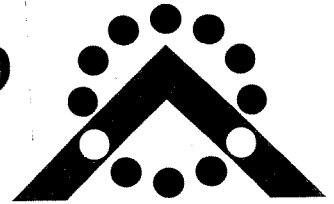


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**nsw Federation of
Housing Associations inc**

Suite 301
64-76 Kippax Street
Surry Hills nsw 2010

Telephone (02) 9281 7144
Facsimile (02) 9281 7603
email nswfha@communityhousing.org.au
www.communityhousing.org.au

2 March, 2006

The Committee Manager
Public Bodies Review Committee
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Ms Watson,

Thank you for agreeing to extend the time available to provide a submission to the Committee's Inquiry into the Allocation of Social Housing. Please find enclosed a copy of our submission.

The NSW Federation of Housing Associations sees the Inquiry as a very important opportunity to allow the Parliament to better understand the serious problems confronting the supply of affordable housing in NSW, the implications for social housing supply and allocations and the role that community housing can play in this situation.

If you have any questions about the submission, please call me on 9281 7144 ex 202 or 0409 669 936 or e-mail on adam@communityhousing.org.au.

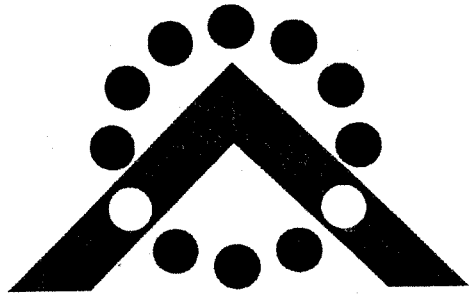
I also hope that, as the representative body for almost 90% of all community housing, there will be an opportunity to discuss the issues raised in the submission with the Committee at its public hearings, or in any other forum that would assist the Committee.

Finally, you will be aware of the Legislative Council's Inquiry Into Community Housing. The Federation made a very substantial submission to that Inquiry, covering in great detail many of the issues of service model, constraints and future opportunities for the sector. The submission is too large to include here, but it may help the Committee if it were to view that submission. I assume that a copy is held in the Parliamentary Library. If you are unable to access a copy, I would be happy to make one available.

I look forward to hearing from you and wish the Committee well with the Inquiry.

Yours sincerely

Adam Farrar
Executive Director



**nsw Federation of
Housing Associations inc**

**Submission to the
Public Bodies Review Committee
on the Inquiry Into the Allocation of Social
Housing**

February 2006

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1. The NSW Federation of Housing Associations

The NSW Federation of Housing Associations (the Federation) is the industry peak body for housing associations in NSW.

Housing associations are not-for-profit community housing providers whose principal business is managing long term housing for low and moderate income households. Because of this, they differ from co-operative housing, which is self-managed by tenants and from housing provided as an ancillary activity to a wider community service role, or short term and crisis homelessness services funded through the Supported Accommodation Assistance Program (SAAP).

Housing associations manage 87% of all tenancies in CSHA funded community housing properties and 89% of *all* community housing tenancies in NSW. Housing associations manage 12,485 properties, 80% of which are funded through the CSHA. This is currently 9% of social housing in NSW and is expected to rise to 10% by June 2006.

All 43 housing associations in NSW are members of the Federation. In addition we have 68 associate and affiliate members providing housing related services or who are housing associations in other jurisdictions.

The Federation provides a range of services to support the development and performance of housing associations and the wider social housing system in six core areas:

- **Representation and sector co-ordination** – this is our fundamental role as the peak for housing associations in NSW. We provide a voice for members, and enable them to work together as a mutually supportive sector and to articulate and pursue their common aspirations.
- **Research and sector development** – this supports the members' directions and aspirations with effective research and policy development on key issues affecting the development of the sector
- **Relationships and alliances** – this ensures that associations are promoted and well-known to all other stakeholders who might help our development, and to allow associations to play their part in the wider community sector
- **Training** – this is our most prominent direct service to members and others in the social housing sector. We are a Registered Training Organisation. Through our Centre for Training in Social Housing, our accredited vocational training and other short courses support and build the capacity of organisations and the careers of workers in the sector. In addition we deliver the training for Department of Housing trainees, in partnership with Swinburne University. We also provide social housing training in the ACT and housing management training for SAAP workers in NSW and recently in Tasmania. We broker access to high level courses for senior managers and association directors in partnership with bodies such as the UTS Graduate School of Management and the Australian Institute of Company Directors.

- **Supporting organisations** – the Federation directly supports individual members, their boards and management, in their work as housing providers. This ranges from free advice provided through our Housing Hotline, to consultancies on strategic planning, organisational reviews, tenant participation, through to intensive organisational change with organisations experiencing management difficulties.
- **Good practice resources** – through our Good Practice Unit, we also support our members and other providers by developing and continually updating resources on good practice social housing management. It includes the series of Housing Hints (produced in partnership with the Aboriginal Housing Office), Across the Board bulletins for directors of housing associations, comprehensive Good Practice Guides, and a good practice data base.

Particularly through our Centre for Training in Social Housing and Good Practice Unit, the Federation has become recognised as one of the leading experts in community housing management in country.

Contact:

Adam Farrar

Executive Director

(02) 9218 7144 ex 202

0409 669 936

2. The submission

The Federation welcomes the decision by the Public Bodies Review Committee to establish an Inquiry into the Allocation of Social Housing. There are at least three reasons why this Inquiry is particularly timely.

The steadily reducing capacity of social housing to respond to the needs of vulnerable households is driven by the crisis in the supply of affordable housing across the country and the inability of the social housing system to meet this gap. This Inquiry is a timely opportunity for the Parliament to focus on this major public policy issue.

Similarly, it is a timely opportunity to focus on the changing balance of responses within the social housing system – both here and in many other countries. In the UK, the US, and in Europe, the balance in the delivery of social housing has shifted markedly from government owned and managed housing to housing developed and managed by not-for-profit housing providers. The major reason for this is the capacity of such organisations to raise additional finance or enter into joint venture partnerships to renew run down stock and estates and to expand supply. This significantly expands scarce government resources. The other reason is that locally based service delivery is able to respond better to local needs and opportunities and so provide tenants with better services and opportunities. In NSW the 2005 social housing survey showed a marked difference in the proportion of public housing tenants and community housing tenants who were satisfied or very satisfied, with 86% of community housing tenants compared to 65% of public tenants¹.

Finally, the report is timely because it may assist with a proper understanding of the effects of the new approach to the allocation of public housing under the recent government policy 'Reshaping Public Housing'. This is a major policy change with very significant policy ramifications in other areas and for local communities. This Inquiry provides an opportunity to explore what policy directions will be needed to complement this new direction.

This submission will try not to replicate information presented in other submissions. In particular it will assume the data presented in chapter 2 of the submission from NSW Shelter². The NSW Federation is a member of Shelter NSW and has provided comment on that submission in our capacity as a member. However, the Federation position is represented in this submission.

We will focus our comments principally on the following terms:

- The effectiveness and appropriateness of current allocations
- The role of community housing in meeting the demands for social housing
- Other matters

¹ TSN Social Research 2005. *2005 Community housing national social housing survey. A report prepared for the AIHW*. Perth

TSN Social Research 2005. *2005 Public Housing national Social Housing Survey: Prepared for the AIHW*. Perth

² Shelter, February 2006 *The supply and allocation of social housing in New South Wales*

Summary of recommendations

R1. That the government invest significant additional resources (in capital and land) to increase the supply of affordable housing; as well as introducing a package of measures through the planning system and targeted tax measures, to ensure that this investment is most effectively leveraged. The package should be at least \$300 million a year.

R2. That the community housing sector play a complementary role to public housing by being explicitly identified as the basis of an expanded social and affordable housing system.

R3. That the government take advantage of the efficiency gains from the charitable status of community housing providers and the ability to charge more sustainable rents due to the availability of Commonwealth Rent Assistance to their tenants, by directing future social housing growth to the sector.

R4. That community housing explore a range of rent models, including discount market rents and the rental models reflecting different income bands up to and including moderate income households, along the lines of City West Housing company.

R5. That the capacity of community housing providers to leverage public funds through borrowing, and development partnerships, be secured by transferring title (secured by a government charge) to appropriately registered community housing providers.

R6. That community housing providers maintain the current targets of 20% of all new allocation to be made to tenancies with formal support provision. But that the tighter eligibility requirements under 'Reshaping public housing' not be extended to community housing providers.

R7. That community housing provide a continuum of options that includes affordable housing options for lower income working households.

R8. That community housing providers maintain locally determined allocations policies to best respond to the needs of the community and continue to provide ongoing tenancies to build community stability and reduce workforce disincentives. But that measures be further explored to ensure that each association provide a one-stop-shop for applicants to improve access.

3. What is community housing?

Community housing is medium to long-term housing managed by non-government, not-for-profit organisation.

The term 'community housing' may also refer to the sector of the industry that manages this housing, and in this submission we generally use it in this way.

Characteristics

This is a very broad definition, reflecting, in part, the diversity of activities undertaken by community housing providers. There are a number of other characteristics that can be used to identify community housing. However, for each there will be exceptions, as providers innovate in response to local needs or to ensure their sustainability. Some of the characteristics that broadly typify community housing providers are:

- Community housing is predominantly part of the social housing system, targeted to low and moderate income households. All community housing providers house a majority of tenants who are eligible for public housing, or specific affordable housing programs. However, some may also house other tenants as a separate part of their business. In these cases such tenants will not benefit from any subsidies provided by the Department, and indeed, may cross subsidise government funded programs.
- Community housing aims to have a strong local focus to its operations. In most cases, this means restricting their activities to a defined region. However, a small number of organisations are operating across a wider market. Even in these cases, a capacity to have local knowledge, local relationships and a strong capacity for local responses remains a central business objective.
- In NSW most community housing properties are either owned by the government, through the Land and Housing Corporation, or headleased from the private rental market (in which case the organisational costs of managing these tenancies and the difference between the market rent and the an affordable rent is subsidised by government). In NSW very few providers hold title to the properties they manage. In other jurisdiction, internationally, and under proposals currently before government, providers would own this stock. However, the public interest is entirely protected by means of a government charge and through the registration and regulation of approved providers. In most other countries, and a number of other jurisdictions, community housing is partly financed by joint ventures or debt raised individually or through group structures by the sector.
- Currently almost all community housing is rental housing. But in other countries such as the UK or the US, providers offer a range of products including shared equity and home ownership products for low income households.

- Currently in NSW community housing providers principally undertake tenancy and property management. In most other jurisdictions, providers also undertake procurement and often the development of new housing. It is hoped that providers in NSW will be able to take up this role so that they will be better placed to expand the supply of social and affordable housing. Providers currently undertake some other activities, such as maintenance services, or administering the Tenancy Guarantee program.
- Community housing providers place a premium on tenant participation. This ranges from facilitating active engagement in the life of the community of tenants, through advice on service delivery, to participation in the management or governance of the organisation. Most housing associations have tenant board members. For housing co-operatives this is the centrepiece of the model, with tenants undertaking all the management and governance of the organisation. For many providers, tenants will be a large proportion of the membership of the organisation. Tenant participation plays three roles: it ensures the most responsive service delivery, it provides accountability to tenants, and it is a key strategy in building the skills and capacity of tenants to participate more widely in work and the community. A number of CEOs of housing associations began their association with the sector as tenants.
- A very significant part of the work of effective community housing organisations is undertaken in partnerships. The most obvious of these are with support providers. However, they frequently include partnerships with local government, which may have acquired housing through various planning powers that they manage through a local provider. The same is true of church and other welfare agencies. A number of associations work in partnership with public housing managers on predominantly public housing estates. More recently a number of partnerships with developers or other companies have been established. The most significant of these are the partnerships with the major developers and financial institutions tendering to undertake the redevelopment of the Bonnyrigg housing estate.

Community housing is usually distinguished from crisis accommodation (such as refuges) managed by organisations funded through the Supported Accommodation Assistance Program (SAAP)³. SAAP is intended combine support and accommodation for people who are homeless or at immediate risk of homelessness. In NSW there are 1,429 units of crisis accommodation, compared to 13,260 units of long term accommodation managed by community housing providers. However, the boundaries between these two systems blur (as they should to provide better service linkages for clients), as community housing providers have taken on some management of CAP funded transitional housing with SAAP organisations providing support. These arrangements are usually the subject of formal agreements between the two organisations.

So there is a clear distinction between crisis accommodation or support for transitional housing for people who have been homeless, provided by SAAP services, and medium to long term tenancy management provided by community housing providers. However, many community housing providers do target a significant proportion of their housing to

³ The properties managed by these organisations are funded through a linked program, the Crisis Accommodation Program (CAP)

special needs groups. These too may require specific support partnerships with mental health services, family support services and the like.

Types of community housing providers

There are three broad types of community housing organisations:

- *Housing associations* – Housing associations are specialist not-for-profit housing management (and development) organisations. There are 44 housing associations in NSW, managing from 30 to over 1,000 properties⁴. Housing associations manage 12,485 properties, 80% of which are funded through the CSHA. This is 87% of all community housing tenancies in CSHA funded properties, and 89% of all community housing tenancies in NSW. Currently it is 9% of social housing in NSW and is expected to rise to 10% by June 2006.
- *Housing co-operatives* – Housing co-operatives are tenant managed. For this reason they are usually smaller. There are over 40 housing co-ops managing over 640 properties or around 6.5% of all community housing. As noted above, these provide a very strong basis for enhancing the participation and social capital of groups with a community of interest.
- *Other non-housing specific housing managers* – There are at least a further 625 properties funded by government in previous periods⁵ that are managed by 333 organisations for which housing is not their primary purpose. These include churches, service groups, local government and welfare agencies. Recently, the management of much of the church run properties has been undertaken by an umbrella association, with the church agencies retaining responsibility for much of the tenant support.

As well as the 'mainstream' community housing organisations, there are over 6,000 Aboriginal controlled managed properties, administered through the Aboriginal Housing Office. A significant number of these are community managed. This submission does not cover this sector.

Standards and regulation

The community housing sector has a strong performance focus.

Registration - All providers are now required to be registered with the Office of Community Housing. A performance based registration system has been introduced into the sector over the past 12 months. This provides a rigorous regime of reporting and

⁴ This number of associations includes two specialist organisations – City West Housing Company, which was established by government to manage affordable housing developed in part through developer contributions in the Pyrmont Ultimo precinct and recently Green Square.; and Churches Community Housing, which manages housing owned by a large number of church agencies.

⁵ Largely funded through now defunct programs like the Local Government and Community Housing Program

evaluation, leading to registration as either and A, B or C grade provider. Organisations with a C grade are required to achieve a B grade within a fixed time frame or lose all government support. Legislation is due to be introduced to amend the Housing Act to provide a legislative base for the operations and registration of community housing providers.

Accreditation – Five years ago NSW introduced a voluntary quality assurance system of external assessment against a set of quality standards. This is administered by the Accreditation Unit in the Office of Community Housing. These standards are the National Community Housing Standards. 75% of housing associations are accredited.

Code of Practice – The industry itself developed and administers a voluntary Code of Practice for housing associations. This was introduced to drive quality and performance some years before the introduction of accreditation. The Code is administered by the NSW Federation of Housing Associations and provides a basis for complaints against Code signatories to be investigated.

Community housing is funded and regulated by the Office of Community Housing, a business unit of the NSW Department of Housing.

4. The challenge – supply and demand of affordable housing in NSW

Like the rest of Australia, NSW is still in a deep housing affordability crisis. It is impossible to understand anything about the supply and allocation of social housing without first understanding the situation in the overall housing market which drives demand for social housing, and against which the social housing response must be assessed.

Despite the recent two year dip in housing prices in NSW (which may already have come to an end⁶) the unaffordability of housing is structural and long run. A recent international study placed Sydney as one of the least affordable city in the world – ahead of London and New York.

The affordability crisis is not a problem of *aggregate* undersupply, but rather of misallocation. There is a long run misallocation of supply and demand of housing at prices that are affordable to households on moderate, low and very low incomes.

4.1 The drivers of our housing affordability crisis

One of the main reasons for this is that demand (and returns) at the top end of the market is strong enough to attract most new investment. The other is that investment (and pricing) is driven more by expectations of capital gain than by the level of demand for housing and the capacity of renters and owner occupiers to pay.

The latter problem has been compounded by Commonwealth taxation policy, particularly the combination of negative gearing, which has allowed investors to carry rental losses, and capital gains tax treatment which increases the returns on sale. While the worst of the house price 'boom' was also accentuated by a period in which investment in shares was relatively less attractive than investment in property, the underlying structural drivers of house price inflation are unchanged.

There are a number of other drivers of a housing system that produces most housing at prices that are unaffordable to most of the market. These include the cost of land, largely due to environmental constraints on major metropolitan areas such as Sydney. The Metro Strategy aims to ameliorate this over the next ten years through new land releases. However, the cost of infrastructure (including transport infrastructure) will limit the extent to which this can bring down prices. Unlike countries such as the Netherlands, where land is at premium, Australian government have not taken an interventionist approach to the pricing and release of land. Another change that has been pointed to⁷ is the increased volume of finance available since the deregulation across the world of the finance market. This increased volume of funds chasing a market that is ultimately limited by the number of households is one of the most consistent international explanations for increased house prices.

⁶ SMH 25 February reporting on ABS data for the final quarter of 2005

⁷ National Housing Conference 2005

One very important social and demographic change, of particular importance to social housing, is the structural change that has increased the demand for rental accommodation. Over the past two decades we have seen a significant reduction in the proportion of households purchasing their homes⁸. For a time this had been masked by the increasing proportion of households who had finally paid off their homes. But now it is clear that this is deep change. In part it is driven by later ages at which children are leaving the parental home, and later age of child birth. It is also driven by higher levels of debt amongst younger people, most obviously HECS. And it is driven by the changes in the labour market, with greatly increased casualisation or short-term and part-time employment. These have reduced the capacity to risk the long-term commitment of home purchase.

On the other side of the ledger, the transmission of housing wealth to provide a leg up into home purchase is declining – particularly for low and moderate income households – as housing wealth is being consumed for the aged care costs of a longer lived population. Ironically, the two trends – the later age at which children leave home, and the longer life of the generation at the other end of the life cycle, is putting pressure on the transmission of wealth. The current generation of home owners has been steadily increasing their investment in the current home, sometimes because of a culture of over-consumption and the ready availability of finance, but more significantly to make space for children or parents now living in the family for far longer periods.

The perverse results of this are that such households may end their working life with a continuing housing debt, which reduces the net housing wealth available for transmission to the next generation; and in the meantime, has further pushed up the price of housing and the amount of housing consumed.

This has meant that the demand for rental housing has increased and the rental market has become a more significant part of the housing system. The new investment in the market has responded to this demand. But for reasons discussed above, it has done so at the top end of the market rather than investing in rental housing that is affordable for moderate, low or very low income households. This also points to a change in the nature of investment in rental housing. For most of the last century rental investment was undertaken by ‘mums and dads’ or what has been described as ‘accidental investors’⁹. These investors did, and do, invest at significantly less than commercial rates of return. Now, however, they have been joined by a new class of rational investors, responding to the new demand for rental housing, but chasing commercial returns.

Not only has this forced up house prices, it may be accentuating the vulnerability of the rental market to investment cycles. With the current decline in investment with the downturn in house prices, vacancy rates have fallen from around 4% in 2001-02 to 2.1% in February 2006, pushing up rents by as much as 5.5%¹⁰.

⁸ Yates, J. Has home ownership in Australia declined? Research and Policy Bulletin Issue 21. AHURI, May 2003

⁹ With the exception (particularly in the first half of the century) of a number of notorious ‘slum landlords’.

¹⁰ NSW Real Estate Institute, reported in the SMH, 25 February 2006.

4.2 The effects of market failure

There are a number of different effects of the current housing crisis. It is essential to understand this, since the different effects require different policy responses.

A deepening divide in home ownership

First, we are well down the track of creating a deep generational division between those who have already gained access to home ownership and those who have not. This is a division which then increases with every generation as those who have current housing wealth, see this increasing, can afford to stay in the market and are more likely to be able to transmit this to their children. Those locked out of the market, far from increasing their wealth, are more likely to be impoverished by excessive rental costs, and have no capacity to raise debt for other life cycle costs. This division compounds with each generation.¹¹

The implications of divergent access to housing wealth are very severe. Perhaps one of the most important is that home ownership is one of the most important protections against poverty in retirement. With an aging population, the current polarisation is almost certain to create very significant additional aged care costs for government and increased general welfare costs.

Once in the home ownership market, mortgage costs decline in real terms and as a proportion to income and housing wealth increases. This both increases savings and disposable income. This is not true of renters and as a result, their disposable income to devote to areas such as children's education is significantly lower, leading to reduced employment opportunities. Again this cost is born by the community in terms of unemployment and skills shortages.

Locational impacts

Whether it is the unaffordability of home ownership or of rental housing, housing unaffordability leads to spatial polarisation. Low and moderate income households are forced into areas with lower housing costs, but with lower access to employment and other services.

This not only creates concentrations of disadvantage, but has significant impacts on economic growth and labour costs. The mismatch between necessary jobs and available labour is now acute in many areas of the state. As just one example, Willoughby Council now busses council workers from the Central Coast due to the inability of workers to live locally. Other key areas of labour undersupply include agricultural workers in the

¹¹ A very interesting illustration of this phenomenon has occurred in the US between black and white *home owners*. A number of policy and social factors conspired to force house prices down in black neighbourhood while house prices escalated in white neighbourhoods. Studies which compare household heads from these two types of neighbourhoods with exactly the same occupations show markedly different outcomes for their children in access to education, health and like.

Riverina, home care workers in many higher income areas, and hospitality workers in a number of coastal resort areas.

Economic impacts

The economic impacts of rising house prices are significant and to some extent contradictory. These are at three levels.

First there is a clear benefit in maintaining high levels of home ownership. High housing wealth (whether or not it can be realised) is one of the main underpinnings of the high levels of consumption that has supported the Australian economy over the past decade. It is one of the main drivers of the consumer confidence; and has underpinned the much of the high level of consumer debt and flexibility. House construction itself is a major economic driver and has significant multiplier effects through the purchase of household goods. For far too long, governments have focussed on this economic impact, often celebrating the long run increase in housing costs.

The other side of the coin, however, is the major macro economic risk associated with housing booms. Particularly in Australia, housing is significantly overvalued, and is supported by very high levels of household debt. A significant revaluation of housing or any significant rise in the currently very low interest rates will leave a many household exposed and pose significant risks to financial institutions. Reserve bank governors have become increasingly nervous about these risks.

But the risky balance between the two economic impacts above is greatly destabilised by the widening generational divide between housing rich and housing poor. At the same time, the deepening economic restraints on regional economic growth through labour market rigidities associated with lack of access to housing, is acting as an economic brake. And the growing externalities in terms of unemployment, health care costs, aged care costs, and costs associated with concentrations of disadvantage such as police, child protection and human services are being borne by government. To date, governments, particularly state governments who bear many of these costs, have largely ignored this problem. Over the past few years, local government in particular has begun to express growing concern, but has lacked many of the policy levers to address the problems.

Impact on moderate income renters

However, the main burden of housing affordability falls on lower and moderate income households. We have noted the impact on life opportunities and outcomes in terms of education, health and employment. In this section we want to simply focus on the extent of housing stress. Housing stress is generally identified as paying more than 30% of gross household income in housing costs, and is usually limited to the lower two or three quintiles of household income. It is vital to appreciate that because housing expenditure is not discretionary, high housing costs means lower income to meet all other needs – food, health, clothing, education, travel and so on.

A recent AHURI report has found that in 2002-03 there were 183,000 households, with household incomes in the bottom 40%¹², living in Sydney paying more than 30% of their

¹² A total household income of less than \$19,084 a year

income in housing costs and a further 115,000 living in non-metropolitan NSW. 170,000 such households in NSW were paying more than 50% of their income in housing costs. These households are defined as being in housing crisis.¹³

While many home purchasers may choose to experience periods of housing stress in order to increase their housing wealth and disposable income over the medium term, this is not a trade-off open to renters.

While this report does not provide state results for renters, nationally 59.74% of households in housing stress are renting. In NSW this would mean 178,000 households who are renting are in housing stress. This is around 35% of all renters in NSW.

One very important finding of the AHURI study is that this is not simply a problem for households who are unemployed or out of the workforce. Forty three percent (43%) of households in housing stress are in employment. Particularly in markets like Sydney, low income workers are struggling with unaffordable housing costs.

There are many reasons that a household might be in housing stress. They may be constrained to pay higher housing costs so that they can be near schools or jobs. Their incomes may have temporally fallen – a growing phenomenon with the casualisation of the workforce. But it is vital to appreciate that the underlying cause is an undersupply of low cost rental housing.

Judy Yates and Marianne Wulff have undertaken two analyses¹⁴ of the match between the number of low income households and the amount of rental stock that is available at a rent that would prevent them being in housing stress. They show that while the growth in the supply of rental housing outstripped the growth in households over the 15 years from 1986 and 2001, this has been at the top end of the market. And this has got worse in the 5 years to 2001. In this period rental stock increased by 7.6%, but only in the top quintile of rents.

In the first 10 years analysed, the number of properties available fell in the low rent category; but in the five years to 2001, the amount of affordable stock fell across the whole of the bottom half of the market.

In the decade from 1986 to 1996 the fall in the supply of housing affordable to low income households fell at the same time as the number of such households increased. In the next five years, the number of low income households has fallen as employment has picked up, but the loss of affordable stock has accelerated.

In 1996 there was a total shortfall of rental properties affordable to low income households of 50,000 dwellings nationally. To make matters worse, 100,000 of the affordable dwellings were occupied by households who could afford to pay more, bringing the actual shortfall to 150,000 properties nationwide.

¹³ Yates, J & Gabriel, M. *Housing Affordability in Australia*. AHURI. February 2006

¹⁴ Yates, J, Wulff, M & Renolds M. *Changes in the supply of and need for low rent dwellings in the private rental market*. AHURI. March 2004.

Of course this would only provide us with a measure of actual affordability problems if housing were a perfect market and the allocation of affordable housing precisely matched the demand. Of course housing cannot be moved about in this way (nor can households), and as we have seen above, the real need to access affordable is far larger.

By 2001, despite lower numbers of low income households, the loss of low cost housing and the restriction of all new supply to the top end, saw the absolute shortfall rise from 50,000 across the country to 59,000. If the same proportion of low cost properties were occupied by households that could afford to pay more, then the shortfall would rise to 177,000 or 11.3% of rental stock. This is more than the total additions to stock (94,000) over the five year period.

In the NSW market matters are even worse. In 2001 there was a cumulative absolute shortage of 61,000 affordable dwellings in NSW (not taking into account the affordable stock occupied by higher income households). 36,000 of this is in Sydney, where the cumulative undersupply reaches further up the income scale. In effect, even with perfect markets, it would be impossible for 11.5% of renters in Sydney to find housing they could afford. This is 70% of the low income renter households earning less than \$23,200. A sixth of all households renting in Sydney are in this income band. The shortfall of low cost housing in Sydney alone is almost twice the 19,000 properties added in the five years to 2001.

So, on the supply side, NSW needs between 45,000 and 176,000¹⁵ new affordable rental dwellings. Current investment patterns are adding absolutely no such dwellings and the net increase in the supply of social housing in 2005-06 is predicted to be 477 dwellings¹⁶!

Homelessness and deinstitutionalisation

Homelessness is the most extreme impact of housing unaffordability. The definition used by the Australian Bureau of Statistics, developed by McKenzie and Chamberlain, includes people who are completely homeless and people who are inadequately housed, in temporary accommodation or 'couch surfing' in friends homes. On this definition there were 99,900 people in Australia who were homeless on census night 2001. In NSW 3,229 people were counted as in improvised shelter or sleeping out. 43,000 lived in caravans, cabins or house boats.¹⁷

Another measure of homelessness is drawn from the data collected for the Supported Accommodation Assistance Program.¹⁸ In 2002-03 the average daily number of clients receiving a crisis accommodation service or with a valid unmet request for accommodation was 5,078. 1,650 of there were accompanying children. This represents 3,428 homeless households.

¹⁵ The estimate of renters in housing stress.

¹⁶ NSW Dept of Housing. *2005/06 New South Wales budget commentary on the Housing Policy and Assistance Program*. May 2005 (p27)

¹⁷ ABS. *2001 Census of Population and Housing*

¹⁸ AIHW. *SAAP National Data Collection: 8. Demand for SAAP Assistance 2002-03*. 2004

If we add the number of people identified by the census as sleeping out, we have more than 6,000 households in NSW homeless on any one night. Perhaps four times as many are temporarily or inadequately accommodated.

It is important to recognise that housing costs, while presenting a fundamental barrier, are only one reason for homelessness. An increasing number of homeless people are unable to sustain tenancies due to mental illness or substance abuse or other disabilities. This population has also become a steadily larger proportion of SAAP clients and of social housing tenants.

The reason for this is the steady reduction in institutional accommodation and care. It is now widely recognised that governments failed to invest in alternative care and accommodation in the community as institutions were closed. The result is today's mental health crisis.

This observation is particularly important because it is one of the main drivers of the approach to social housing allocations now being adopted in NSW.

4.3 Summary of the impacts of housing affordability

The current housing crisis in NSW is having major social and economic impacts.

Moreover, it will have even greater impacts in the future as the generational effects of a community divided between those with housing wealth and those without, the economic impact of regions whose economic growth and key services are increasingly constrained by the lack of the necessary workforce, the social costs in terms of health, aged care and social disruption arising from household poverty, and the costs of 20 years of failure to fund alternatives to institutionalisation, are felt.

The problem is squarely based on serious market failure, with all new investment going to the top end of the rental market while the absolute shortfall of stock at the bottom end grows. Without significant public policy intervention, the crisis can only deepen.

Crucially, the dimensions of the problem must be recognised. Housing must be made affordable for around 170,000 households in NSW. This will take a comprehensive policy package. It can be partly achieved through demand side assistance – mainly a Commonwealth role. It can be assisted by measures to limit the occupancy of low cost housing by households who don't need it, through new measures to regulate the private rental market, by increasing vacancy rates and by helping low income households to gain access¹⁹. It can be assisted by reducing the loss of low cost stock through tougher planning powers. It can be reduced by lessening demand for rental housing by lowering the barriers to home ownership. But ultimately it is a matter of supply. And the *minimum* additional supply of low cost rental accommodation required is 50,000. Any strategy that aims for less will have negligible impact on the major social and economic impacts discussed earlier.

¹⁹ See discussion below of the role of community housing private headleasing on this point

Part of this could be achieved by ensuring that a significant proportion of new land release and new in-fill development is limited to low cost housing. But it is clear that the majority will require specific new investment. The total cost of meeting even 75% of the required additions would be at least \$7-9 billion. Clearly such investment will have to be spread over five to ten years; and clearly only part of it can be met from public investment. But anything less than say \$300 million a year (40% of the required investment) of public investment will make little impact.

Finally, it is clear that this is not one but a number of linked problems:

- At the very bottom end, there is a crucial need to invest in accommodation for those who deinstitutionalisation has left without sustainable or adequate accommodation and support.
- Equally, there is a clear need simply for low cost housing for the quarter of the population with household incomes of less than \$23,000 a year, most of whom will be currently outside the workforce.
- There is also a pressing need for affordable housing for the 128,000 working households in NSW in housing stress and to improve the fit between lower paid workers and the jobs
- Finally, there is a need for pathways into home ownership.

Limiting public policy and public investment to only one of these will fail to address the problem, and fail to prevent the current and future costs to the economy, the budget and individual households.²⁰

²⁰ Although it is desirable to target our assistance effectively *within* each different policy objective.

5. Social housing supply and allocation

This section is in three parts.

- An overview of the way that social housing has been deployed to meet policy objectives – in particular, the current policy objectives of ‘Reshaping Public Housing’; and the way in which this affects allocations and supply.
- The limits on the supply of social housing
- The role of community housing in meeting these policy objectives and the implications for its allocations approach and growth

5.1 Overview

Social housing’s changing objectives

Over its 60 year history, the social housing system in NSW has had a number of changing policy objectives. At different times it has been used to meet one or more of the all last three objectives above.

Part of the original objective of social housing was to overcome the housing shortage that existed at the time of the end of the second world war. Menzies in particular, then sought to use this stock as a pathway into home-ownership through sale to tenants²¹. For much of the existence of public housing, it was explicitly targeted at low income working families, and went hand in hand with industry policy – sometimes very effectively, sometimes with disastrous results when industry failed to follow estate developments.

Falling real supply and rationing through allocations

However, over the past 20 years, social housing funding has been so constrained that it’s capacity to meet ongoing costs, historical liabilities and add new stock has all but disappeared. In 2005-06 a mere 477 new tenancies will be added²². In many other states the total social housing supply has fallen. The next section will briefly explain what has led to this impasse.

The impact of this on social housing allocation has been direct and simple. The growth of social housing has failed to keep pace with population growth. This has occurred over precisely the period that the number of households in housing stress has been growing, the demand for rental has been increasing and the amount of low cost rental stock in the private market has been falling.

²¹ Something that has happened in a number of different periods in different jurisdictions.

²² NSW Department of Housing. *2005/06 New South Wales budget commentary on the Housing Policy and Assistance Program*. May 2005 (p27)

So while the demand for social housing has increased, access to the shrinking stock of social housing²³ has been more and more tightly rationed. This has been done in two ways: first by reducing eligibility and second by limiting allocations.

Until recently, the reduction in eligibility has been achieved by freezing the income eligibility requirements, so that they have steadily fallen in real terms. Indeed a measure of how far they had fallen, some households dependent on social security payments were no longer eligible for public housing. For a time, the changes to allocations were achieved de facto by introducing a priority allocations list that, in many areas, was longer than the amount of stock that could be expected to become vacant. As a result few if any households were allocated from the wait-turn list. This frequently led to significant concerns from those on the waiting lists who could not understand why they were not being housed.

Reshaping public housing – a radical change

In 2005, however, Cabinet took a radical decision to cut thorough these dilemmas relating to allocation and eligibility. It decided to secure the current level of social housing stock rather than reducing it, as had been the experience in other states, who had sold down the stock in order to meet their liabilities. Instead NSW took the decision to meet these liabilities through one-off debt, use of Commonwealth CSHA funds, public private partnerships and by subsidising the day to day operations of managing the tenancies and properties with funding from consolidated revenue.

The trade-off was to accept that the public housing system would not grow. The decision not to increase the supply of public housing, despite the growing demand, reflects the financial crisis of public housing, which we will discuss later.

As result the rationing that had happened by default, would now be made explicit. In the new policy direction – Reshaping Public Housing – all allocations would be made on the basis of priority of need, and eligibility would be based, not simply on income, but on meeting additional criteria of special need. While the broad categories of eligible tenants have been announced, the methods that will be adopted to assess whether people meet these categories has not yet been made public.

Even more radically, access to public housing is now to be limited to period that a household continues to meet these criteria of special need. A change in circumstance will mean a loss of housing. One final radical change in allocations has also been identified as part of a separate Accord with other human service agencies that will run parallel to the Reshaping policies. This is to enable the human service agencies which will be needed to provide support to a tenant group that over time will become very high need, to nominate tenants to public housing. In these cases, allocations are largely ceded to another agency altogether²⁴.

²³ In relative terms

²⁴ It is important to note that the process for these nominations under the Accord has not yet been determined, and could involve a negotiated process with input from housing managers.

Implications of 'reshaping' for the housing policy challenge

What were the implications of these changes? The implications for tenants and for housing managers will be discussed later. At this point we are interested in the public policy implications.

These are very stark. First, the change means that, at least through its social housing system, government has explicitly dropped the three policy objectives discussed at the end of the previous section.

- To provide low cost housing for those without 'special needs' but with household incomes of less than \$23,000 a year, given that there is an absolute shortfall of around 50,000 properties available at rents they could afford.
- To ensure that affordable housing is available for the 128,000 working households in NSW in housing stress and to improve the fit between lower paid workers and the jobs
- To provide pathways into home ownership to overcome the generational division of between those with housing wealth and those excluded from this, with all the additional social costs associated with such exclusion.

The Premier last year made a commitment to developing a package of 'affordable housing' initiatives. It is crucial that these are bold and comprehensive enough, and well enough funded, to make a significant impact on the market over the next five to ten years. But they are currently conceived of as entirely separate from the public housing system²⁵.

The second implication is that the social housing system has now been redirected to meet the first of the objectives identified in the previous section:

- To invest in accommodation for those who deinstitutionalisation has left without sustainable or adequate accommodation and support.

In effect, the government has redirected its past investment in social housing to meet the needs created by the failure to invest in long-term housing and support, over the past 20 years of deinstitutionalisation.

It is important to acknowledge that the new eligibility approach also includes other very high needs groups that have arisen from demographic changes, as well as those who previously would have been part of an institutional care system. In particular, these are older people, young people and sole parent families. It is probably fair to say that young people are affected by deinstitutionalisation, particularly following changes to alternate care arrangements. Older people too, while the demand is due to demographic changes, are also part of the wider care in the community approach that accompanies deinstitutionalisation.

²⁵ As we will discuss later, they are not seen as separate from the community managed part of the social housing system – although they are seen as distinct businesses undertaken by community housing providers, to be quarantined from their social housing business.

It is also important to acknowledge that this policy change simply reflects the reality of a changing client profile in social housing, and the pattern of allocations brought about by the increased demand for priority allocations. Faced with a choice of expanding supply in the face of this demand or to make rationing of public housing far more explicit, the Government has chosen the latter path.

Implications for tenants and managers

Apart from not addressing the critical undersupply of affordable housing in NSW, this approach also has some implications for those who are housed.

On the positive side, the overall package achieves two things. First it has provided explicit subsidies and a loan facility that will enable public housing to be brought up to standard²⁶ and to meet its day to day management costs in the short term. Second, it has allowed the Department to explicitly focus on providing appropriate management for tenants with very high needs – particularly those with support needs. This requires different expertise and far more systematic support responses. While gradual progress had been made to better respond to high needs tenants, the new package might allow a systematic response to be provided.

However, there are three major limitations or risks with the policy.

- First, it is a very high costs approach. As the proportion of very high needs tenants increases as the new eligibility criteria take effect over time, the services required of Department staff will change considerably. There is both a need for greater expertise in sustainable allocation, and in brokering in the right support services. While some of this will fall to increased number of specialists, such expertise will also be required of front line staff. This skill set does not yet exist, and all staff will have to be retrained. The staff: tenant ratio will also increase. This alone will significantly increase costs. At the same time, the cost of support services is met by agencies outside the Department. These funds are already severely constrained and no additional expenditure is planned as part of the new housing approach.
- Second, the approach increases workforce disincentives. In its simplest form, the policy says to tenants: if you get a job you are likely to lose your home. This militates against participation and against social cohesion. The social support that is built on long term relationships and a sense of ownership, will be less likely, increasing isolation and anti-social behaviour. The current responses to this are entirely contradictory, with the Commonwealth reducing incomes and requiring training participation as part of its Welfare to Work approach, as the NSW department increases rents and charges, and withdraws support if incomes increase. The Department is also increasing punitive measures to control anti-social behaviour at the same time as increasing the risk of social dislocation that causes it.

²⁶ And reconfigured to better meet the needs of the tenant profile.

- Finally, the package does not provide a clear approach to financing the system. In the next section (5.2) we briefly outline the reasons for the collapse of financial viability of the public housing system. The public housing system as currently financed is unsustainable. It is this – far more than the decline in Commonwealth CSHA funds – that has led to the decline in the total number of social housing properties owned by government, and with it, the tighter rationing of the system. One of the main drivers of this collapsing viability is that the rental income streams that once more than covered the operating costs of the system have fallen steeply as the household income of tenants has fallen. This automatically follows if allocations are targeted to those with the lowest incomes (and the highest risk of arrears) because social housing rents in Australia are calculated as a proportion of household income. Rather than addressing this underlying problem, the Reshaping reforms have exacerbated it.

The policy package does not provide a sustainable solution. Rather it provides a one-off commitment of increased funding from consolidated revenue, without placing the financing of the system on a solid footing. This observation points to both the profound nature of the change that has taken place through Reshaping and the incomplete policy response to this. Currently public housing is treated by Treasury as government trading enterprise, and as such it is supposed to be self-financing. The Reshaping agenda, however, has changed public housing into housing largely for the clients of other government human service agencies. In effect, into a welfare agency, rather than a trading enterprise. The funding for welfare agencies would normally be found from consolidated revenue. Except as an ad hoc measure, this has not been done for the ‘reshaped’ public housing system.

In their 2004 research report²⁷, Prof. Mike Berry and Jon Hall have argued that it is normal for governments to explicitly fund community service obligations (CSOs) of government trading enterprises, and that were this done for public housing by funding the gap between market rents and rebated rents, public housing would return to surplus. However, this was not done as part of the reshaping package and as a result, its sustainability is severely at risk.

5.2 Operating deficits and their impact on supply

The failure of the social housing system to respond to increasing housing stress and the rapid loss of low cost stock in the private rental market is largely due to the growing operating deficits in public housing. While these continue, it is unsustainable to add any new supply.

Social housing deficits are linked to the allocations system. Since rents are based on a proportion of household income, the more supply is constrained and allocations rationed, the lower the income of the households in the system. This is compounded by

²⁷ Hall, J & Berry, M. *Operating Deficits and Public Housing: policy options for reversing the trend*. AHURI. March 2004

the shift from families to single person households which is both a demographic trend and a feature of tighter targeting. As a result income streams have fallen.

This trend has created a vicious cycle in which falling rental income reduces supply, which tightens targeting, leading to further reductions in rental income. The only policy responses (other than to accept a growing call on consolidated revenue) is to invest in growing the system, widening the income mix tenants, until the system returns to a sustainable balance. The other policy options is to explicitly separate rents charged and affordability subsidies.²⁸ On this model, housing managers can plan on the basis of a predictable and secure rental income stream, while affordability is secured by a separate government payment.

The evidence that the system is producing operating deficits is now clear.

The following table is drawn from Hall & Berry and shows the changes of the ten years from 1990-01 to 2000-01.

Changes in public housing operating costs per property (2001 \$)

	1990-01	2000-01	Difference
Total income	4,079	3,479	(600)
<i>Expenditure</i>			
- Rates	1,070	1,027	(43)
- Admin & working expense	582	587	5
- Maintenance	698	1,196	498
- Salaries	456	1,129	673
Operating expenditure	2,806	3,939	1,133
Operating surplus/ deficit	1,273	(460)	(1,733)
<i>If net grants, depreciation & net interest are included</i>			
- Net grants	240	589	349
- Depreciation ²⁹	(626)	(1,331)	(705)
- Real net interest ³⁰	(1,201)	(402)	799
Surplus/ def with interest & depreciation & net grants	(312)	(1,604)	(1,292)

²⁸ This is the approach taken in almost all other countries.

²⁹ The cost of depreciation has increased as the value of the asset has increased due to the increased (and much needed) investment in maintenance and upgrading

³⁰ Net interest paid has declined, partly due to payments from consolidated revenue to retire debt

Only by adding net grants applied to public housing has it been possible to maintain operations. These grants have increased over the period from \$240 to \$589 per property. Even so, if real net interest and depreciation is included, the total deficit increases from a deficit of \$312 in 1990-01 to a deficit of \$1,604 per property.

The growing use of grants to subsidise operations is a very important change. Under earlier Commonwealth State Housing Agreements, grants were restricted to funding capital – new stock – because the housing operations were assumed to be self-financing and, indeed, included the capacity to service debt. Increasingly these were consumed by debt servicing, then asset management (due to the long run accumulation of an unfunded asset liability), until in the last agreement it was accepted that states could apply the funds as they chose, which increasingly became a subsidy for operations. The final step has been the increasing contributions, above CSHA matching requirements, from State consolidated revenue.

Clearly there are a mix of factors affecting the worsening position. The most important of these is the decline in rents (which is 93% of total income), the increase in maintenance and the increase in salaries. Over the period, NSW had the fastest falling net rents and by the end of the period, the third highest operating expenditures.

Do these problems affect community housing?

No publicly available analysis of a similar kind has been undertaken for community housing.³¹ However, there are a number of factors that put community housing in a better position.

First, most of the portfolio is newer or has recently been upgraded. Nonetheless, as a proportion of community housing supply is sourced from transfers from public housing management, this will incur a higher average maintenance cost. Second, the mixed business of community housing providers (such as fee for service management of housing owned by other organisations such as welfare agencies) provides a small additional income stream. Third, community housing tenants are eligible for Commonwealth Rent Assistance (CRA) which enables higher rents to be charged.³²

At the same time, preliminary analysis of the financial reports of associations in NSW suggest that there are mixed results between associations, with a number showing modest surpluses, but also a number showing an underlying deficit. Two contributors to this relate to the costs of non-metropolitan associations. Average household incomes in many rural communities are lower than in metropolitan areas, producing lower rental income; and the costs of delivering services in largely dispersed rural areas is also higher.

Despite these, community housing is currently somewhat better placed to avoid the deep financial problems facing public housing, and as a result has a better financial structure from which to support additional investment (through debt or various partnerships)

³¹ Jon Hall is currently undertaking such a project for AHURI

³² The current formula used in NSW for this provides only marginally increased rental income. However, it is possible to use a different approach which maximizes the effect of CRA.

from which to grow to a size that can balance response to high needs households with a broader and financially sustainable tenant mix.

5.3 The place of community housing in this policy mix

A complementary system

Over the past 25 years, community housing has complemented public housing, particularly by providing a response in areas not prioritised by the various policy objectives of public housing in particular periods.

Non-government managed housing models emerged in significant way in the 1950s through the Menzies government's Aged and Disable Persons Homes Act funding. This was model that mixed public investment with investment by NGOs. Most of that stock is now integrated into the retirement industry in the form of independent living units.

Community housing as we know it today emerged in the late 70s, largely as a response to the limitations of the public housing system of the day. At the time, public housing focussed on construction³³, rather than responding to the particular needs of tenants, and it was targeted to low-income working families. At this time, the Henderson Poverty Inquiry and other public policy changes were focusing attention on housing related poverty amongst groups excluded from public housing, particularly low income older people. During this period crisis accommodation for women escaping domestic violence and young people began to be funded.

Community housing models such as tenant managed co-operatives emerged to provide far better control by tenants of their housing. By the 1980s specific non-government social housing managers had been established – particularly in NSW – to provide a local alternative to public housing that responded to local needs, often targeting the special needs groups missed by public housing. In NSW these have become specifically identified as housing associations – that is, specialist non-government not-for-profit social housing managers.

The program introduced in the 1980s in NSW had another distinctive feature. That is, the largest part of its supply was acquired by headleasing stock from the private rental market³⁴.

This had two important consequences. First, it tapped the investment that had already been made owners in the private market and only used government funds to subsidise the gap between market rents and social housing rents and to meet the operating costs of the managing association. This meant that growth could be achieved faster and the

³³ See the report of the Mant Inquiry in Public Housing in NSW for discussion of the public housing system as a form of post war construction company.

³⁴ The program was the Community Tenancy Scheme

government dollar stretched further.³⁵ It also meant that major maintenance liabilities were the responsibility of private landlords. This was the first program to significantly leverage the government subsidy.

Second, it helped overcome the major barriers for low income earners in accessing moderate priced private rental. As well as the barrier of even moderate rental prices, low income households face significant barriers of discrimination. And, as Yates & Wulff have shown, a very substantial proportion of lower cost private rental stock is occupied by people who could afford to pay more, thus reducing access for low income earners. The headleasing program ensured that more than 5,000 private rental properties today are available solely to low income households.

Over the past 25 years housing associations in NSW have grown to create a network of small to medium sized businesses across the state. They currently manage around 10% of all social housing stock.

While public housing has increasingly been targeted to a narrower and narrower client base and business, community housing has explicitly sought to maintain a mix of services and business to respond to the range of housing needs in the community. In general they are required to only house tenants who meet public housing eligibility. Some exceptions exist for 15% of tenant managed housing co-operatives who may house 15% of moderate income households in order to ensure the financial viability and the skill mix necessary for tenants to take on the management responsibility, and for a proportion of tenants in 'affordable housing' programs

But within these general requirements, community housing aims to be responsive across the spectrum of need.

Community Housing allocations – a balance of target groups

At one end, the community housing system has always targeted special needs groups and households with very high needs. 13% of people housed by housing associations have a disability.³⁶ 45% of these have an intellectual or psychiatric disability. 33% are overseas born from a non-English speaking country. (This proportion is more than double (61%) in tenant managed co-operatives.) 7.5% are from and Aboriginal & Torres Strait background. 10% are older people. 70% of tenants identify as having special needs. Community housing has consistently allocated a higher proportion of new tenancies to applicants with 'special needs' than has been the case with public housing. Currently this stands at 55% for public housing and 73% for community housing.³⁷

³⁵ The long term cost benefit of this funding model is not known.

³⁶ 2004/2005 Data Collection Results. Office of Community Housing. This figure excludes 'don't know' responses from the base.

³⁷ Australian Institute of Health and Welfare, *CSHA data reports on public rental housing* 2004-05
Australian Institute of Health & Welfare. *CSHA data reports on CSHA community housing* 2004-05

Housing associations provide more than housing for tenants with special needs. They ensure that tenants with special needs have the support they need to sustain their tenancies and, where possible, to move into wider social and economic participation. They do this by forming partnerships – now usually formalised agreements – with local specialist support providers. Over the past few years the public housing system has also begun to establish support partnerships, but this has been a far longer standing practice amongst community housing providers. The Office of Community Housing now has a target of allocating 20% of all new funding to housing in which tenants will be covered by a formal support agreement.

Housing associations also manage housing specifically designed to provide a pathway for homeless people from crisis to long term independent living. They do this through partnerships with organisations providing support and/or crisis accommodation under the Supported Accommodation Assistance Program (SAAP). Some arrangements enable such agencies to nominate clients receiving transitional support into housing managed by a housing association. When the period of (or need for) transitional support ends, the client remains as a long term tenant of the association, without the major disruption (and risk of relapse into crisis) that had come from being churned in and out of different accommodation.

Some housing associations also manage congregate dwellings for people with specific needs for such accommodation. This ranges from boarding houses to group homes for people with disabilities.

Specific support services are almost always delivered by a specialist agency, external to the housing manager – both to ensure that the level of expertise required is available and to guard against conflicts of interest that may arise between an appropriate standard of tenancy management and support provision. Nonetheless, the housing management required for tenants with special needs is at a different level to that required for general tenancies. This includes expertise in managing the relationship with support providers and brokering in the range of support service needed by tenants. It also involves a high level of understanding of individual tenants and an ability to respond to their particular circumstances in order to sustain their tenancies.

But community housing providers also house substantial number of households who would be seen as meeting the general eligibility for public housing (prior to the introduction of the Reshaping Public Housing eligibility criteria). These tenants have all experienced difficulty in being housed in the private rental market at rents they could afford, but do not require special support or other arrangements to sustain a tenancy. As well as providing a needed housing response, it is generally felt that a proportion of such tenants is crucial to maintaining a sustainable tenant mix.

A number of providers aim to ensure that this balance is maintained by managing both a 'wait turn' allocation list and a 'priority needs' allocation list, and make a seek to allocate a proportion of new tenancies from each.

Finally, community housing has also sought to provide a response that meets the wider objectives of ensuring that low income working household – those on 'moderate incomes' – are able to access housing, particularly in high cost areas. There are four main ways in which this objective has been pursued.

- First, as noted above, tenant managed housing co-operatives have been able to house a proportion of moderate income earners to ensure that the co-operative is sustainable. Initially, the program was intended to be partly funded by debt raised by the co-op members. The inclusion of some moderate income earners was required to ensure that the debt could be serviced from the rental income streams.³⁸
- Second, in two areas of major urban renewal affordable housing programs have been established to ensure that lower income households were not displaced. The two areas to date have been Pyrmont Ultimo in Sydney and the Honeysuckle development in Newcastle. In the former, a new housing company was established by government (City West Housing company), and in the latter the housing was managed by an existing association (Newmacq Housing Association). In both cases these were part funded from the now defunct Commonwealth Building Better Cities Program and partly from developer contributions.
- Third, a number of housing associations manage a number of affordable housing properties funded from the Social Housing Subsidy Program. This was a one-off Commonwealth program which, in NSW, provided subsidies to meet the cost of debt raised by the State government.
- Finally, a few associations also manage affordable housing funded from local government development levies. There is considerable expectation that housing associations will also manage housing provided through affordable housing provisions in new release areas such as the ADI site, and from the measures announced in the Metro Strategy and to be announced as part of the Premier's commitment to affordable housing.

In most of these cases, housing is allocated to a predetermined mix of very low (<\$25,825 gross household income per annum), low (\$25,826 - \$41,320) and moderate income (\$41,312 - \$69,989) households.³⁹ These income bands enable a higher proportion of household income to be charged in each band (25%, 27.5% and 30%) However, in a small number of pilot properties under a project initiated by the Centre for Affordable Housing in the Department of Housing, a discount to market rent (74.9% of market rents) is applied.

Through this balanced approach to responding to housing need, the community housing system has been able to allocate housing in the most appropriate way in the particular circumstances. It has managed to balance a long term track record of allocating housing to people with very high need for support to maintain a tenancy, through to low income working household who would otherwise be forced out.

However, the important thing to note about the community housing sector is that the nature of the client base and the services provided for them will vary from organisation to organisation depending on local circumstances – the local needs, the range of support

³⁸ In fact, this model was never implemented, although many co-ops still look to a policy change that will enable them to take out share of the equity in the properties.

³⁹ These bands are drawn from City West Housing Company. Source: City West Housing Pty Ltd. *Rent Policy*. 16 June 2005

providers available to partner with and the expertise of the association. These broad mix of outcomes is delivered across the industry in aggregate, without applying a one-size-fits-all approach to each associations.

Community housing allocations – a sustainable tenant mix

The other special approach to allocations by community housing providers is that housing is usually allocated with a specific objective of ensuring that the tenant mix within a location or the amenity provided by a particular dwelling will ensure that tenancies are as sustainable as possible. Inappropriate allocations will seriously impact on the level of neighbourhood disputes on one hand, or the willingness of the tenant community to work together to support each other and build opportunities for disadvantaged households to improve their social and economic participation.

The best known example of this is the groundbreaking work by Argyle Community Housing Association in the Proctor Way precinct of the Claymore housing estate.⁴⁰ Proctor Way was the most dangerous and most avoided precinct of any estate in NSW⁴¹. In desperation, the Department of Housing handed management to Argyle Housing Association. Rather than allocate mechanically to applicant who would certainly reject the offer, Argyle identified potential tenants – in this case a core group of Samoan community leaders – who wanted to make a difference. Together with other community development strategies, this approach famously turned Proctor Way into a model of what could be achieved in public housing estates, and began the process of Argyle increasing their management on the whole estate and building a strong partnership with the Department of Housing.

The important difference between community housing and public housing is that community housing allocations policies aim to enable flexible decision making to ensure that the allocations respond to local needs and ensure sustainable tenancies. While public housing in general follows less flexible, standardised rules for allocation, over recent years more room has been created for responsiveness by introducing 'local allocation policies' in some areas. However, this is far less prevalent than in community housing.

The importance of sustainable tenancies – indeed tenancies that are available for as long as the household chooses – cannot be stressed too much. Particularly for children, the ability to establish a home, social and family relations, continuity of education are widely recognised as the preconditions of successful childhood development. The costs to government of unstable childhood are now recognised as being very high.

One advantage of the current community housing stock profile is that the high proportion of stock headleased from the private rental market (46%) provides greater flexibility in matching applicants to the housing they require.

⁴⁰ McHugh, S. *Shelter from the Storm*, Allen & Unwin 1999 (Chapter 1)

⁴¹ Culminating in a number of deaths in a series of house fires

While public housing, with a fixed portfolio, is largely constrained to allocate each new allocation to whatever property has become vacant (within broad specifications of dwelling size, accessibility and appropriateness), housing associations have a degree of flexibility to find the right leasehold property to meet the requirements of the applicant.

Community housing growth

Community housing is the only part of the social housing system that has significantly increased supply over the past five years. While some growth has occurred in the crisis and Aboriginal Housing sectors, the bulk has been in mainstream community housing which by the end of the financial year is projected to have grown by 2,772 properties under management (27%) over the period.

During the same period the supply of publicly managed stock fell by 3,362, and the total social housing stock increased by only 480 properties (coincidentally the net increase projected for this financial year).

Change in Social Housing Supply 2001 – 2006⁴²

	July 2001	June 2006 (projected)	Change
Public Housing	131,139	127,777	-3,362
Community housing	10,488	13,260	2,772
Crisis	1,086	1,429	343
Aboriginal Housing	5,334	6,062	728
TOTAL	148,047	148,527	480

However, even this modest net addition to the social housing system masks the steady loss of social housing properties owned by government or other providers⁴³ (capital properties) which has fallen by 1,294. Public housing capital stock fell by 3,795. Community housing capital stock rose by 1,617 in this period.

⁴² 2001/02 Budget Commentary on the Housing Assistance Programs, Department of Housing
2005/06 Budget Commentary on the Housing Assistance Programs, Department of Housing

⁴³ While all CSHA funded community housing stock is currently owned by government through the Land and Housing Corporation, some Aboriginal Housing properties are owned by the community managers.

Composition of community housing stock 2001-06

	July 2001	June 2006 (projected)	Change
Capital	5,911	7,528	1,617
Headleased	4,577	5,732	1,155
Total	10,488	13,260	2,772

Headleasing from the private rental market

This loss has been ameliorated to some extent by the increase in the number of properties leased from the private rental market. This has increased by 1,774 over the past five years, with 8,617 properties currently being leased (5.8% of all stock).

Two thirds of all leasehold properties are in the community housing sector. This form of supply has been the basis of the housing associations sector since its establishment in the 1980s, and the proportion of properties under management that are headleased has barely changed over the last five years (43.6% to 43.2%).

Headleasing remains a very small proportion of public housing stock, with an additional 432 leases over the past five years lifting it to 2.1% of publicly managed stock⁴⁴. Private leasing is not a part of Aboriginal Housing. However, it has grown significantly (off a very small base) as a new supply strategy for crisis accommodation – and as a result it has grown from 2.9% to 15.3% of all CAP⁴⁵ stock. Fifty five percent of new CAP supply over this five year period has been through leasehold.

Headleasing is a very effective strategy for accelerating growth and stretching government funds over the medium term. And, as argued above, it can be seen as an intervention into the private rental market to ensure better access, affordability and appropriate management for disadvantaged households and a more flexible response to meet specific needs. In the community housing sector it has been used to build organisations of a sufficient scale to provide cost-effective and professional management. Across the system as a whole, it has helped ameliorate the underlying loss of social housing assets.

Its limitations are that it is less cost-effective over the long term, it is not an asset on the balance sheet, it requires an ongoing funding stream above tenant incomes, and it provides tenants with less security, since they are forced to relocate from time to time if the landlord does not renew the lease.

⁴⁴ In fact the increase occurred in 2001-02 and has declined since.

⁴⁵ Crisis Accommodation program

What is the significance of the growth in community housing?

It is sometimes argued that the growth in community housing does not contribute to the social housing response since it is simply a shift of resources from publicly managed housing to non-government managed housing. This point often particularly focuses on the transfer of stock from public to community management.

Three points should be made in response to this concern:

- First, it is absolutely appropriate to draw attention to the total supply of social housing rather than on the growth in one sector. As noted above, the underlying loss of almost 1,300 capital properties over the past five years is a particular concern. Our challenge in NSW is to increase supply of social housing and other low cost housing for rental and home ownership. Over the five year life of the current CSHA, 2,500 units of public housing are due to be transferred to community housing management. While this meets a number of capacity building and efficiency objectives, we should be aware that this does not, of itself, improve the social housing response.
- Second, the public policy challenge therefore is to find the strategy that best positions us to *sustain* the current stock *and* attract the funding needed for growth. As noted earlier, the total funding required to simply ensure that we have the absolute minimum supply of low cost housing needed by low income households requires a further investment of between \$7 billion and \$9 billion. Even spread over a number of years, this level of investment will not be found from consolidated revenue. While significant government investment is essential, this must be leveraged in various ways, particularly by attracting private finance. The most cost effective way of doing this is for government to borrow. Unfortunately, governments around the world have severely limited government borrowing.

In other western countries this has led to government to enable non-government social housing providers to raise debt and leverage the public investment in other ways. In the UK over £30 billion of debt has been raised by housing associations. Increasingly this is being considered by Australian jurisdictions. The largest example is currently found in Victoria, but similar examples exist in most states.

The creation in NSW of a strong system of community housing providers has created a platform for future growth in the social housing system.

- There are a number of ways in which community management has added value to the overall social housing effort. As noted earlier, it has a more local focus which ensures a better use of local resources (such as support partnerships, or the local private rental market), more response to local need. It provides a significantly enhanced level of tenant satisfaction, with 86% of community housing tenants being satisfied or very satisfied compared to 65% of public housing tenants⁴⁶. Moreover,

⁴⁶ TSN Social Research 2005. 2005 Community housing national social housing survey. A report prepared for the AIHW. Perth

there are efficiency gains, particularly in smaller communities and regions, where the distances or population size may not justify a public housing presence. Community housing can also provide a more comprehensive package of responses – indeed is likely to innovate to meet identified needs. In the UK, for example, housing associations also provide shared equity options as a pathway into home ownership. Its local flexibility and wider business focus is a very effective complement to the volume response provided by the public housing system.

Perhaps the main way community housing adds to the efficiency of social housing supply is that it attracts additional rental income streams and reduces delivery costs (including construction costs). Unlike public housing tenants, community housing tenants are eligible for Commonwealth Rent Assistance. Depending on the rent setting approach adopted, this can add significantly to the rents that can be charged without adversely affecting the net cost to the tenant. Community housing providers are also charities with exemption from a number of taxes, in particular the Goods and Services Tax. This provides a very significant saving on operating costs. It also makes the sector attractive to private sector partners or investors.

6. The way forward

The serious crisis at the bottom end of the NSW housing market over at least the last decade has driven a succession of ad hoc policy responses in the social housing system. Over the period we have seen allocations limited to priority allocations, leaving growing numbers of wait turn applicants increasingly frustrated and experiencing prolonged housing stress. The recent announcement of the 'reshaping public housing' policy is the culmination of this. Sadly, while it will remove most applicants from the formal waiting lists, it will not end the bottleneck. Moreover, by limiting tenure in public housing to the duration of greatest need, it can only churn people back into a private housing system that does not have enough low cost stock to meet their needs, thus restarting the spiral of housing-related hardship.

Only policies aimed to substantially increase the supply of low cost housing will overcome this problem.

R1. That the government invest significant additional resources (in capital and land) to increase the supply of affordable housing; as well as introducing a package of measures through the planning system and targeted tax measures, to ensure that this investment is most effectively leveraged. The package should be at least \$300 million a year.

This problem has been compounded by both the failure to expand the supply of social housing and the failure to invest in accommodation options for people with high support needs who have come to be living in the community over the last two decades of deinstitutionalisation.

It is not appropriate for the social housing system to simply fill this gap in the service system by abdicating its previous role. Nor is it financially sustainable. So we must find ways to expand the social housing system and overall access to affordable housing at the bottom end of the market, and to ensure that appropriate responses are available for households with very high needs.

Reluctantly, the Federation accepts that while there is a serious lack of options for people with very high housing and support needs, the government must deploy *its currently available resources* to meet their needs; but only *while it implements strategies over the next five to ten years to build a larger, more sustainable system.*

Fortunately, the community housing sector that has been developed over the past quarter of a century provides the base on which to build that more effective system. It already provides a balanced, and therefore more sustainable, suite of housing responses.

R2 That the community housing sector play a complementary role to public housing by being explicitly identified as the basis of an expanded social and affordable housing system.

In particular, community housing has the opportunity to avoid the vicious spiral of lower rental income chasing tighter targeting, that has pushed the public housing system into unsustainable operating losses.

R3. That the government take advantage of the efficiency gains from the charitable status of community housing providers and the ability to charge more sustainable rents due to the availability of Commonwealth Rent Assistance to their tenants, by directing future social housing growth to the sector.

Community housing also has an opportunity to avoid the workforce disincentives associated with income related rents.

R4. That community housing explore a range of rent models, including discount market rents and the rental models reflecting different income bands up to and including moderate income households, along the lines of City West Housing company.

The current social housing system represents a huge asset base, which could be used to leverage further growth as well as being actively managed to meet changing housing needs. Unfortunately, apart from public private partnerships which are extremely complex, the public housing sector is prohibited from raising additional finance from these resources.

R5. That the capacity of community housing providers to leverage public funds through borrowing, and development partnerships, be secured by transferring title (secured by a government charge) to appropriately registered community housing providers.

Housing associations will not abrogate their responsibility to provide responses for those with the most complex housing needs. Indeed, we currently provide a higher proportion of such responses than the public system, and have greater experience in establishing the required partnerships. But we must do this as part of a balanced housing business. This will provide a better response for the tenants and a sustainable business.

R6. That community housing providers maintain the current targets of 20% of all new allocation to be made to tenancies with formal support provision. But that the tighter eligibility requirements under 'Reshaping public housing' not be extended to community housing providers.

R7. That community housing provide a continuum of options that includes affordable housing options for lower income working households.

R8. That community housing providers maintain locally determined allocations policies to best respond to the needs of the community and continue to provide ongoing tenancies to build community stability and reduce workforce disincentives. But that measures be further explored to ensure that each association provide a one-stop-shop for applicants to improve access.

This inquiry has provided an important chance for the Parliament to consider the nature of the low cost housing market in NSW and the current Government responses to it. We believe that it will also be an opportunity to advance some urgently needed solutions.

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