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# I A case study of social housing

## I.1 Introduction

The community housing sector (CHS) in Australia is in a period of transition, driven primarily by changes in government policy. The sector has traditionally been characterised by small not-for-profit organisations (NFPs), catering to a niche market such as those on low incomes and people with disabilities, and managing a small proportion of the overall social housing stock. The sector's core role has also traditionally been in tenancy management.

Australian governments over the last decade have enacted policies to expand the CHS and encourage it to play a larger role in the provision of affordable housing, including developing property funded by private investment or debt. The reasons for this are:

- to introduce competition to public housing, which is dominated in each state jurisdiction by one large state or territory housing authority
- to provide greater choice for tenants of social housing
- the ability of community housing organisations (CHOs) to provide other services to tenants, given their greater links with the local community
- the ability to integrate public and private housing for a better social mix
- to mobilise resources from the private sector.

This case study explores these reasons for governments' policies to expand the CHS, the associated funding and regulatory developments, and the challenges and problems the CHS may face as it transitions towards a larger role in the provision of affordable housing.

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## I.2 Background

### What is community housing?

Community housing can be defined as rental housing provided for low to moderate income or special-needs households, managed by community-based organisations whose operations have been at least partly subsidised by government (Robyn Kennedy and Co. Pty. Ltd 2001a).<sup>1</sup> The functions that CHOs generally undertake include tenancy management, management of existing publicly (state government) owned housing stock, development of the stock of community housing with public financial support and development and/or management of privately owned housing that receives financial support from government (box I.1).

Community housing, together with public housing, make up the social housing sector in Australia.<sup>2</sup> Community housing is managed by NFP community organisations, but may be owned by state or territory governments, CHOs, private owners (under head-leasing arrangements),<sup>3</sup> or by partnerships comprising governments, NFPs and private enterprises (box I.2). Conversely, public housing is owned and managed by government-run state and territory housing authorities (SHAs). Social housing comprises around 385 250 dwellings, or 5.1 per cent of the total housing stock in Australia (NHSC 2009). Community housing accounts for 8 per cent of social housing in Australia, or about 0.5 per cent of the total national housing stock (AIHW 2008a).

Historically, community housing models have been differentiated from public housing by their focus on what is generally referred to as ‘community development’ goals, which may include:

- tenant involvement in management
- a commitment to fostering community development through housing services
- flexible housing services that are responsive to diverse needs
- linking housing and other services to tenants, such as services for people with a disability

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<sup>1</sup> This definition excludes crisis accommodation, although some CHOs may be involved with the provision of such accommodation.

<sup>2</sup> Indigenous Community housing and state owned and managed Indigenous housing are part of the broader community and public housing sectors respectively, but are a specialised service and are generally managed separately from general community housing. They will not be specifically addressed in this case study.

<sup>3</sup> Where housing providers lease stock from private owners or SHAs and sub lease it to tenants.

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- harnessing additional non-government resources
  - encouraging innovation in meeting housing needs (Bisset and Milligan 2004; SCRGSP 2009).

### **Box I.1 Functions of Community Housing Organisations**

CHOs have many varied functions, the majority of which are common to both traditional CHOs and growth providers (section I.6):

#### **Functions of all CHOs**

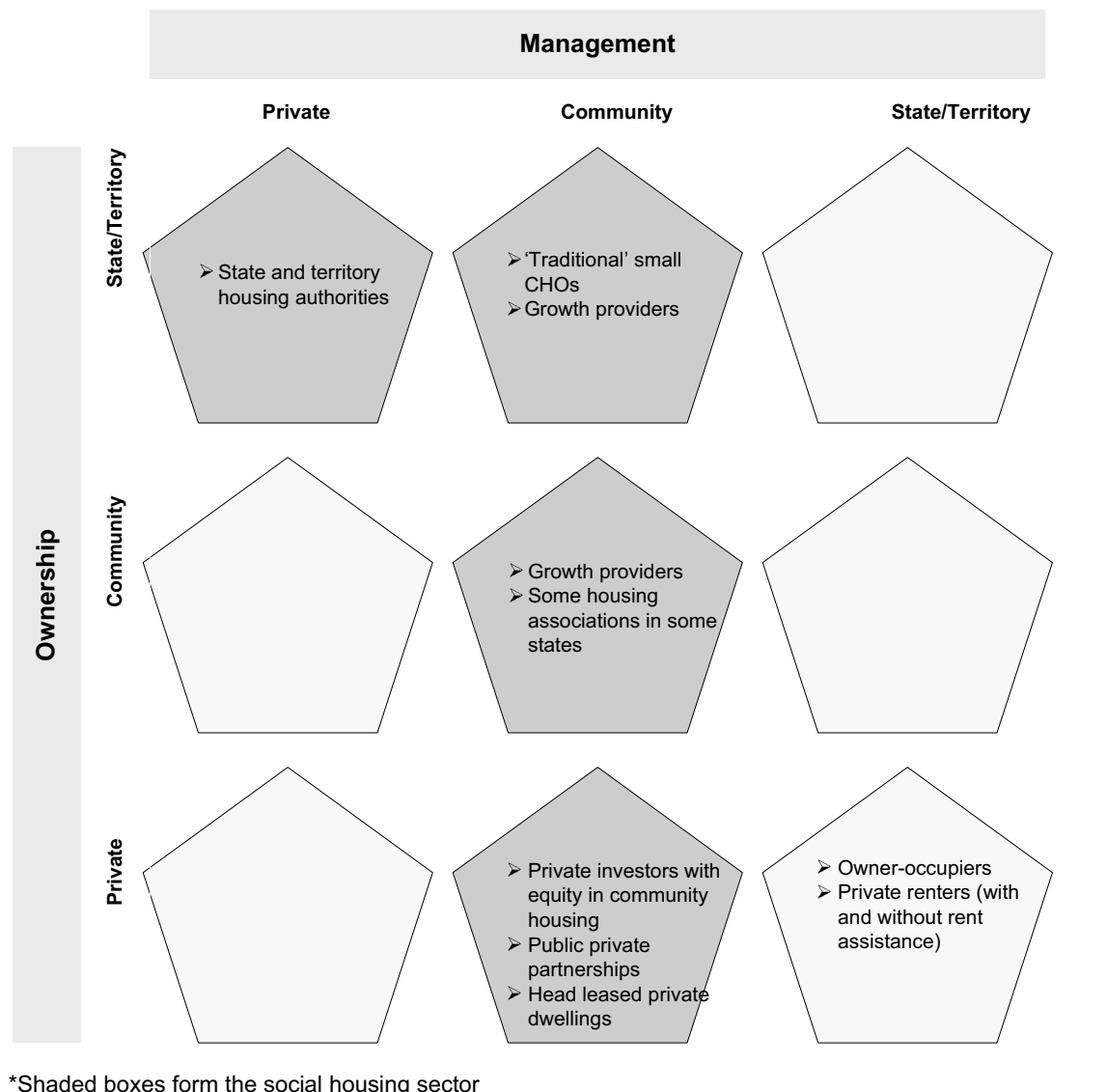
- tenancy management — maintaining waiting lists, making allocations, administering tenancy agreements, responding to enquiries, bond administration, rent setting and collection, ending tenancies, tribunal appearances
- sustaining tenancies — responding to changing needs, brokering support services, advice and assistance, establishing referral and support links and agreements, management of disputes and grievances
- community development — implementing strategies to develop community within properties and the surrounding community, and facilitating the growth of social capital (for example, tenant participation, involvement in community, employment and other program links to local government and other key agencies)
- governance — community ownership, policy setting, organisational planning, needs assessment, business planning and monitoring, risk management for all aspects of the organisation
- service management — organisational administrative systems, information technology, funding applications, compliance, auditing, participating in industry body activities, staff and volunteer training and management, office environment management
- financial management — capital funding arrangements and management, accounting systems, financial reporting and monitoring, budget management, long term financial planning
- asset management — responsive maintenance, cyclical maintenance, asset registers, monitoring of condition, asset management planning, upgrading.

#### **Additional functions of growth CHOs**

- leveraging assets and securing private investment in affordable housing
- property purchase, stock transfers, head leasing and property disposal
- housing development — managing the feasibility testing, town planning, design and construction of affordable housing.

*Sources:* Bisset and Milligan (2004); New South Wales Government (sub. DR315); Robyn Kennedy and Co. Pty. Ltd. (2001a).

**Box I.2 Structure of Australia's housing sector**



**Size and structure of the community housing sector**

Notwithstanding the common objectives of CHOs, the sector is diverse, comprising very small to very large organisations which operate under a wide variety of organisational structures. Community housing programs also vary within and across jurisdictions in their administration and types of accommodation (box I.3).

Despite recent attempts to map the CHS (for example CHFA 2007), comprehensive data on the size and structure of CHOs in Australia is limited. The Australian Institute of Health and Welfare (AIHW) publishes annual data on community housing funded under the Commonwealth–State Housing Agreement (CSHA),

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however, this excludes an estimated 14 000 community dwellings not funded under the scheme.<sup>4</sup> Nonetheless, the AIHW data provide an indication of the overall structure of the sector.

**Box I.3      Models of community housing**

Community housing models vary across jurisdictions in terms of their size, organisational structure and financing arrangements, and the extent to which the NFP has management responsibility and ownership of the housing stock. Some community housing models are:

- *regional or local housing associations*, whereby the associations provide property and tenancy management services
- *joint ventures and housing partnerships*, whereby a range of church, welfare, local government agencies and other organisations provide resources in cooperation with state and territory governments
- *housing cooperatives*, which are responsible for tenant management and maintenance, while government, a central finance company or an individual cooperative owns the housing stock
- *community management and ownership*, whereby community housing associations both own and manage housing
- *local government housing associations*, which provide low cost housing within a particular municipality, are closely involved in policy, planning, funding and/or monitoring roles, and may directly manage the housing stock
- *equity share rental housing*, whereby housing cooperatives wholly own the housing stock and lease it to tenants (who are shareholders in the cooperative and therefore have the rights and responsibilities of cooperative management).

Source: SCRGSP (2009).

In 2006-07, there were 1074 CSHA-funded CHOs, which managed around 35 000 community housing dwellings, or about 8 per cent of the total stock of social housing funded under the CSHA. The data shows that housing portfolios were very small on average (33 dwellings), and close to 94 per cent of organisations managed less than 50 dwellings. Conversely, a very small number of organisations (6 per cent) managed 57 per cent of the total stock of dwellings, with each of these organisations managing 100 or more dwellings. More detailed data are provided in tables I.1 and I.2.

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<sup>4</sup> Estimated in Gilmour and Bourke (2008).

**Table I.1 Community housing organisation, by size, by jurisdiction 2006-07<sup>a, b</sup>**

Per cent

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>National</i>	<i>% of dwell.<sup>c</sup></i>
Organisation size (dwellings)										
200 or more	11.0	1.7	1.4	2.1	5.2	0.0	12.5	0.0	3.8	43.0
100–199	1.0	3.4	2.7	0.5	5.2	2.0	0.0	0.0	2.2	14.0
50–99	2.9	3.9	3.7	5.2	3.5	0.0	0.0	0.0	3.5	8.0
20–49	6.2	20.1	12.2	16.2	27.8	5.8	37.5	0.0	14.3	15.0
Less than 20	79.0	70.9	80.1	75.9	58.3	92.2	50.0	100.0	76.1	20.0
<b>Total number of organisations</b>	<b>210</b>	<b>179</b>	<b>296</b>	<b>191</b>	<b>115</b>	<b>51</b>	<b>8</b>	<b>24</b>	<b>1074</b>	<b>N/A</b>

<sup>a</sup> Only includes social housing dwellings and organisations funded under the CSHA. <sup>b</sup> Percentages may not add up to 100 due to rounding. <sup>c</sup> Percentages based on 2005–06 figures.

Sources: AIHW (2008a, 2008b, 2008c).

**Table I.2 Dwellings in each jurisdiction 2006-07**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>National</i>
Community housing dwellings	14 159	4 673	6 275	4 137	4 405	539	744 <sup>a</sup>	92	35 024 <sup>a</sup>
Average community dwellings per organisation	67	26	21	22	38	11	93	4	33
Public housing dwellings	121 803	64 173	50 101	31 027	43 316	11 669	10 714	5 318	338 121

<sup>a</sup> Commission estimates

Sources: AIHW (2008a,b,c).

These aggregated data obscure considerable jurisdictional differences in housing size and structure. Three factors shape the structure of the community housing sector in particular jurisdictions:

- the preferred scale of operation of different types of providers and their prevalence in different jurisdictions (housing cooperatives tend to be small while housing associations tend to be large)
- the settlement patterns of different states — for example, Queensland and Western Australia have dispersed populations, which has resulted in a larger number of local providers
- government policies that encouraged the growth of larger providers but allowed smaller providers to continue in their existing areas, for example Victoria's earlier adoption of a funding framework for NFP providers compared to other states and territories (Bisset and Milligan 2004).

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The structure of the CHS differs across jurisdictions. The AIHW classifies CHOs into four groups: housing associations; housing cooperatives; other community service organisations; and unknown. In 2006-07, the majority of CHOs in Victoria and South Australia were housing cooperatives (65 per cent and 58 per cent respectively), the majority of CHOs in New South Wales were classified as ‘other community service organisations’, while the majority of CHOs in Queensland, Tasmania and the ACT were housing associations (48 per cent, 59 per cent and 75 per cent respectively) (AIHW 2008b).

Further, the CHS in densely populated jurisdictions such as New South Wales and Victoria were dominated by large providers, whereas sparsely populated jurisdictions contained a large number of small providers. In New South Wales, 8 per cent of organisations managed 75 per cent of dwellings while in Victoria, less than 2 per cent of organisations managed 21 per cent of the housing stock. This contrasts with the Northern Territory and Tasmania, where each provider managed only a small proportion of the housing stock — no providers managed more than 50 dwellings in 2006-07 (AIHW 2008b).

State and territory level data on the location of dwellings tell a similar story. In New South Wales, only 29 dwellings are located in remote areas and two in very remote areas. In Queensland, however, 600 dwellings were located in remote or very remote areas (AIHW 2008b).

While large providers play an important role in urban areas and densely populated states, they play a much smaller role in sparsely populated and low population states. The data indicate a divergence between very large CHOs located primarily in densely populated urban areas and small traditional CHOs.

### **1.3 Evolution of the community housing sector**

Community housing has existed in Australia since the 1800s with church groups and charitable agencies providing accommodation for the homeless, aged and people with disabilities. Following World War II, the CSHA was established and used to initiate a large post war public housing construction program, with the resulting housing stock used to accommodate returned servicemen.

It was not until the 1970s that funding for community housing was provided under the CSHA, and a distinct CHS emerged (Bisset, Dalton and Lawson 1994). The development of the CHS has progressed at different rates and to a varying extent across the jurisdictions. Bisset and Milligan (2004) identify five distinct phases of

community housing evolution in Australia, which are common to all jurisdictions. These are summarised in table I.3.

**Table I.3 Phases of community housing evolution in Australia<sup>a</sup>**

<i>Period</i>	<i>Description</i>	<i>Outcomes</i>
Phase 1: Late 1970s to 1984	State led community housing initiatives	Growth in number of organisations funded by the state governments. Emergence of sector
Phase 2: 1984 to 1991-92	Expansion through nationally funded schemes	Further organisational growth with diversified range of services provided. Outcomes varied state by state. State peak organisations founded
Phase 3: 1992-93 to 1995-96	More funding and emergence of a long term vision for the sector as outlined by the National Housing Strategy	Move towards sector consolidation. 10 per cent of national funding directed towards capacity building. National Community Housing Forum and Community Housing Federation of Australia founded.
Phase 4: 1996-97 to 2002-03	Drive for efficiencies and move towards market based solutions	National service standards and accreditation introduced. Emphasis on professionalising the sector and improved organisational governance and accountability
Phase 5: 2002-03 onwards	Transition towards new and more diversified models	States required to become more active promoters of community housing, often through joint ventures involving the private sector. Tiered regulatory structure

<sup>a</sup> Categories based on Bisset and Milligan (2004).

Source: Gilmour and Bourke (2008).

Until the early 1990s, the sector consisted of small organisations funded by recurrent subsidies, and generally catering to special needs groups. The sector was also extremely small, numbering just a few thousand units and accounting for less than 0.5 per cent of households (Paris 1997).

In the 1990s, the sector experienced rapid expansion, estimated to be 265 per cent over nine years. The groundwork for much of the recent development in the sector was laid during this period. Of particular importance was the National Housing Strategy (NHS) of 1992, which strongly endorsed community housing as a way to provide housing for households with low incomes and special needs, and led to funding for capacity building in the sector. The then Australian Minister for Housing also flagged intentions to expand the sector:

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In last year's budget, I committed the Federal Government to doubling the size of the community housing sector ... by the year 2000. (Howe 1995, p. 64 quoted in Paris 1997)

However, with the change of Federal Government in 1996, the focus of housing policy shifted to demand-side assistance through Commonwealth Rent Assistance (CRA).

The current phase (phase 5) of community housing development in Australia began in 2002-03 and is characterised by a transition to new and more diversified models of housing, such as social enterprises and NFP-private sector joint partnerships. Organisations exhibiting these characteristics are often called 'growth providers'. Beginning with Victoria in 2001, the states and territories instituted a diversity of programs encouraging such innovation. These programs have progressed at different speeds in different jurisdictions. For example, Victoria has implemented major changes to the regulatory structure of the sector, while New South Wales and Queensland have implemented change more gradually.

Evaluations of the CHS since the mid-1990s (for example Milligan et al. 2004; Paris 1997) consistently assessed that, despite the action by the sector and governments to encourage private investment in community housing and increase capacity in the sector, it was unlikely to play a large role in the provision of social housing in Australia without clear policy direction at the national level and a large increase in government funding.

## **1.4 Australian governments' social housing reform agenda**

As of 2008-09 the Australian Government and the council of Australian Governments (COAG) have endorsed the sector as the central tenet of social housing policy moving forward, and have announced a significant increase in funding.

Through 2008 and 2009, the Australian Government indicated its intention to transform the social housing sector. The Government's reform agenda can be summarised as:

- more housing providers, namely community housing developers
- a greater quantity of social housing stock — with a focus on the development of 'mixed' estates, that is, of mixed social and private housing, and the involvement of the private sector
- opportunities and responsibilities for tenants (Plibersek 2009c).

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In May 2009, the Australian Minister for Housing stated:

The centrepiece of the Government's reform agenda is to facilitate the growth of a number of sophisticated not for profit housing organisations ... Over the next five years, I would like to see more large, commercially sophisticated not for profit housing organisations emerge and operate along side the existing state and territory housing departments ... [and] operating in different markets — including across State borders — providing a range of housing products for low and moderate income Australians ... (Plibersek 2009c).

The Government has launched several initiatives to facilitate these goals: a new National Affordable Housing Agreement (NAHA) with the state and territory governments which supersedes the CSHA; a Social Housing Initiative which provides funding to increase the stock of social housing as part of the Nation Building Economic Stimulus Plan; and the National Rental Affordability Scheme (NRAS) which provides tax incentives for the same purpose (box I.4). The Government anticipates that these schemes will bring substantial growth to CHOs, both as tenancy owners and developers in a consortium (Plibersek 2009c).

All recent Australian Government Social Housing Initiatives are aimed at the supply of affordable housing rather than at managing demand. Since the 1980s, demand-side policy has existed in the form of the CRA (discussed further in section I.5). Further, eligibility rules for community housing are determined and managed by the state and territories and vary markedly, with different levels of CHO autonomy with regards to tenant allocation policies (box I.5).

State governments have also implemented policies aimed at expanding the role of the CHS in the provision of affordable housing. New South Wales developed a community housing strategy, which called for an increase in community housing stock from 13 000 to 30 000 dwellings between 2007-08 and 2016-17. This was accompanied by an Affordable Housing Innovation Fund which contained funding of \$49.8 million over three years to 2009-10. The New South Wales Government is also contributing an extra \$1 billion to build 3000 dwellings on top of the funding provided by the Australian Government for the Social Housing Initiative, and has increased stock transfers to enhance CHOs' ability to undertake project development.

In Victoria, since 2004, the state government has contributed \$355 million for housing associations to procure their own supply of housing, and has implemented a policy and regulatory framework for the sector. The Western Australian Government in 2007, similarly allocated \$376 million over four years to the State's CHS; and the South Australian Government and Queensland Government have allocated some \$110 million and \$150 million, respectively, since 2004 (Gilmour and Burke 2007; Milligan et al. 2009; Plibersek 2009b).

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## Box I.4 Affordable housing initiatives by Australian governments

### *National Affordable Housing Agreement*

In 2008, COAG agreed to a National Affordable Housing Agreement (NAHA) for Australia's affordable housing strategies and including funding previously provided through the CSHA. The NAHA includes \$400 million for building new social housing dwellings to provide up to 2100 dwellings by 2010.

### *Australian Government's Social Housing Initiative*

The Social Housing Initiative was announced in February 2009, as part of the Nation Building — Economic Stimulus Plan. Under the initiative, over \$5.6 billion will be provided to state and territory governments which, with the assistance of the (NFP housing sector, will see the construction of up to 19 200 new social housing dwellings for disadvantaged Australians by 2011-12. A further 10 000 dwellings that would have otherwise been lost to the social housing stock over the next two years will receive maintenance and refurbishment, allowing their future use for social housing purposes:

- The commitments and reforms include undertakings to enhance the capacity and opportunities for growth of the NFP community housing sector within a nationally consistent provider and regulatory framework.
- The Australian Government is proposing that a significant proportion of newly constructed housing stock be transferred to social housing providers by July 2014.
- To address the risk for community housing providers associated with their expanded role, providers are being chosen, on a competitive tender basis, from a pool of registered organisations that are able to demonstrate the ability to manage any risks associated with government funding.

### *Australian Government's National Rental Affordability Scheme*

Launched in July 2008, the National Rental Affordability Scheme (NRAS) aims to increase the supply of rental dwellings by 50 000 units by 2012:

- Additional private investment will be encouraged by an annually indexed tax incentive of \$6000 per dwelling per year and \$2000 of either cash or in-kind state financial support for 10 years, where the rent is 20 per cent below market rent and the tenancy is made eligible to low and moderate income earners.
- A further \$1.7 million has been provided for a community housing sector Capacity Building Strategy under NRAS.

### *State and territory government initiatives*

State and territory governments have also set up programs to help build capacity in 'growth' organisations, for example through funding available to assist larger NFPs with business improvement strategies in order to meet registration requirements. They are also supporting public-private partnerships involving community housing providers.

Sources: Plibersek (2008a,b, 2009b); FaHCSIA (2009a).

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## Box 1.5 Eligibility for public and community housing

### Public Housing

Eligibility for public housing is determined by the state and territory housing authorities. In general, tenants must:

- be a citizen or permanent resident of Australia
- live in the relevant state
- meet the relevant income test
- meet the relevant asset (including property) test
- meet a minimum age criteria (at least 16 or 18 years of age).

#### *Income and asset tests*

Income and asset tests are markedly different between jurisdictions. Based on 'general' public housing (that is, not disability housing), the gross weekly income maximum threshold for a single person with no children is \$460 in New South Wales, \$450 in Victoria, \$609 in Queensland, and \$430 to \$760 in Western Australia, depending on the location of the housing.

Asset tests also differ between jurisdictions. The liquid asset threshold amount for a single person with no children is \$5000 in New South Wales, \$30 000 in Victoria, \$74 000 in Queensland, \$36 400 in Western Australia and \$35 000 in Tasmania.

### Community housing

Eligibility for community housing is also regulated by the SHAs in each state. CHOs in each state are allowed varying levels of autonomy. For example, in New South Wales and Victoria, CHOs are free to choose their own tenants, up to a specified quota, provided the tenants meet eligibility requirements approved by the relevant SHA. However, in Queensland, the implementation of the 'One Social Housing Sector' policy means that CHOs and SHAs largely share a waiting list, so CHO choice is limited.

*Sources:* Department of Housing Western Australia (2009); DHS (2009); Housing and Homelessness Services (2009); Housing NSW (2009).

However, the vision for the role of community housing differs between jurisdictions. In Queensland and Tasmania, the role of CHOs has been as a substitute for public housing, in particular servicing high needs groups. In the ACT, community housing or affordable housing complements public housing, catering to moderate income households and key workers who cannot access public housing. In New South Wales and Victoria, community housing contributes to a continuum of housing options for low to moderate income groups (Milligan et al. 2009). Statements by the Australian Government have not clearly addressed community housing's position in the housing sector, in relation to public housing.

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## **I.5 Explanations for the drive for increased community housing sector involvement in social housing**

Social housing policy is concerned with the efficient provision of housing for households unable to access housing of a similar quality at an affordable price. This policy exists within a set of financial, economic, political and cultural contexts. In Australia, there have been significant changes to these contexts over the last 25 years. The current policy emphasis for increased involvement in the social housing sector by CHOs can be traced to the early 1990s, when increased involvement by the sector was first canvassed in the National Housing Strategy (NHS). The reasons provided in that report, combined with increased financial pressures on SHAs, provide an explanation of Australian governments' current drive for increased community housing sector involvement in social housing.

### **A return to supply-side policies**

From the 1980s to 2007, the Australian Government placed greater reliance on the private market to address housing needs, over the public provision of housing. This is reflected in successive government's focus on funding Commonwealth Rent Assistance (CRA). Commonwealth funding for rent assistance increased 9.3 per cent in real terms over the 10 year period to 2007-08, to \$2.3 billion. In contrast, the funding provided under the CSHA by the Commonwealth, state and territory governments declined by 24.1 per cent in real terms over the same period, to \$1.3 billion (McIntosh and Phillips 2001; SCRGSP 2009).

However, the current Australian Government has assessed that there is inadequate production of affordable housing and that the housing market often does not serve the needs of the lowest income households, which also contributes to social exclusion problems. In urban areas, the market allocation mechanism (ability to pay) filters the best located accommodation to high income households and the worst located dwellings to those least able to pay. In Sydney, the majority of low income households are located in the middle and outer suburbs, while high income households are located in the inner city, northern suburbs and eastern suburbs (Milligan et al. 2009; City Futures Research Centre 2008).

The effectiveness of demand-side strategies is also questionable when housing supply is relatively inelastic. Policies such as CRA and the first home buyer's grant can inflate rents and house prices, reducing the ability of those on low incomes to access well located quality housing. Further, CRA is not accessible to those not already in the private rental market and therefore does not assist those who cannot

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access the private rental market, including many on community housing waiting lists (Milligan et al. 2009).

In response to these concerns, the Australian Government has shifted its policy focus to supply-side housing policies, with community housing seen as offering a middle ground between the market and the state (Milligan et al. 2009). The preference for funding community housing above public housing, and other contextual reasons for the return to supply-side policies, are discussed below.

### **Critique of public bureaucracies and the ‘failure’ of public housing**

An explanation for the government’s willingness to resource community housing is the influence of microeconomic reform and a view that CHOs are a source of competition to SHAs, which are monopolistic providers of public housing (Bisset, Dalton and Lawson 1994; Jacobs, Marston and Darcy 2004). In a recent speech, the Australian Minister for Housing stated:

There is still one large provider in each state that plans, owns, develops, manages and allocates social housing ... we are left with the problem that we are often not delivering opportunities for public housing tenants, 90 per cent of stock is held by eight government providers; and our system is not transparent or accountable. (Plibersek 2009c)

Similarly, reflecting on the evolution of public housing over the last 20 years, Atkinson and Jacobs (2008, p. 14) note that ‘... in policy circles, the discernable narrative is that public housing is a failure’.

Darcy (1999) and Bisset, Dalton and Lawson (1994) placed this analysis within a broader political economy movement of anti-bureaucracy, arguing that the concept of ‘community’ was viewed as a type of ‘panacea for the problems of interpersonal bureaucracy’ and that bureaucracies were seen as ‘best suited to the provision of standardised services, incapable of meeting the needs of diverse groups, and insufficiently accountable to them’ (Darcy 1999, pp. 15–16).

### **Declining funding and increased targeting of tenants**

Atkinson and Jacobs (2008) argue that these perceptions of the failings of public housing as monopoly providers and bureaucratically managed organisations lie behind the decline of public investment in public housing over the last 20 years. In 1996 there were 400 000 social housing dwellings, and in 2006, 390 000 dwellings, which was 90 000 short of the 480 000 dwellings needed for social housing to maintain its share of the total dwelling stock (NHSC 2009).

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At the same time, the Australian Government's focus on CRA increased the ability of moderate-income households to enter the private market. As a result, public housing was left to cater for the highest-need and lowest-income groups in society — the profile of public housing tenants has therefore become more disadvantaged.

As public housing must have regard to a tenant's capacity to pay in setting rent, and in many cases sets rent as a proportion of a tenant's income, this demographic shift has reduced the income and increased the costs of SHAs, resulting in structural deficits and creating urgency within government to find a financially viable model of social housing (Bisset and Milligan 2004; Hall and Berry 2004).

### **Declining housing affordability**

The shortage of affordable housing caused by the decline in real public housing funding is exacerbated by the problem of declining housing affordability. Australia is often said to be experiencing a housing affordability 'crisis' caused by an escalation in housing prices from the mid-1990s to the mid-2000s that was more prolonged and cumulatively greater than previous upswings. In 2004, the median house price in Australia was nine times the average per capita income. This compares to six times at the beginning of the upswing, and three times during the bulk of the 1950s to 1980s (PC 2004; Senate Select Committee on Housing Affordability in Australia 2008).

This decline in affordability has been caused by high demand relative to supply. In its 2004 Inquiry into First Home Ownership, the Commission assessed that a number of factors had led to a significant surge in demand. These were: easy availability of credit and low interest rates; high expected gains in property value; changes to capital gains tax; the first home owner's grant; and longer term demographic changes such as rapid immigration growth and the trend to smaller households and single occupancy. Supply of housing conversely, is relatively unresponsive to changes in demand due to long development timelines, and impediments to timely supply such as council planning and regulations (PC 2004).

While many individuals and sectors of the economy have benefitted from rising house prices, they have led to a marked increase in 'housing stress'<sup>5</sup> amongst low income earners and otherwise disadvantaged people. In 2006, there was an overall shortage of affordable private rental housing suitable for low income households of an estimated 251 000 dwellings and in 2008 there were 180 000 households on public housing waiting lists around the country. In 2008, almost 60 per cent of all

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<sup>5</sup> 'Housing stress' is defined as occurring when a household pays more than 30 per cent of its gross income on rent or mortgage plus interest repayments.

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lower income private renters, or 493 000 households, were in housing stress and nearly 80 per cent of private renters wholly reliant on government income support were in housing stress (NHSC 2009; Plibersek 2008b).

### **Drive for increased private investment in social housing**

One approach to reversing the decline of funding available for social housing provision is to leverage private investment. Public (state) organisations have historically been subject to tight public borrowing controls, exercised through the Australian Loan Council.<sup>6</sup> Social housing has therefore been in competition with other infrastructure projects such as roads and hospitals for the pool of debt funding, constraining SHA's access to capital to invest in additional housing stock. An efficiently managed CHS offers a basis for leveraging private investment to drive the growth of social housing (Berry and Hall 2001).

This intention is highlighted by the New South Wales Minister for Housing:

... by transferring the ownership of our properties to the CHS, we give them the ability to borrow funds to build and buy more homes. The fact that they own the homes gives them greater leeway in securing private investment. (Borger 2009, p. 1)

CHOs (as NFPs) also operate in a favourable policy setting compared to government and private housing organisations, which provides them with financial advantages in community housing, over public housing. NFPs have access to tax concessions and CRA for their tenants, are able to claim input tax credits on several aspects of operation such as construction costs and ongoing maintenance, and are able to gain some limited developer contributions and planning gains (chapter 7). The launch of the NRAS provides further tax and financial incentives for private sector investment in the sector (box I.4) (Croce and Zakhovov 2003; Milligan et al. 2004).

Community housing also has a good track record in tenancy management with most long term housing providers writing off less than 2 per cent of their rent each year in bad debts and vacancy costs. In addition, CHOs often have lower rates of rental arrears and better track records at maintenance than SHAs (Bisset 2005; Plibersek 2009c).

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<sup>6</sup> The Australian Loan Council coordinates the financial borrowing arrangements of the Commonwealth, state and territory governments. The Commonwealth has two votes on the council, and the casting vote, therefore exercising the greatest individual degree of power.

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## **International experience**

The push for increased penetration of CHOs and private financiers in social housing is in line with the policy direction taken by many other countries. Large scale reforms to social housing sectors over the last 25 years, similar to that initiated in Australia, have been widespread in the United States and throughout Europe, for example in the Netherlands, France and the United Kingdom (UK). In each of these countries, there has been an increasing reliance on non-government agencies to deliver social housing, accompanied by injections of large amounts of private financing for new social and affordable housing projects. A snapshot of the UK's community housing sector is provided in box I.6.

Noting that the Australian CHS was very different from the UK CHS in terms of the level of government support and organisational capacity, Paris (1997) cautioned against assuming that the Australian CHS would be successful, and that simple transfer of policy is feasible, based on the UK experience. Similarly, Milligan et al. (2009, p. 123) cautioned that 'international approaches cannot simply be cut and pasted into the Australian context'.

## **Benefits for tenants and communities**

In addition to financial benefits, and in contrast to the more standardised provision of public housing, community housing is also seen to have advantages over public housing both for the tenants of community housing, and for the communities in which they reside.

Multiple community housing providers are seen as a way to extend 'consumer choice', increasing the range of housing options available to those on low incomes or with special housing needs. Tenants of community housing have also been shown to have higher satisfaction levels than their public housing counterparts (Bisset 2005). However, evidence suggests that in practice, those who qualify for housing assistance are rarely offered any effective choice. Most join waiting lists for public housing and any community housing for which they qualify, and then accept the first offer (Darcy 1999).

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### Box I.6 Community Housing in the United Kingdom

While both the UK and Australia started from bases where social housing stock was predominantly owned by government, the trajectories of the social housing sectors in the countries have diverged markedly over the last 30 years. Since 1988, CHOs have been promoted as the preferred providers of social housing in the UK, with the result that in 2007, their share of social housing was 48 per cent. £50 billion of private finance was raised in the period 1998 to 2008, and in 2007, the ratio of public investment to private investment was £2 of private finance for every £1 of public money. This permits some 30 000 new dwellings to be built every year.

The growth of the CHS was achieved through government policies such as large scale voluntary transfers of housing stock from local authorities to housing associations and targeting the sector for new housing development. In addition, there were also reforms to the financing of the sector, such as shared equity and liberalisation of the housing finance market.

The large scale transfers of housing stock from local housing authorities to housing associations, and concentration of subsidies to larger housing associations have also led to the consolidation of the sector. Organisations have merged or formed syndicates in order to take advantage of economies of scale and leverage borrowing power. In 2007, 60 housing associations each owned more than 10 000 dwellings, accounting for more than 55 per cent of community housing sector stock.

The sector has operated on a 'mixed funding' model since 1988, under which capital grants from the housing organisation are used to leverage private finance of between 38 per cent and 62 per cent of the capital required for new housing.

Social housing management has become an increasingly professionalised occupation in the UK, supported by specialist training courses and professional development programs. This has substantially increased the effectiveness of the sector and improved the confidence the financial sector has in the investment.

*Sources:* Berry et. al (2004); Bisset and Milligan (2004); Cave (2007); Whitehead and Williams (2009).

Another suggested benefit of community housing is that community housing providers can better understand the local environment and make linkages to other local organisations and individuals, to serve clients. These opportunities are said to contribute to a sense of security, lead to development of self reliance, and lead to the acquisition of social and work-related skills. In the long term, those assisted may enjoy better life prospects and require less assistance than otherwise (IC 1993).

This is especially pertinent given the changed profile of social housing tenants — one in four public housing households now receive the disability support pension compared with one in 12 in 1981 (Plibersek 2009c). This has led the Australian Minister for Housing to comment that '... supporting public housing tenants today requires more than just a house' (Plibersek 2009c).

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Community housing is also seen as a way to reduce concentrations of disadvantage that exist in some public housing estates by mixing private and social housing dwellings. This has been recognised by state governments, with the New South Wales Minister for Housing stating that a ‘... better social mix is widely recognised as the missing ingredient in many of our current public housing estates ...’ (Borger 2009, p. 2). A rule of thumb adopted in New South Wales is that no more than 30 per cent of housing in any one area should be public (Duffy 2009).

## **I.6 The way forward: new models of community housing**

In order for CHOs to raise debt and finance from the private sector, they must increase their breadth of involvement in the housing sector past the traditional tenancy management role. This includes owning property and property development. To facilitate private investment in the sector, governments have adopted a variety of different models.

### **Growth organisations**

One approach which has been adopted by the states and territories is picking ‘growth/preferred providers’ — organisations which have the capacity and willingness to enter into housing development — and providing them with funding and resources which are not available to smaller, traditional CHOs. These growth providers may already be in existence, be independently set up to enter into housing development, or be established by government. For example, South Australia will only provide houses from the Social Housing Initiative (box I.4) to ‘preferred providers’. In New South Wales, CHOs must be registered as ‘preferred growth providers’ in order to be considered for stock transfers or to access the New South Wales Government’s Affordable Housing Innovation Fund.

The criteria for attaining status as a growth or preferred provider differ slightly across jurisdictions, but some common elements are being able to demonstrate the ability to manage risks associated with government funding and showing intentions to expand their business and leverage assets for private investment. Some states have several classifications of housing providers, which recognise the different capacities within the sector to develop housing. Work is currently underway for a national regulatory framework for growth providers, which includes mutual recognition of registered growth providers between all jurisdictions (section I.7). An example of a growth organisation is provided in box I.7.

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### **Box I.7 Community Housing Limited**

Community Housing Limited (CHL) began in 1994 with one employee and a \$63 000 government grant. It now has eight offices and employs more than 40 people, with annual revenue of \$6 million and a stock of over 1000 dwellings. It is an NFP and a registered charity.

CHL has traditionally been funded by government for two-thirds of the capital cost of housing, with a third raised through private financing. CHL has secured in principle agreements with the four major banks and fund investors and is anticipating being able to provide them with an 8 per cent return on investment.

CHL expects to double its construction capacity in 2009, and expects strong growth in the future.

*Source:* Bevington (2009).

#### *Special purpose housing companies*

Special purpose housing companies are NFPs set up by state or territory governments, where the government retains effective control of the organisation (for example through government appointed board members). Although set up and controlled by government, these organisations are identical to ‘growth’ organisations for all intents and purposes.

These companies are highly represented amongst the leading developers, often due to government provision of land and assets at their inception (early projects are often government financed), which they have been able to utilise to leverage further private investment (table I.4).

#### *Consolidation of the sector*

In response to opportunities offered by governments to growth providers, the sector is beginning to consolidate. This consolidation should deliver economies of scale, providing greater access to government and private financing and allowing CHOs to move into property development.

An example of consolidation is Housing Choices Australia Group, a merger between Singleton Equity Housing Ltd, Supported Housing Ltd, Disability Housing Trust and Melbourne Affordable Housing. The stated aims of the merger are to ‘maximise the growth opportunities presented by State and Federal policy settings to rapidly grow the Affordable Housing sector in Australia’ and to ‘catch this wave of growth at the earliest possible time by taking advantage of Singleton’s and

Melbourne Affordable Housing's positions as registered Affordable Housing Associations' (HCA 2009).

**Table I.4 Special purpose housing companies**

	<i>City West Housing Pty Ltd</i>	<i>Community Housing Canberra</i>	<i>Brisbane Housing Company Ltd</i>
Establishment	1994	1998	2002
Primary purpose on establishment	NSW government initiative to deliver affordable housing in Ultimo/Pymont. In 2000, operation extended to Green Square	ACT government initiative to manage properties on behalf of community based housing providers in the ACT, and provide development capacity for the community housing sector	Qld Department of Housing and Brisbane City Council joint initiative to develop affordable housing in inner Brisbane, to increase housing supply in the inner city for low income households
Functions	Developer Owner Asset manager Tenancy Manager	Developer Owner Asset Manager (Limited) Tenancy Manager	Developer Owner Asset Manager
Funding for development	\$50m in Commonwealth Government funding for Ultimo/Pymont, 4% revenue from NSW govt land sales in the area (\$7.3m to end 2002-03), development levy under State Regional and Environment Plan no. 26 (\$14m to April 2003)	Project funded under ACT community housing programs. Received first development site from ACT government on delayed payment basis. Application of retained earnings and development profits to housing acquisition	\$50m from Qld government, \$10m Brisbane City land and case investment over 4 years, commencing 2002-03
Shareholders/ Members	2 ordinary shareholders — NSW Minister for Housing and NSW Treasurer.  6 to 15 preference shareholders — a cross-section of community, church, local government, educational and private sector organisations as listed in the governing rules appointed by the board	Membership open to individuals and housing providers who contribute to the benefit of the company  Membership applications approved by board	2 ordinary shareholders — Queensland Department of Housing and Brisbane City Council  7 to 15 community shareholders, as listed in government rules, appointed by the board

Source: Reproduced from Milligan et al. (2004).

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## The leading growth Community Housing Organisations

In 2004, Milligan et al. surveyed community housing developers in Australia, and found that the scale of housing development was small — the seven largest organisations had developed just 1200 dwellings. They concluded that without further incentives and support by governments, the sector was unlikely to build enough homes to have a significant impact on affordable housing in Australia.

In late 2008 and early 2009, this project was updated. Milligan et al. (2009) identified the 11 leading NFP housing developers in Australia and provided information on their growth since 2004. The authors estimated that these 11 lead providers owned 5400 dwellings, with another 2330 in various stages of procurement. They argued that the data show clear trends to accelerated growth and a more diversified pattern of growth providers since 2004 (table I.5).

Seven of the 11 leading providers were located in Victoria, due to the Victorian Government's commitment to increased supply being centred on growth organisations, with the result that the sector in Victoria is seen as 'well established' (box I.8). The next wave of growth in community housing developers however, is likely to be located in other states, particularly New South Wales (Milligan et al. 2009).

### Box I.8 Victorian community housing regulatory framework

The vast majority of growth in supply of social housing through NFP housing developers has been in Victoria, which also has the largest share of large NFP developers. The main driving factor behind the strong development of the sector in Victoria is the State Government's policies and regulatory framework:

- consolidation and channelling of investment to a small number of designated providers to help them achieve scale and build capacity. These are defined as organisations capable of undertaking development. The Victorian Government has committed \$355 million in capital funding to these organisations since 2004, and 570 properties already under housing association management were transferred to their ownership in 2008
- introducing a specialised regulatory model capable of assessing and managing financial risk, ensuring public accountability and promoting quality services for tenants. It is the most comprehensive and interventionist regulatory regime in Australia, with the registrar able to appoint directors to the board, require wind up or mergers, and direct the transfer of assets.

At December 2008, 8 growth providers and 22 other housing providers had achieved registration.

*Source:* Milligan et al. (2009).

**Table I.5 Leading Australian NFP Housing Developers 2004–2008**

<i>Organisation</i>	<i>Geographic Area</i>	<i>Dwellings owned 2004<sup>a</sup></i>	<i>Dwellings owned end 2007-08</i>	<i>Dwellings under development and planned purchases end 2007-08</i>
City West Housing Ltd 1994 <sup>*</sup>	New South Wales — Pyrmont/Ultimo and Green Square in Sydney	365	494	57
Community Housing Canberra Ltd 1998 <sup>*</sup>	ACT	15	147	51
Melbourne Affordable Housing Ltd <sup>b</sup>	Victoria	119	222	220
Brisbane Housing Company Ltd 2002 <sup>*</sup>	Inner Brisbane	101	596	298
Foundation Housing Ltd <sup>c</sup>	Perth	75	163	200
Community Housing Ltd 1993	Victoria, New South Wales, Tasmania and Northern Territory	25	252	503 <sup>d</sup>
Port Phillip Housing Association 1985 <sup>*</sup>	Victoria, especially Melbourne	78	535	28
Loddon Malle Housing Services 1994	Victoria, especially regional	N/A	221	100
Yarra Community Housing Ltd 1996	Victoria, especially Melbourne	N/A	615	480
Common Equity Housing Ltd 1987	Victoria	1 638	1 780	95
Supported Housing Ltd <sup>e</sup>	Victoria	N/A	345 across group	80

<sup>a</sup> Excludes managed-only dwellings. <sup>b</sup> Trustee for Inner City Social Housing Trust, Ecumenical Housing Trust and Inner City Social Housing Fund. <sup>c</sup> Formed by merger of Perth Inner City Housing Association, Northside Housing and Eastern Metro Community Housing Association. <sup>d</sup> CHL develops for other providers. <sup>e</sup> Now part of Housing Choices Australia Group that also incorporates Singleton Equity Housing Ltd, Disability Housing Ltd, Disability Housing Trust. <sup>\*</sup> Established by state or local governments.

Source: Reproduced from Milligan et al. (2009).

## Joint ventures and public–private partnerships

The New South Wales Government is trialling a new public-private partnership (PPP) approach specifically for public housing estate renewal projects, of which Bonnyrigg is the pioneer project (box I.9). In this project, the New South Wales Government specifically asked for tenders from PPPs which included a community housing provider.

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The Kensington redevelopment in Victoria also integrates private and NFP entities, with the private developer (Becton Corporation) supplemented by a wholly owned NFP subsidiary, Kensington Management Company.

### **Box 1.9 Bonnyrigg Partnerships**

Bonnyrigg is a large public housing estate in Western Sydney built 30–40 years ago. The deteriorating condition of the housing stock, safety and crime problems related to the estate's layout and the high density of public housing has resulted in it becoming a highly disadvantaged community over time, with a disproportionate share of social and economic problems.

The Bonnyrigg Living Communities Project has been positioned as a pilot project, allowing a number of new approaches to be tested to inform future Housing New South Wales renewal projects.

Bonnyrigg is the first large renewal project in New South Wales to feature a PPP, with the New South Wales Government specifying that the redevelopment must be undertaken by a PPP. Under this structure, a special purpose PPP company composed of a number of existing legal entities has been formed to manage all aspects of the project for a 30 year term. This company consists of Becton Property Group, Westpac Banking, the Spotless Group and St. George Community Housing Association, and operates under the name of Bonnyrigg Partnerships.

The project will see the replacement of 833 existing social housing dwellings in poor repair with 2330 new homes. Of these, 699 will be social housing homes and the balance of 1631 homes will be sold to buyers in the private market. The project also involves the building or purchase of 134 dwellings off site to ensure the stock of 833 social housing dwellings is maintained.

Bonnyrigg Partnerships is responsible for the finance, design and construction of all the new homes and tenancy and facilities management services for the social housing on the estate. The construction of the public and private housing, as well as parks and community facilities, is expected to take around 15 years.

Housing New South Wales will pay for these services through a monthly service payment over the 30 year term, linked to the achievement of specific key performance indicators. At the end of the contract, ownership and management of the stock of housing will be returned to the New South Wales Government.

*Source:* Coates et al. (2008).

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## Challenges for growth organisations

### *Getting started*

Excluding Victoria, aspiring growth CHOs have difficulty entering the housing development ‘industry’ since they have no asset base from which to leverage funding:

The rationale seems to be that where not-for-profits have no track record in development and no sites under control, they are deemed unable to work within the tight timeframes required. Clearly a circuit breaker to this kind of reasoning is called for if Australia is to get more growth and competition happening in this promising sector. (Milligan et al. 2009, p. 149)

The Australian Government’s social housing initiative provides an opportunity for this ‘circuit breaker’, allowing emerging growth providers to gain development experience, and in the future, use the equity built up in the early funding rounds to leverage further private funding. The New South Wales Government also recently announced the intention to transfer 7000 dwellings to social housing providers by June 2012 with the intention of providing equity for growth developers to leverage private funding (Borger 2009).

Although the Australian Government is proposing that a significant proportion of housing stock constructed under the social housing initiative be transferred to CHOs, there is concern within the sector that this commitment is not shared by the state and territory governments. For example, Baptistcare submitted:

... the WA Government is expecting organisations to build the houses with Government funding, on NGO owned land and then have those houses owned by the State. (Baptistcare, sub. 90, p. 6)

Further, there is concern that if stock transfers occur, they will not do so quickly enough. The Australian Government has stated that housing built under the social housing initiative should be transferred by 2014, yet the sector’s view is that it needs stock for leverage immediately in order to play a major role in the provision of affordable housing in the short to medium term (CHFA pers. comm., 7 December 2009).

A suggested method of raising private finance for growth providers is through the use of financial intermediaries to reduce transaction costs through providing a volume advantage. Milligan et. al. (2009) argue for government-facilitated wholesale private fund raising, for example through bond financing, with the funds to be channelled to accredited CHOs. However, such financing options need to be approached with caution as they shift default risk to the taxpayer (Chan et al. 2009).

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### *Tensions between 'old' and 'new' functions of CHOs*

While there are an increasing number of growth providers, the 'average' CHO remains a small organisation managing less than 20 properties. Many of these providers are unable, or do not want, to become growth organisations (CHFA 2007).

Some smaller CHOs have expressed the view that the current focus on growth organisations does not acknowledge the advantages of smaller organisations, such as being able to provide personalised support services to tenants. Commercialisation of CHOs is also seen by some as leading to potential conflicts between the business and social goals of CHOs, particularly where tenants face problems paying rent or engage in anti-social activity (Gilmour and Bourke 2008). Such conflict is not, however, considered inevitable (New South Wales Government, sub. DR315).

This raises questions regarding whether growth organisations, which have to make changes in pursuit of private financing, will lose some of the community characteristics that make them flexible and desirable providers of social housing. For example, is it still possible for a large CHO which owns and manages over 1000 properties to be responsive to tenant needs and provide the specialised support services that a CHO managing 20 dwellings might? By consolidating the sector and encouraging growth organisations, are governments eroding the natural comparative advantages of NFPs in managing community housing?

The rise of growth organisations therefore poses some questions for the sector and governments:

- How big is too big for a CHO to be flexible and responsive to tenants? How small is too small to efficiently and effectively run an organisation?
- What is the main role of community housing? Is community housing a tenancy management service, a support provider, or a housing developer that happens to be an NFP? Can community housing encompass all three?
- What is the diversity the sector hopes to preserve in community housing? What systems can best support smaller organisations?
- Can growth organisations still be considered 'community' organisations?

Answering these questions will require serious evaluation of the approach as it evolves.

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### *Sector innovation — the common equity model*

An emerging organisational form is the Common Equity model, under which a number of small organisations form a new company, of which they are all shareholders. A common equity organisation (Common Equity Housing Ltd) is well established in Victoria, while other common equity organisations in New South Wales, South Australia and Western Australia are in the process of being founded or are under active consideration (CHFA, sub. DR311).

Under this model, property title is transferred to the company, and properties are then leased back to the housing organisations. This means that organisations can spend more time focusing on their tenants and their needs, and access economies of scale (such as the pooling of assets which allows for much better debt financing opportunities, and spreading the fixed costs of back office functions such as accounting and cyclical maintenance). This model has the potential to allow the diversity and flexibility of the CHS to be maintained, while still providing opportunities for expansion of the sector.

## **1.7 Regulation of the sector**

In any funding program, governments are concerned that the social or policy objectives of the program are effectively achieved as well as that the specific funded activities are efficiently performed. Implicit in the new models of affordable housing is the transfer of risk from the public to NFP sector.

The risks inherent in these new roles are substantial. At risk is the housing of many disadvantaged households and millions of dollars worth of property. Property development is recognised as one of the riskiest ventures in business. If community housing providers are to move into this area they must embrace highly sophisticated risk management practices. (Bisset and Milligan 2004, p. 32)

The risks that ‘growth’ housing providers will be required to manage will be commensurately more numerous, more diverse, more complex and of a greater magnitude. (Bisset and Milligan 2004, p. 51)

Regulation is therefore desirable to provide safeguards that public funds will be used for the desired purpose:

The lack of clear provision in most State and Territory legislation [in 2001] relating to the role of CHOs raises some uncertainty as to the recognized or ‘legitimate’ functions of CHOs and therefore what may be defined as the appropriate and/or desirable use of public funds. (Robyn Kennedy and Co. Pty Ltd 2001a, p. 9)

Regulation can also assist in attracting private sector finance, if the regulated system provides the finance industry with benchmarks and performance data that improves

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their ability to ascertain the suitability of the loan application, and the CHS as a whole. A well regulated system can simplify the due diligence banks must perform, increasing CHOs' opportunities to access private debt, and also helps to build confidence in the sector (Bisset 2005).

However, regulation necessarily adds costs for CHOs, so the benefits of the regulation must be weighed against these costs.

## **A national regulatory framework**

In 2001, the NCHF commissioned Robyn Kennedy and Co. Pty Ltd to investigate options for a regulatory framework for community housing in Australia (the Kennedy Report). While community housing has traditionally been regulated through funding agreements, the Kennedy Report highlighted the advantages of legislation as the basis of regulation as opposed to contracts, in particular highlighting several difficulties associated with contracts as the main form of regulation (box I.10) (Robyn Kennedy and Co. Pty Ltd 2001b). While the CHS could operate on a contract-only regulatory framework while government funding and engagement with the CHS was relatively small scale, as housing providers grew, contract-only regulatory arrangements were assessed as no longer adequate (Gapp Consulting Services Pty Ltd 2004).

Legislative or administrative regulatory arrangements are in place or under development in all states and territories except Tasmania and the Northern Territory, though these arrangements vary by jurisdiction (table I.6).

In 2007, the Housing Ministers' Advisory Committee of COAG commissioned ARTD Consultants to develop a proposal for a national regulatory system for community housing providers to reduce the cost of the regulatory systems for NFP growth organisations operating across jurisdictions. ARTD Consultants' final report was endorsed by Housing Ministers on 14 March 2008.

The outcomes and risks to be regulated as identified by ARTD Consultants were:

- financial viability and solvency
- proper governance — typically defined as having appropriate board and senior management expertise and governance arrangements to control decision-making
- proper management — typically covering core property and tenancy management functions as well as broader organisational and risk management responsibilities (ARTD Consultants 2007).

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**Box I.10 Problems with contracts as the primary form of regulation**

The Kennedy Report identified several problems for government associated with a contract-only framework for the community housing sector's complex service provision:

- the question of whether there is an intention to create legal relations arises in contract doctrine. In some cases, grant programs may be more in the nature of a gift with conditions rather than a contract, leading to different requirements for enforcement of obligations. This results in cases where governments have encountered problems retrieving unspent funding in situations where the organisation has gone into liquidation
- constraints in the government tendering process and the impact of administrative law principles and remedies
- difficulties in the application of the law on liquidated damages to government contracts
- legal risks arising from the inexperience and lack of training of government personnel who administer contracts, and their counterparts in community agencies
- the complex requirement of policy and service provision leading to burdensome and expensive contract management loads
- the law of contract is focussed on liquidated damages as the remedy for performance failures by contractors. This is often an inappropriate approach to resolving contract difficulties in a situation where qualitative outcomes, or outcomes affecting third parties (tenants) are in issue between the parties.

*Source:* Robyn Kennedy and Co. Pty Ltd (2001b, pp. 10–11).

**Table I.6 Regulatory changes for the NFP growth sector, 2004–2008**

<i>Jurisdiction</i>	<i>Regulatory Changes</i>
ACT	Enacted legislation in 2008 to regulate affordable and community housing providers. Development of regulations and implementation planned for 2009
New South Wales	Introduced administrative registration system in 2004 and replaced with legislation in 2007. Registrar appointed 2008. Regulations introduced
Queensland	2003 legislation amended in 2007 to align allocations processes and other requirements with broad social housing policy reforms. From 2007, there is a requirement for all affordable housing allocations to be managed through a public housing registrar
Victoria	Legislation and regulations enacted in 2005. Registrar appointed 2006. Registration, reporting and inspection regimes implemented
Western Australia	Established administration registration system in 2007. Consultation commenced in 2008 regarding introduction of legislation

*Source:* Milligan et al. (2009).

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ARTD Consultants recommended a national regulatory framework underpinned by legislation that included, as a minimum, a mandate to register and deregister organisations as well as appropriate intervention powers, with the following key features:

- the focus of national regulation would be on NFP growth providers, as distinct from the existing typically very small CHOs who, because of their size, are not well placed to capture private investment or achieve economies of scale
- individual jurisdictions would determine the regulatory arrangements that would apply to non-growth providers' operations in their jurisdiction. Each state and territory would therefore operate a multi-tiered regulatory system which, as a minimum, included a specific category for NFP growth providers
- a national regulatory code, which would be adopted as the basis for defining and measuring the outcomes that registered NFP growth organisations are expected to meet
- each state and territory would appoint a registrar who has responsibility for making registration decisions and initiating actions allowed under the registration system
- NFP growth organisations would be required to be registered as companies under the Corporations Act, be registered charities and have a constitution that includes an appropriate social housing objective and requires that, if wound up, its surplus assets must be distributed to another registered provider approved by the registrar
- mutual recognition of registration decisions between jurisdictions (ARTD Consultants 2007).

Further, the assumptions and proposals underpinning the proposed system are:

- the long term vision for the system is to have a single national authority that undertakes registration assessments of all community housing providers
- the best way to fast-track the achievement of this vision in the short to medium-term is to build on and harmonise the registration assessment processes already in place or under development in each state and territory
- each state and territory would have their own regulatory legislation that specified jurisdiction-specific regulatory requirements and intervention powers. For multi-jurisdictional issues such as the failure of an organisation operating in more than one state, 'coordinated regulatory interventions' would be undertaken as necessary by each jurisdiction, consistent with their specific legislative powers

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- jurisdictions would work towards harmonised legislation with common, nationally-consistent regulatory intervention processes and powers
  - a National Council of Registrars would be established (with one representative from each jurisdiction) to oversee the implementation of the national regulatory system including reviewing and updating a National Regulatory Code, and developing evidence guidelines and performance benchmarks to operationalise the code (ARTD Consultants 2009).

Since the development of the National Regulatory Framework in 2007, there have been rapid changes in the policy environment surrounding community housing due to the introduction of the NAHA, NRAS and Social Housing Initiative. ARTD Consultants were engaged to re-evaluate whether the proposed framework is still relevant given the recent changes in the sector. Workshops were held in Sydney, Melbourne and Canberra to seek the views of sector representatives from across Australia in relation to six options for a national regulatory system. A final report was delivered to the Housing Ministers for consideration in September 2009, who will determine the final position on a national regulatory system (ARTD Consultants 2009). In December 2009, COAG announced the development of a national housing supply and affordability reform agenda, for ‘identifying opportunities for further reform and ensuring implementation of reforms to improve capital city strategic planning, development approvals and utilise the recently completed land audits’ (COAG 2009).

Meanwhile, the sector has proposed a regulatory framework based on national consistency, with a three-tiered system depending on the type of business — developing properties, commissioning property development, or managing properties (CHFA, sub. DR311).

### **The importance of a well designed framework**

While a regulatory framework has the potential to deliver many benefits, poorly designed regulation has the potential to impose costs on CHOs which offset the benefits of the regulation.

The Commission’s *Annual Review of Regulatory Burdens on Business: Social and Economic Infrastructure Services* stated:

... while it is appropriate to attempt to reduce risks through regulation, it must be recognised that this risk reduction may come with added costs and unintended consequences ... [and that] risk can never be entirely eliminated. ... Excessive minimisation or avoidance of risk through regulation can also lead to overly

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prescriptive regulations, ‘black letter law’ interpretation of regulations by regulators and excessive reporting requirements. (PC 2009a, p. XXIII)

Consistent with this theme, ARTD Consultants’ report emphasises the potential of a regulatory framework to undermine the flexibility of CHOs by increasing standardisation across the sector. A stated reason for the government’s preference for community housing is the sector’s flexibility in their ability to deliver specialised services to tenants and flexibility in financing arrangements. A regulatory framework which forces standardisation on organisations may therefore undermine the very feature which the government seeks to utilise.

In particular, there are concerns within the sector that the emerging regulatory system — notably that relating to the ability to appoint board members and force mergers, combined with prescriptive reporting requirements — is reducing scope for CHOs to be innovative and trial different organisational structures (CHFA, pers. comm., 7 December 2009).

## **I.8 Governance and capacity building**

Another potential impediment to efficient and effective delivery of community housing relates to the internal capacity of organisations. Traditional community housing providers have limited experience in property development, stock acquisition and large scale business operations of the kind that might be undertaken by growth providers. The new tasks of growth housing providers means governance of CHOs must become more sophisticated, and CHOs must embrace complex risk management strategies (boxes I.1 and I.11). This has been recognised by industry participants for some time, both locally and overseas, with the NCHF commissioning papers to examine corporate governance and risk management — such as those by Gapp Consulting (2004) and Bisset and Milligan (2004).

Governments have also been actively involved in the foundation and governance of the leading growth providers, for example in the Brisbane Housing Company (section I.6). However, as regulatory systems have developed and governments have gained confidence in CHOs, focus has shifted away from this model of direct governance, towards providing funding and assistance for capacity building (Milligan et al. 2009).

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### Box I.11 Defining ‘capacity’

Five attributes that contribute to ‘capacity’ for NFPs in the housing sector are:

- political capacity — community participation, political leverage and linkages
- organisational capacity — leadership, staff and board skills, planning and project management
- resource capacity — raising external finance and managing internal cash flows
- programmatic capacity — housing and property skills and community linkages
- networking capacity — partnerships, networking events and shared services.

*Source:* Gilmour (2009), in Milligan et al. (2009).

Brisbane Housing Community Ltd submitted in response to the draft report:

Capacity building for the not for profit housing sector is of vital importance given the large sums of money associated with creation of housing assets as compared (say) with delivery of personal services to clients in need ... BHC is an example of where Government sponsors at State and local government level took the correct approach. BHC was adequately funded, attracted capable directors and was able to build capacity within the new organisations. (sub. DR257, p. 2)

State and territory governments have set up programs to help build capacity in growth organisations. For example, the Department of Housing in Western Australia, has made funding available to assist larger NFPs with: business improvement strategies in order to meet registration requirements, including the engagement of financial consultants to reform management and accounting practices and procedures; establishing project financial feasibility modelling; developing medium and long-term growth business plans; and, developing organisational risk management plans (Western Australian Government, sub. 157). Similarly, New South Wales’ Affordable Housing Innovation Fund includes a specific objective of building capacity amongst existing CHOs.

Further, the Australian Government announced funding of \$1.7 million over two years for a NRAS Capacity Building Strategy in September 2008. This initiative funds products, activities, resources and tools to increase the capacity of affordable housing providers to participate in the Government housing initiatives.

Nonetheless, Milligan et al. (2009, p. 17) argue that ‘... there is no comprehensive, coordinated and tailored approach to supporting capacity building across the industry and to steering a longer-term growth path’.

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## **Workforce issues**

Employees often enter the NFP workforce to help others who are less fortunate, but staff in growth organisations need a different ‘hard-nosed’ commercial skill set (Gilmour and Bourke 2008). In addition to the need for training, growth organisations may also have difficulty attracting staff with the right skill set, unless they offer remuneration competitive with private sector organisations competing for the same workers. This can lead to tension within an organisation where some workers are willing to accept lower wages on the basis of intrinsic benefits of working in a community purpose organisation.

However, Milligan et al. (2009) argue there is clear evidence that successful CHOs have been attracting highly skilled people to boards and to senior management positions. The challenge is to replicate this within all levels of an organisation, as well as across all CHOs, in order to increase the breadth and depth of capacity within the sector.

## **1.9 Government engagement with the sector**

The most direct form of government engagement with the CHS is through the provision of funding and resources, such as stock transfers and land for development. However, governments and CHOs also engage on many other levels, including through working relationships and consultation on matters such as sector planning and the development of regulation, and tenant allocation policies.

Further, the Australian, state and territory, and local governments, provide indirect funding to CHOs through tax concessions, such as exemption from fringe benefits tax, payroll tax, land duties and taxes, local government rates concessions and deductible gift recipient status.

### **Models of engagement for funding**

The Australian Government and state and territory governments have assumed significant responsibility for funding affordable housing on an on-going basis. Arrangements for the provision of government-funded housing is controlled by state and territory governments, with the result that these arrangements vary by jurisdiction. This reflects the historical differences in community housing across Australia and further differences in policies promoting growth organisations. However, there has been an increasing move towards providing capital grants attached to specific development projects/goals, and less emphasis on recurrent grants to supplement the rental income of CHOs. A recent FaHSCIA-commissioned

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report by KPMG on the future opportunities and risk for the sector features an objective to develop recommendations to ‘... facilitate continued growth that is not dependent on recurrent government subsidies beyond existing commitments’ (CHFA 2009a, p.8).

### *Direct funding arrangements*

Traditionally, small local NFP agencies contracted by government to provide housing services have relied heavily on recurrent subsidies. These have been funded in an ad-hoc manner under various programs at the state level. These may be state or territory funded or federally funded under the CSHA and associated programs — for example the LGCHP and CHP.

Recent state and territory government programs aimed at expanding the CHS and the Social Housing Initiative have primarily allocated funding via capital grants on a submission basis. In Victoria, a competitive tendering process within the sector has been used on specific sites, with the aim of securing the best value for the government’s investment (Milligan et al. 2009).

In all states and territories, these submission-based funding models are utilised alongside existing quality assurance frameworks to make funding decisions. In most cases this funding is restricted to registered growth providers, and may be dependent on other criteria, such as the ability to contribute towards the cost of the project by leveraging private finance. As the sector in each state or territory becomes more mature, it can be expected that governments will utilise competitive tendering more extensively to gain the ‘best value for money’ for government. Nonetheless, it may never be appropriate to use competitive tendering in some places, such as remote Indigenous communities in the Northern Territory.

### *Client directed subsidy — Commonwealth Rent Assistance*

Commonwealth Rent Assistance (CRA) is a payment added onto the income support of eligible tenants who rent in the private property market. The CRA is paid directly to the tenant on a fortnightly basis in accordance with a payment schedule that varies according to household type, housing situation (sharing or living independently), and rent paid, with a maximum level of benefit.

Importantly, tenants of community housing are eligible to receive the CRA, subject to the rent they pay being above the minimum for their household and benefit types. This is becoming an increasingly important source of revenue for CHOs as access to

CRA allows CHOs to obtain additional revenue, while still keeping their rents affordable for low income tenants.

Since 2009, registered community housing providers in New South Wales have been required to set rents for their community housing stock using a formula that will be based on 25 per cent of assessable household income, plus 100 per cent of the tenant's CRA entitlement, and 15 per cent of the Family Tax Benefit, if applicable. This move is expected to raise \$23 million additional revenue per annum for CHOs and they are expected to reinvest these additional funds in increasing the supply of affordable housing (Milligan et al. 2009). Other options for rent setting have different impacts on revenue for CHOs and rental affordability (table I.7).

**Table I.7 Illustration of different options for rent setting<sup>a,b</sup>**

<i>Rent Model</i>	<i>Fortnightly Rent</i>	<i>CRA Contribution to Rent</i>	<i>Tenant Contribution to Rent</i>	<i>Revenue improvement<sup>c</sup></i>	<i>Tenant affordability (net rent as % of net income)</i>
	\$	\$	\$	\$	%
Rent set at 25% of income, net of CRA	116	3	113	3	24
Rent set at 25% of income, including CRA	129	13	116	23	25
Rent set to attract maximum CRA	260	112 <sup>d</sup>	148	144	32
Rent set at 74.9% of market rent	375	112 <sup>d</sup>	263	259	57
Rent set at market	500	112 <sup>d</sup>	388	384	108

<sup>a</sup> For a single parent with one or two dependents, receiving maximum Centrelink income of \$464 fortnight as at March 2004. <sup>b</sup> Public housing rents are normally set at 25% of household income, tenants do not receive CRA. <sup>c</sup> Compared to public housing. <sup>d</sup> The maximum allowable payment for this group.

Source: Reproduced from Milligan et al. (2004, p. 12).

## Tenant allocation policies

While there are broad national standards for the allocation of tenants in community housing, each provider has its own allocation systems which vary considerably. Compared with the public housing sector, community housing workers indicate a greater willingness to assess disability and medical conditions in allocating community housing (Hulse and Burke 2005). Whether this translates into a different client based is questionable as it has been observed that there are similar numbers of

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allocations to recipients of Disability Support Pension in each sector (New South Wales Government, sub. DR315).

However, an emerging issue for community housing providers is intervention in tenant allocation policies by SHAs which threaten their independence and viability. This seems to be of greater concern in states where CHOs are envisaged as providing a substitute service for SHAs, rather than a complementary service. For example, community housing organisations in Queensland have expressed concerns over the state's 'One Social Housing System' policy, which requires organisations receiving government funding to accept tenants from the public housing waiting list (Gilmour and Bourke 2008).

As a result, most new tenants have complex needs and earn low incomes, since these candidates are often at the top of public housing waiting lists. Over time, the tenant community will be made up entirely of tenants with low incomes and complex needs. The organisations reported that acceptance of such tenants increases management costs while decreasing rental revenue, since the setting of rents is usually income dependent (Gilmour and Bourke 2008).

Historically, CHOs providing services to high-needs tenants have received recurrent subsidies from government to supplement rental income or have maintained a tenant mix which allows them to cross-subsidise low-income, high-needs tenants with moderate income tenants (CHFA sub. DR311).

However, growth organisations do not usually receive recurring subsidies, and if their tenant community becomes predominantly high-needs and low-income, there are concerns that they will lose the ability to cross-subsidise. This will threaten the long term financial viability of CHOs, including their ability to service debt (Gilmour and Bourke 2008).

This analysis is consistent with a number of reports by the Australian Housing and Urban Institute, which illustrate that the targeting of social housing to those on the lowest incomes has played a role in weakening the financial viability of social housing providers (Hulse and Burke 2005).

The sector has expressed concern that an unintended consequence of the loss of CHOs' discretion over tenant allocation policies may be that the sector will lose the ability to cater to groups with different needs. For example, a CHO which may currently provide specialised housing and support services to people with autism may no longer be able to keep that specialisation if the CHO is forced to accept tenants allocated from the top of the public housing waiting list (CHFA, pers. comm., 7 December 2009).

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While the study by Gilmour and Bourke indicated that these problems were only evident in Queensland at the time of the survey, such pressures on community housing providers may intensify in all jurisdictions. For example the Victorian Government negotiated with housing associations a target for 50 per cent of allocations of new and vacant dwellings to be made to applicants on the public housing waiting list (Milligan et al. 2009).

## **Relationship between CHOs and governments**

The relationship between CHOs and governments, particularly with SHAs, is an important factor in the effectiveness and potential for growth of organisations and the sector as a whole.

In a survey of CHOs conducted by Gilmour and Bourke (2008), participants identified their relationship with SHAs as the most important relationship for their organisations. Significantly however, these relationships were also rated the most difficult to maintain.

The difficulty in maintaining relationships with SHAs may be due in part to high staff turnover in government departments, which makes building relationships difficult and leads to a loss of corporate knowledge and hence a reduction in the government's trust in the sector (Gilmour and Bourke 2008).

Concerns have also been raised by the sector that there may be a conflict of interest where the SHA acts both as a public housing provider and regulator of the community housing sector. SHAs and larger CHOs can be perceived to be 'in competition' for the pool of funding allocated for housing purposes by the Australian, state and territory governments. This may contribute to heightened tensions between SHAs and the sector (CHFA, pers. comm., 7 December 2009).

## **Consistency of government policy and funding**

Consistency of government funding and policy is seen as essential for long term planning by the sector, and to help attract private investment. An illustration of the risks faced by CHOs with respect to government funding is provided by the Australian Government's decision in September 2009 to reduce the amount of funding to the sector under the Social Housing Initiative by \$750 million, justified in part by the efficiency and strong performance of the sector:

- Generous land contributions by State and Territory government and leveraging by community housing organisations have kept the average cost of the new homes below the original cost estimate of \$300 000

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- In several States the not-for-profit sector is leveraging additional dwellings using capital from the social housing program ...

In addition, the repairs and maintenance program has resulted in a significantly higher number of public and community housing dwellings being repaired than originally anticipated ... Noting the above efficiencies and changes in demand, the Government has decided to reduce funds available for the final round of the program. (Australian Government 2009, pp. 52-53)

This led the chairperson of the CHFA to state that ‘State and territory governments and the community housing sector are being punished for their efficiency measures’ (CHFA 2009b, p. 1).

There are also concerns within the sector and government that the current system of funding from the Commonwealth to the states and territories creates incentives which are opposed to the aims of affordable housing policy. As a result, the Australian Minister for Housing recently foreshadowed changes to the flow of Commonwealth funding to the states and territories:

I have also restarted discussions about the way the Commonwealth funds social housing. For decades, the Commonwealth has provided funding based on state and territory population share. The level of Commonwealth subsidy per social housing dwelling varied greatly from \$1375 per annum in South Australia to \$3175 per annum in Queensland in 2006-07. ... [The current] funding system provides no incentive for states to increase their stock. In fact — it does the opposite. The funding provided by the Commonwealth to the states is not in any way linked to the number of public housing dwellings provided ... The more public housing a state has, the thinner they have to spread the Commonwealth subsidy. I would like to see the Commonwealth providing funding to the states based on the number of dwellings in each jurisdiction to create a clear incentive for states to retain and build more houses. (Plibersek 2009c)

While the focus in government policy is on risk management as it relates to CHOs, the private sector has expressed the view that policy risks are equally important in assessing risk in the sector. Private sector partners seek certainty with respect to the continuing availability of tax benefits, the adequacy of rent and continuing support for the growth and stability of the industry since they need to be able to accurately assess risk and discount premiums (Bisset 2005). For example, CHOs are concerned that they may risk losing the tax concessions afforded to NFPs when they engage in entrepreneurial activities. This is despite the community benefit from activities such as developing mixed private-community properties where some dwellings are sold to the private market for profits which are then used to subsidise the tenants of the community dwellings (CHFA 2009a; Milligan et al. 2009).

This issue was raised in the survey conducted by Gilmour and Bourke (2008), where growth providers saw their ability to borrow from banks impeded by the uncertainty over the consistency of government policies and funding.

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## **I.10 Evaluations of government-funded community housing services**

To date, evaluation of housing policy, funding, and programs has not been a significant feature of the CHS. The CHFA advocated having an evaluation process built into the NAHA, to allow the private sector, governments and organisations to assess the financial and social outcomes of projects and organisations (CHFA 2008). Similarly, Milligan et al. (2007) argued that a program of evaluation of affordable housing initiatives was needed, and proposed a national evaluation framework to be committed to in an intergovernmental or similar agreement.

The Australian Government recently announced intentions to improve the transparency and accountability of social housing. As the Australian Minister for Housing stated:

COAG has also agreed to establish independent prudential supervision for social housing providers ... We need reliable and comparable information on the relative costs of construction and maintenance of social housing ... Within two to three years we will clearly be able to benchmark the costs and performance of different providers. (Plibersek 2009c).

In August 2009, a post-implementation review of the NRAS was announced, which will feed into a formal evaluation of the scheme in 2012. Key issues of interest are: the legislative and regulatory framework; targeting and support of potential investors and participants; practicality of delivering the NRAS; the assessment and application processes; NRAS monitoring and compliance; links with other affordable housing programs; and the outcomes of the program (FaHCSIA 2009a; 2009b).

While there do not appear to be evaluation processes built into the NAHA or Social Housing Initiative, there is a public accountability process required under the Intergovernmental Agreement on Federal Financial Relations (schedule C). This involves public reporting on an annual basis of high-level performance indicators for the NAHA, with the Steering Committee for the Review of Government Service Provision having overall responsibility for collating the necessary performance data (CRC 2008).

Further, some publicly-available evaluations of community housing projects and developers exist, including evaluations of Brisbane Housing Company (KPMG 2005; Milligan et al. 2009), City West Housing (Milligan et al. 2004), Community Housing Canberra (Milligan and Phibbs 2005; cited in Milligan et al. 2009) and Yarra Community Housing (Milligan et al. 2009). Hall and Berry (2009)

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also analysed the financial performance of CHOs using a non-random sample of 18 organisations.

### *Financial performance*

The available evaluations have consistently confirmed the strong financial performance of the organisations and their success in achieving their specified objectives. In their evaluation of Brisbane Housing Company (BHC), KPMG stated:

The review of BHC's historic financial performance suggests that BHC is effectively managing its property portfolio and has developed a core competency in the cost efficient construction of affordable housing properties. (KPMG 2005, p. 4)

Similarly, Milligan and Phibbs' evaluation of Community Housing Canberra noted:

... the development generated an internal rate of return of about 18 per cent. This result would be considered a reasonable return in the for-profit development industry. (Milligan and Phibbs 2005, quoted in Milligan et al. 2009, p. 96).

These individual evaluation conclusions are supported by the study of Hall and Berry (2009), who found in their sample of CHOs that the average surplus (before depreciation, interest and grants) was \$805 per dwelling in 2005-06. This compared favourably with public housing outcomes in the same financial year, where a deficit of \$181 per dwelling was recorded.

However, Hall and Berry's evaluation also highlighted that CHOs' financial advantages over public housing are largely derived from concessions from government and the use of voluntary labour. While net rents are lower in community housing than public housing, expenses are also lower, and community housing operating costs severely understate the real costs of providing housing. This is due to:

- extensive use of voluntary labour in a range of states,<sup>7</sup> both in maintenance and core housing management functions. This may save CHOs up to 20 per cent of total maintenance expenditure. In many cases, the volunteers undertaking this work are the tenants of the properties
- substantial rate concessions to charitable organisations and NFPs, with the result that rates expenditure per dwelling is 64 per cent lower compared to public housing

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<sup>7</sup> The New South Wales Government has noted that use of voluntary labour in New South Wales is limited to the cooperative housing sector and the small providers funded through the Local Government Community Housing Program (New South Wales Government, sub. DR315).

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- non-quantified state and territory government subsidies in the form of assistance for CHOs — for example, in New South Wales, operations such as structural maintenance expenditures of CHOs being met by the Department of Housing
  - small or low amounts of debt related to the provision of stock, meaning that CHOs have no servicing costs for capital employed, such as interest payments on loans (Hall and Berry 2009).

The last three factors suggest that CHOs are highly dependent on direct and indirect government funding to remain financially viable while still charging affordable rents, and highlights the vulnerability of CHOs to changes in government policy. The Milligan et al. (2004) evaluation of City West Housing provides some support for this, suggesting rents would have to be increased if various subsidies were removed from City West's model.

#### *Other measures*

Apart from financial outcomes, the evaluations also found other positive outcomes from the community housing projects as compared to for-profit and public housing:

- NFP developers give greater consideration to designing for long term management, since they manage the properties for the time they hold the property. They therefore give greater consideration to issues such as sound attenuation between properties
- NFP developers focus on environmental issues and life-cycle management of properties to reduce the long term running costs of the properties. They are also interested in reducing the utility charges for the tenants for both social reasons and for the positive impact these reductions can have on the incidence of rent arrears
- NFP developers often design for particular client groups such as people with a disability, resulting in some very specific design features in properties (Milligan et al. 2009).

However, the evaluations also provide a warning that community housing expenditure on ongoing maintenance may be too low. Hall and Berry (2009) found that the majority of CHOs do not provide for depreciation of assets in their accounts. Further, their survey suggested that were significant concerns regarding the age of the sector's stock — between 15 and 50 per cent of stock required upgrading, and average maintenance expenditure on stock spent by CHOs was less than 40 per cent of that spent on public housing stock. There is also a perception that housing authorities in some jurisdictions may be 'outsourcing the backlog' problem to CHOs by transferring housing stock that is predominantly aged stock,

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although policies in New South Wales prevent this from occurring (Hall and Berry 2009).

### *The need for further evaluation and measurement*

Alongside the view that CHOs are cost-effective providers of social housing is the clear picture from evaluations of the sector's dependence on government concessions. No evaluations of the performance of community housing organisations so far appear to take into consideration the indirect funding of the sector by government through tax concessions and other government provisions such as for maintenance.

Equally, it is unclear whether tax and other concessions are taken into account in government tendering processes for capital funding for the purposes of procuring housing stock, especially where NFP providers may be in competition with for-profit providers which do not have access to tax and other concessions.

Similarly, outcomes and impacts such as increased social inclusion (for example through increased employment for tenants of community housing) and NFP developers' focus on environmental issues and life-cycle management of properties should also be taken into account as part of government decision making, as should these attributes as they relate to the provision of public housing.

A well defined evaluation framework — incorporating the objectives, inputs, outputs, and to the extent possible, outcomes and impacts — is needed. Evaluation processes should start early, with clear objectives and collection of good baseline data. Ideally, this would be done collaboratively with CHOs and SHAs, to establish the most efficient and effective way to deliver social housing services to those in need.

The measurement framework proposed by the Commission in chapter 3 could provide a guide, and a detailed discussion about possible evaluation frameworks for the community housing sector in particular can be found in Milligan et al. (2007).

## **I.11 Conclusion**

The historic outline of the development of the community housing sector highlights the somewhat ad hoc way in which the sector has developed (section I.3). For the first time, a significant funding program led by the Australian Government and supported by all state and territory governments has been implemented, with the

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result that the sector has gained levels of resourcing never experienced before (section I.4).

Despite this drive for increased involvement by CHOs, there are concerns about a number of issues relating to the development of the sector and the role the sector may play in the provision of social housing.

In terms of factors external to CHOs, and notwithstanding strategic planning in some jurisdictions (New South Wales Government, sub. DR315), there remain concerns in the sector about what it sees as a lack of a clear and consistent government vision for the sector and accompanying regulatory framework, and funding uncertainty. In particular, there does not appear to be a consistent view of the roles of the public and community housing sectors, and the relationship between them. Whether the community housing sector plays a complementary or alternative role to social housing has implications for how the sector is funded (should social housing and community housing compete for funds?), and how tenants are allocated to housing (should CHOs have choice of tenants, even where public and community housing waiting lists are combined?). Different jurisdictions have different visions for the role that community housing will play in relation to social housing.

The rescoping of a regulatory framework by ARTD Consultants and the decision by the Australian Government to remove \$750 million in funding for the Social Housing Initiative in September 2009, which CHOs perceived as ‘punishment’ for being efficient, demonstrate the regulatory and funding uncertainty faced by CHOs. This uncertainty is seen by some as impeding their ability to access private finance.

In terms of factors internal to CHOs, the rapid movement to a more entrepreneurial business model has created tensions between the social and commercial goals of CHOs, and concern about skill deficiencies and mismatches.

The above assessment points to the value in clear policy objectives about the role and value of CHO provision; careful assessment of risk and the risk management options; transparency about all sources of funding; and robust evaluation.

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