

## St Kilda Community Housing

### Submission to the Productivity Commission Review - National Housing and Homelessness Agreement (NHHA)

April 2022

#### **About St Kilda Community Housing**

St Kilda Community Housing (SCH) has provided affordable accommodation options for single people in the St Kilda area since 1984. Originally the St Kilda Rooming House Issues Group, we work to increase and improve the quality of housing for single people with connections to the St Kilda area, and through housing, we build communities. Our residents may lack strong family attachments while experiencing social disadvantage; have special needs, such as a mental illness, drug and/or alcohol dependence; be disadvantaged by a lack of financial resources when competing in mainstream housing markets; and have a history of homelessness or are at risk of homelessness.

As such, we play a critical role in the Victorian homelessness service system through housing management and tenancy support.

Our work is based on the belief that social inclusion and engagement is the right of all members of our community. Inclusion and community are at the forefront of our work and shapes the partnerships we form and programs we deliver. In addition to providing affordable housing and tenancy support, we are involved in delivering:

- social meals programs
- creative expression opportunities – photography, creative writing
- dental health care services
- a variety of social activities
- ongoing paid employment to residents in our maintenance, cleaning, and gardening activities.

We currently manage 327 rooms across 20 properties, of which 70 are in rooming house accommodation with shared facilities and 257 are self-contained. We employ 22 FTE staff in a variety of roles including housing management, maintenance, cleaners, and gardeners, many of whom are residents of our properties employed as part of a social enterprise that we initiated. Our annual budget in FY 2022 is \$2,983,958.00.

We see the NHHA as a critical tool for Australia to address homelessness and establish, manage, and maintain an adequate, supported, social housing supply.

#### **Our operating environment - are community rooming house providers set to fail?**

The NHHA should be clear about the future role of community managed rooming houses in the homelessness service system and within the housing continuum. The NHHA must establish the parameters necessary to ensure the financial future of smaller, community managed housing providers. While economies of scale feature prominently in government responses to decades of underfunding to address inadequate supply, on-going management (particularly for the cohort we house) is more nuanced and outcomes may be diminished when delivered at scale.

Despite our proud history and strong reputation for supporting disadvantaged people, our operating environment is increasingly challenging. Our point of difference, which is a core strength recognised and highly valued by local and state government, is increasingly not supported through funding norms and operational requirements. For example, the updated Director of housing General Lease effectively transfers to SCH the risk and responsibility of maintaining older properties in need of upgrade and capital repair - neither of these functions are able to be properly funded from our rental income. Our maintenance obligations are unfunded, our compliance obligations are increasing, and we have an underlying operational deficit.

This is due to a range of factors (exacerbated by COVID) that are inadequately dealt with under the current NHHA:

- Housing those with greatest needs costs more

- Rooming house stock is no longer a preferred housing option, yet plays a critical role in the homelessness service system in the area that we operate in
- Rents no longer cover costs (or service debt), and maintenance and upgrades are expensive, and reduce our rental base
- Development risk is being shifted to housing providers, presuming bigger is better, despite economies of scale not guaranteeing better resident outcomes

The inherent operational deficit for social housing is well documented. Maintenance cannot be deferred indefinitely. Impacts compound over time and agencies such as ours, that focus on housing people on the lowest incomes, with challenging behaviours, poor rental histories, and limited life skills, can no longer make ends meet.

The essential question to be asked is, should this critical sector of the housing system, that focusses on those people that other providers overlook, fail, then where will these most vulnerable people be housed? Note, that we do not receive homelessness funding and rely on our insufficient rents, despite performing a critical role in the homelessness service system.

We are currently working with PwC to fully document this critical issue and will make the analysis available to the Productivity Commission when complete.

### *Housing those with greatest needs costs more*

#### **Housing First - permanent supportive housing**

We support an early intervention (Housing First) approach to quickly connect people to permanent housing and support services without preconditions or barriers to entry (such as sobriety, treatment or service participation). While this recognises that client support is separate and not conditional to their housing, permanent supportive housing costs more to deliver.

Both state and local government have identified that those experiencing greatest homelessness risk, people transitioning from institutions and those with severe mental health challenges as target cohorts of permanent supportive housing.

Our focus is on these people. They have the highest requirements and often other CHPs are reluctant to house them. These residents require additional supports, cost more to house, and can heighten neighbourhood concerns. Higher costs and community concerns relate to:

- more active and intensive tenancy management (lower property portfolios per EFT)
- increased property damage
- greater turnover of properties / movement of tenants
- higher rates of arrears
- increased incidents involving emergency services and police
- negative community sentiment
- limited if any internal capacity to 'cross-subsidise' due to our focus on the lowest-income tenancy profile

#### **A new model - Tenancy Management Plus**

Our responsive and integrated tenancy management and support services are undervalued. Our tenancy mix has changed over the years and our cohort is increasingly one with complex housing and support requirements. Over time the required support has been largely integrated into our housing manager roles, evidenced by our ratio of managers to tenants being significantly higher than for CHPs with a more diversified tenancy mix, including affordable housing. (People on rent assistance, low to medium incomes, family groups).

When integrated and dispersed across social housing the price to support our tenants is more cost efficient. Often, the support provided for our cohort by external homelessness services is time limited and not sufficiently focused on maintaining positive housing outcomes. Engagement is too often regarded as the role of the resident and not the support

provider, and there is limited accountability and transparency relating to the quality and outcomes of these funded support services. In contrast, the support we deliver is completely unfunded, and ironically as on-site housing managers, with a keen interest on maintaining housing, we are better placed to deliver a range of support services and functions and can often do so more cost effectively than eligible support agencies.

Under the NHHA, maintenance of existing stock is not prioritised and yet there has been extraordinary growth in homelessness services funding in recent years. In some areas this investment may have been at the expense of investment in appropriate stock. To continue to provide housing for this cohort, we require additional funding to bridge the widening financial gap and in recognition of the tenancy issues presented by this group of people.

We are developing a Common Ground facility to provide permanent supportive housing and seek clear funding parameters to support an expansion of this model under the revised NHHA enabling the concierge function to become a core component of congregate housing provision to this complex housing cohort.

- ***Our service model is relatively unique in offering long term housing services to the 'hardest to house' cohorts.***
- ***No public policy sets out the services needed for people out of homelessness.***
- ***The additional cost of tenancy support, over and above tenancy management (such as for a 24-hour concierge) needs to be built into CHPs rooming house funding***
- ***More diversified funding enables a sustainable business model***

*Rooming house stock is no longer preferred, yet plays an important role in the homelessness service system in the area we operate in*

We predominately manage government properties of which a significant portion are old, tired and, as rooming house accommodation with shared services, no longer matches community expectations. We have a significant maintenance liability; however capital upgrades are required to upgrade and modernise stock.

Upgrades to remove shared facilities result in fewer tenancies and a resultant decrease in our rental base. The environment is competitive and focused on growth. On the back of homelessness service funding, large support agencies are becoming housing providers and competing for capital funds to establish their portfolios.

Community expectations have shifted significantly during COVID leaving our housing difficult to tenant and expensive to maintain.

In addition, inner urban areas are more expensive, competitive and have limited land opportunities. While gentrified these areas retain strong service systems and the necessary social infrastructure to respond to the complex needs of our residents and are a critical part of the homelessness service system.

- ***Our older housing stock is substandard and does not meet contemporary needs expectations***
- ***Rooming house accommodation has a role to play - with support***

*Rents do not cover costs (or service debt) and maintenance and upgrades are expensive and reduce our rental base*

As outlined above, we manage Director of Housing stock that is old, tired and in need of maintenance and upgrade. Our financial capacity to fund this without grants is limited. Our balance sheet is weak, and a lack of assets limits our ability to borrow to maintain and grow our business. Our rental income is become progressively insufficient to cover costs, let alone service debt. The General Lease results in SCH being liable to maintain old buildings beyond what they can generate in rent.

This means that:

- maintenance is deferred, and the increasing compliance burden takes precedence
- capital grants are critical to our operations
- upward cost pressures exceed rental growth (labour, utilities, maintenance) and can no longer be absorbed
- the homelessness service component is unfunded

Under the current NHHA and with the lack of a National Strategy setting out the public policy settings for both the homelessness service system and rooming houses, our business model is fundamentally broken.

Funding the structural gap between our low rental income (capped at 25% of the lowest incomes) and our higher costs (to service our cohort's needs) would enable us to maintain and progressively improve our ageing properties that are no longer fit for purpose.

Funding this gap would recognise the service component, additional to tenancy management, necessary for a housing first response as integral to the homelessness service system. It would also enable on-site concierge support where needed most, which would cost-effectively de-escalate incidents, improve neighbourhood experience and improve tenant outcomes.

- ***Over time the rental revenue no longer provides opportunities for SCH to meet cyclical maintenance, property upgrades or financing costs.***
- ***Asset transfers and maintenance subsidies will keep old buildings fit for purpose and enable upgrades***

*Development risk is being shifted to housing providers presuming bigger is better, despite economies of scale not guaranteeing better resident outcomes*

In Victoria there are large Housing Associations and smaller, generally local area-based Housing Providers. For most Housing Providers, our size becomes a challenge when the development risk is being transferred from government through the Big Housing Build. This is driven by a desire to 'move fast' and deliver 12,000 properties within 5 years to significantly impact on the social housing shortfall.

While a useful strategy for CHPs who are targeting low-medium income earners and seeking to provide affordable housing, the funding is time limited and development skills and construction capacity are not core skill sets of tenancy management agencies.

Development requires us to retain or access specialist professional skills to secure grants, assemble land and deliver large projects as well as to complete complex financial modelling, undertake fundraising and communicate effectively beyond the local community. This is not funded and was previously not a core ongoing function of Housing Providers.

Additionally, the need to foster multi-partner projects and nature of milestone payments mean that the 'front end' risk (project bid, project planning and detailed design costs) must be financed by our rents, putting pressures on cash flow. Costs of participating in competitive funding rounds under the Victorian Big Housing Build are high, even for smaller projects (Approximately 50K+ to apply).

This results in Housing Associations, who have depth and capacity, being more successful and creates barriers to entry for smaller Housing Providers rather than foster collaboration and cooperation.

We assert that there is a clear and distinct role, alone and in partnership, for 'boutique' locally responsive housing providers, and that the supported tenant and tenancy management model we deliver has evolved in direct response to localised needs. Bigger does not always guarantee better tenant outcomes.

- ***Government ownership of community housing titles does not facilitate opportunities for housing innovation in refurbishments or developments***
- ***Economies of scale relating to property development do not translate into better outcomes through tenancy management***

### Where does this leave SCH - a stronger future for CHPs?

Under the current NHHA and funding arrangements there are limited options for smaller CHPs such as SCH who support a narrow, very low income, high need cohort. Ironically, this is the cohort that most critically requires appropriate, permanent and affordable housing.

The revised NHHA must address and fund this structural operational deficit. Our locational differences and the additional support we provide to support our residents needs requires acknowledgement and funding.

We believe there is a significant benefit for our resident cohort inherent in smaller, locally nuanced services, who operate efficiently and deliver excellent services and support.

A more efficient model whereby (some) homelessness support services and housing support is more integrated into tenancy management will see better outcomes and more sustained tenancies.

The Victorian Government's recent move to exempt Community Housing from council rates would have saved SCH \$160K per annum. This initiative was welcomed and would have made a material difference to our financial position. That said it was, to some degree, a band-aid response that would not have addressed decades of underfunding that has placed pressure on the social housing system. For example, these savings would not fully fund one urgently required balcony maintenance repair of the Director of Housing's property in Carlisle Street, St Kilda - our responsibility under the General Lease.

### Address decades of underfunding

Despite the NHHA the number of public housing properties (428,000 in 2017) continues to decline and the number of social housing properties has now been largely static for 20 years.

At a time of population growth, low interest rates and economic expansion this suggests that the system is grossly underfunded.

### Business as usual is no longer an option

We appreciate that to sustain *business as usual* under the current funding arrangements is not an option for SCH. The current funding models will force us to either expand our geography, broaden our focus away from the local high-need cohort, partner, merge or exit.

However, we house people with complex drug and mental health requirements and these people require supported accommodation and our business model is evolving towards that, with the development of the Common Ground facility in Wellington Street, St Kilda. This model is not required in all communities, but is critically required as a response to homelessness in inner urban environments with entrenched and growing levels of homelessness and rough sleeping.

#### SHSC geographical location of client – SA3, SA4, RA, GCCSA<sup>1</sup> - Client count

Financial year	2015	2016	2017	2018	2019	2020	2021
Melbourne City	2,106	2,444	2,620	2,665	2,936	3,189	3,828
Port Phillip	3,246	3,012	2,800	2,591	2,491	2,353	2,152

We do not support a future of fewer, larger CHPs operating nationally, in the absence of hyper-local, 'boutique' providers able to respond to local needs. We see a strong future for both small and large CHPs, and a broader range of funding and service delivery models that align with particular locational needs (homelessness, LGBTIQ, Indigenous, Mental health etc.).

Typically, when undertaking feasibility studies of potential new housing developments, fewer properties if any, are allocated to singles on very low incomes, with complex support requirements and histories of trauma. This group is removed to make developments stack up financially. This is understandable as social housing providers are required to contribute, typically through debt, to the overall costs of each development and *cannot afford* to house this group. From a financial perspective, they are a poor business decision.

For agencies such as ours to continue to do the heavy lifting of housing this cohort, we need greater support to lead developments, including contribution waiver for new developments.

### Ensure that CHPs are able to meet current operational and future needs

The current system runs at a loss, does not cover ongoing operational costs and cannot fund maintenance and growth.

<sup>1</sup> <https://reporting.aihw.gov.au/Reports/openRVUrl.do>

While this situation is appropriate for government, who can rely on consolidated revenue to deliver essential services, for CHPs this is unsustainable.

Every tenancy we manage and every upgrade we deliver, results in an increased loss. As more of our tenants are from the lowest-income households, our rental income falls. As we upgrade away from shared facilities, the number of tenants, and rent income diminishes.

### **Securing the future role of Community Housing**

The unsustainable operating environment for CHPs could be enhanced through:

- removal of investment contribution typically required in capital grant rounds from smaller CHPs
- transfer of public housing stock to not-for-profit CHPs, allowing CHPs to raise debt
- maintenance subsidies to keep old buildings habitable
- complex cohort housing subsidies - to support the most complex tenants' needs
- expand Commonwealth Rent Assistance to all community housing tenants, and lift rent cap to 30% (not 25%) for CHP managed public housing
- increased capital funding for stock replacement, expansion, and repairs, and retain development capacity within State Departments of Housing to support CHPs

## **Recommendations**

### *Assessing the performance and suitability of the agreement*

The current NHHA does not recognise the importance of a Housing First approach in the homelessness service system, (such as through a Common Ground facility) that effectively integrates homelessness services with social housing.

The revised NHHA should

- recognise the specific needs of the 'hardest to house' lowest income cohorts
- prioritise upgrades to ensure fit for purpose stock for those residents currently in sub-standard rooming house stock, and when upgraded, facilitate stock transfer
- recognise the maintenance challenge faced by rooming house providers and fund this as a priority to ensure retention and availability of existing stock

### *Issues across the housing spectrum*

Social housing is critical infrastructure and is the best solution for homelessness prevention. However, the current NHHA considers the full housing continuum, to the detriment of the lowest income earners, and the support needed for them to remain in stable, safe, and secure housing.

The revised NHHA should

- integrate funding for homelessness services (such as the Concierge function in a Common Ground facility) as an addition to rental income to address the structural funding gap - a Tenancy Management Plus approach
- recognise and fund housing agencies for the structural shortfall between capped rent income and the true cost of providing and maintaining social housing and support services
- respond to a (new) National Housing and Homelessness Strategy that articulates the role of smaller CHPs in the homelessness support and social housing system.

### *The supply side of the housing market*

To improve the supply of social housing and modernise the critical CHP sector, the revised NHHA should enable:

- funded joint State/CHP Asset Improvement Plans to maintain and improve poor amenity stock, including a maintenance subsidy to keep old buildings habitable

- public housing stock transfer - allowing CHPs to access additional stock, finance and ability to secure debt
- a complex housing subsidy to recognise the role of some CHPs in the homelessness support system