income limit is \$85,000 for a single person, which is above the 70th household income percentile, or \$110,000 for a family with three children, which is at the 37th household income percentile. Given that those on the lowest incomes are precluded from this “affordable” home ownership because they can’t afford it, it is again clear that support for home buyers is primarily directed to middle income households.

Further, where affordable housing is sold at below market prices, or the purchasers are able to avail themselves of first home buyer or other grants to assist with affordability, there will be an immediate transfer of wealth from the public to those particular buyers as they will obtain an asset worth more than they paid for it. This will move those households up the

² Repayments based on Commonwealth Bank repayment calculator at 2.69% interest over 30 years with income scale measured using the [ACOSS/UNSW calculator](#).

wealth spectrum, even while they retain large mortgages, but again, it is wealth creation not accessible to those on the lowest incomes.

Beyond the affordable housing initiatives, the sale price of the 42 Seaton houses that are sold into the general market will presumably (by definition) be higher than the designated affordable houses, with the purchasers being:

- Households on lower or medium incomes who will be put into housing stress because the purchase is above the affordability threshold;
- Owner-occupiers at medium to higher income who can afford market rates; or
- Investors who are likely to be in the higher wealth quintiles and will enjoy a private return on the former public capital.

The first is undesirable, the second represents a transfer of the benefits of a public asset from low income households to those on higher incomes, and the third is that transfer plus the increase wealth inequality noted above as $r > g$.

Whether done at market rates or through affordable housing purchase, the selling off of public housing and land takes housing from those most in need and transfers it to those on higher incomes who can afford to buy it.

A final consideration in relation to the privatisation of housing and equality is that, as noted above, where the transfer of housing is mortgage financed much of the return on that privatised capital goes to the financiers of those mortgages – which in Australia is likely to be the big banks. Again, as detailed in the main SACOSS submission, financial assets are mainly held by the higher wealth quintiles, so regardless of the income/wealth profile of those who are buying the privatised houses, the financing of the housing results in income flows to the higher wealth quintiles.

Summary

While outsourcing of public housing management to community housing providers has no impact on income and wealth inequality, the privatisation of public housing (or public land) is essentially a transfer of wealth from the community as a whole (represented by the government) to households in the middle or upper end of the wealth spectrum. And this transfer is at the expense of actual or potential income flows to households in the lowest income quintiles.