Submission
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INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

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IPA SUBMISSION TO THE NEW SOUTH WALES LEGISLATIVE COUNCIL INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE HOUSING

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ABOUT INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

Infrastructure Partnerships Australia is the nation's peak infrastructure body – formed in 2005 as a genuine and enduring policy partnership between Australia's governments and industry.

IPA's formation recognises that through innovation and reform, Australia can extract more from the infrastructure it's got, and invest more in the infrastructure we need.

Through our research and deep engagement with policymakers and industry, IPA seeks to capture best practice and advance complex reform options to drive up national economic prosperity and competitiveness.

Infrastructure is about more than balance sheets and building sites. Infrastructure is the key to how Australia does business, how we meet the needs of a prosperous economy and growing population and how we sustain a cohesive and inclusive society.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policy reforms and priority projects that will build Australia for the challenges ahead.

EXECUTIVE SUMMARY

Public housing was introduced in New South Wales in the post-WWII era to play the important role of supporting returned servicemen and their families. In the decades that followed, that role has changed, increasingly supporting the State's most vulnerable citizens, who require a range of additional services and increased levels of support.

However, the approach to providing housing support has not evolved in line with its changing role in society, and as a result the system is no longer achieving optimal outcomes for tenants or for taxpayers. An ageing and poorly maintained asset base, with dwellings often located on concentrated public housing estates remote from job opportunities, is not meeting the needs of the tenants; and inefficiencies in the provision of housing services means taxpayers aren't getting value for money.

A new approach is required to ensure that this important social safety net delivers better outcomes today, and continues to deliver better outcomes into the future. In making the case for reform of the State's social housing sector, this submission will examine the value opportunities available to the public sector where a range of providers compete on both price and quality. It will consider the appropriate role for government in a contestable public services sector, as a market facilitator, a service purchaser and a provider regulator, and will consider the application of this model to social housing.

Finally, the submission will examine three different reform options; direct outsourcing of maintenance and operations, estate renewal Public Private Partnerships, and asset transfers to the community housing sector. These models have the potential to improve the efficiency and quality of housing services, thereby improving outcomes for tenants and taxpayers.

RECOMMENDATIONS

In making recommendations to improve social and public housing in New South Wales, the Committee should investigate opportunities to create contestable markets for the delivery of social housing, recognising the proven efficiency and service quality improvements of a competitive approach.

Options for consideration are:

- Contracting out maintenance and management while retaining asset ownership, to improve efficiency of the services delivered;
- Public Private Partnerships as a means of redeveloping concentrated public housing estates into sustainable mixed income communities, thereby improving the housing outcomes of the tenants and increasing the value of the on-estate and surrounding area real estate; and
- Transferring public housing assets to the community housing sector, who can borrow against the value of the transferred stock to finance asset renewals and the construction of new dwellings; ultimately making the sector financially sustainable over the long-term.

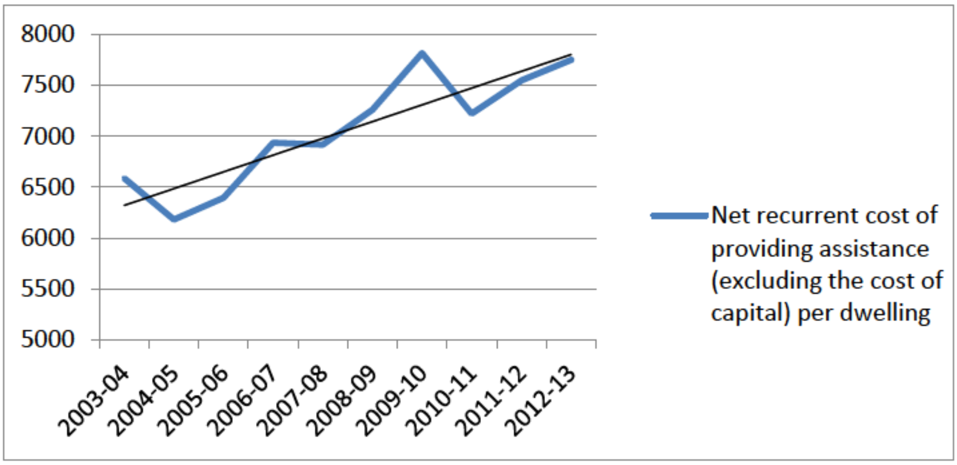
INTRODUCTION

Social housing is a core element of New South Wales' social safety net, protecting those unable to access housing in the private ownership or rental markets. Social housing helps tackle homelessness, supports broader welfare and mental health services, and plays a critical mediating role between vulnerable and low-income households and their integration into the economy and community. A well-functioning social housing system is something a prosperous nation like Australia should be able to expect.

However, the traditional approach to the delivery of social housing in New South Wales has become unsustainable and is no longer serving the interests of tenants or taxpayers. Demand far outstrips supply; yet there is insufficient funding available to resolve this problem, as the cost of maintaining the ageing dwellings is becoming increasingly unaffordable, while rental revenue is decreasing due to a tenant base with an increasing proportion of special care needs and limited capacity to pay.

Examining a range of performance indicators for public housing further highlights problems with the current approach. Firstly, the per-dwelling recurrent cost of providing assistance is increasing, as illustrated in Figure 1. Despite this increase, the proportion of public housing households in New South Wales living in houses of an acceptable standard (67.7 per cent) is below all the other states and territories and substantially below the national average (74.7 per cent).[1] Furthermore, the average turnaround times for vacant public housing stock has increased by 9.2 days, or 45.5 per cent, over the five years to 2012-13 (Productivity Commission, 2014), indicating declining efficiency in stock management.

Figure 1: Net recurrent cost of providing assistance (excluding the cost of capital) per dwelling (including payroll tax)



Source: Productivity Commission, 2014

Recognising the unsustainability of the social housing sector in its current form, the NSW Government has taken steps in recent years to improve efficiency in the provision of housing dwellings and services. Pathfinding measures have included the Bonnyrigg estate renewal Public Private Partnership (PPP) and

[1] The Productivity Commission (2014) defines 'acceptable standard' as *"a dwelling with four working facilities (for washing people, for washing clothes/bedding, for storing/preparing food, and sewerage) and not more than two major structural problems."*

the transfer of public housing stock and management responsibility to the community housing sector (allowing these non-government providers to borrow against these assets to fund renewal and maintenance, without further inflating public sector debt).

These discrete measures should be commended as pathfinder policies and projects. They have contributed much needed stock additions and upgrades and signalled a change in approach, moving away from the traditional wholly publicly provided model.

However, to date these measures have not been of a sufficient scale to materially address the systemic challenges facing the sector. Moreover, a continued series of ad hoc interventions will not achieve this aim. As valuable as they are individually, the New South Wales social housing sector won't be fixed one PPP at a time – policymakers must instead look to address systemic issues at a programme level. The present inquiry represents an opportunity to consider whether a comprehensive new approach to social housing provision could resolve the sector's challenges, and what this approach might look like.

One such approach is the development of contestable markets for the provision of social housing services. Applying contestability to the delivery of traditionally publicly delivered services is a proven and reliable mechanism to improve both efficiency and service quality.

In practice this would involve the State Government transitioning away from being a direct provider of asset and tenant management services, instead buying the required services from a range of private and not-for-profit providers, who compete for a contract to deliver a specific service offering. Crucially, this approach wholly retains the public sector's role as the funder of services and continues to protect some of the most vulnerable people in society.

This submission will outline:

- the proven efficiency and service quality benefits of creating contestable markets for the provision of public services generally; and
- three approaches to delivering social housing services, based on contestable markets – direct contracting out, estate renewal PPPs, and large-scale stock transfers to the community housing sector.

CONTESTABLE MARKETS FOR PUBLIC SERVICE PROVISION

As outlined above, the current approach to the delivery of social housing in New South Wales is financially unsustainable and falling short in terms of housing outcomes. As such, this inquiry is a timely opportunity to look at how these services could be delivered more efficiently; to increase the quantity and improve the quality of services despite the limited funding envelope. One such approach is the introduction of competitive tension, through the development of contestable markets for social housing services.

Introducing competitive tension to public service delivery has consistently been shown to improve both efficiency and quality of services; helping governments with limited budget capacity – like the NSW Government – simultaneously meet their non-discretionary spending requirements and rein in recurrent expenditure.

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In public services, introducing competitive tension does not mean creating a wholly private, competitive market with multiple buyers and sellers, controlled by the forces of supply and demand. For those public services that some of the State's most vulnerable citizens depend on, market failure is not an option.

Rather, in services not suited to wholly private markets, competition can be introduced through competitive tendering for delivery where the public sector is the purchaser of services. This means the government opens up discrete aspects of the service sector to a diverse range of public, private and non-profit providers who compete for the exclusive right (subject to controls around time and quality) to deliver that aspect. The providers compete for the market, rather than competing in the market; the market is contestable.

Importantly, this approach to public services has been found to deliver many of the benefits associated with wholly private competitive markets. Opening public services to competing providers can challenge existing ways of doing things and thereby improve service quality, consumer choice and value for money (CBI, 2012). Further, adopting a competitively bid, "best provider provides" approach has been proven to drive more efficient, innovative, personalised and responsive services (National Audit Office, 2012).

These benefits stem from the greater flexibility, innovation and entrepreneurialism of providers that are subject to contestability compared to those that aren't, due to the different incentives at play. That is, providers subject to contestability are more responsive to risk and reward drivers (Queensland Commission of Audit, 2013). In competitive markets, firms are incentivised to meet consumer demands or risk losing market share and therefore profit – including by lowering prices, improving quality and adapting in line with changing need. Similarly, in contestable public services markets a provider's profit can be tied to the achievement of a number of key performance indicators, effectively aligning the incentives of the provider, the service recipients, and the contracting government.

In competitive markets, the firms that are unable to meet consumer demands as efficiently as their competitors lose market share and are eventually forced to exit the market. International research attributes at least half of the increase in productivity from competitive markets to the exit and entry of less and more productive firms respectively (National Audit Office, 2012). In contestable markets, this effect can be replicated through the periodic retendering of service contracts. This threat of extinguishment for poor performance acts as a powerful incentive for providers to meet key performance indicators (KPIs) (National Audit Office, 2012).

A growing body of domestic and international evidence has sought to measure these productivity and efficiency gains. A 2012 Australian study, for example, found that the introduction of contestability – and particularly benchmarking and competitive tendering – into previously unexposed public service areas can deliver productivity improvements of between 20 and 25 per cent (Sturgess, 2012).

These findings are supported by international evidence. A 2013 Oxford Economics study, commissioned by the Confederation of British Industry (CBI), found that opening up the delivery of public services to a range of providers can deliver savings to government of between 10 and 20 per cent, primarily due to operating efficiencies and productivity improvements (CBI, 2012).

Importantly, these savings do not occur at the expense of service quality. Research from CBI has found that an average of 20-30 KPIs are included in UK service contracts, which focus the provider on performance and lead to innovations in delivering the same outcomes at a reduced cost – not reduced outcomes at a reduced cost (CBI, 2012).

REFORMING THE ROLE OF GOVERNMENT IN PUBLIC SERVICES

It should be noted that a private or non-profit provider being awarded a contract to deliver public services does not remove the role of government (National Audit Office, 2012). Rather, it requires the government to transition from directly providing services, to purchasing them and ensuring the structural frameworks are in place to enable independent provision.

The Queensland Commission of Audit (2013) found that *"the primary responsibility of the government is to ensure services are delivered, not necessarily to be the agency that actually does the delivery. It needs to be the 'enabler', not necessarily the 'doer'"*. This shift will require the development and retainment of new competencies within the public sector, alongside a rearticulation of the role of government in public discourse.

For market mechanisms to improve public services, governments must become effective market regulators and overseers, by:

- managing the shift away from existing direct delivery functions towards acting… as market facilitators and oversight bodies;
- monitoring the market's operation and assess whether it is delivering effective services and outcomes; and
- ensuring arrangements exist to ensure service continuity for users in the event of provider failure (National Audit Office, 2012).

CONTESTABLE MARKETS-BASED REFORM OPTIONS FOR NSW SOCIAL HOUSING

This section will discuss the application of contestable public services markets to social housing, and will discuss three reform options based on this model.

The creation of contestable markets for social housing would see discrete parcels of asset-related and tenant-related services opened up to a range of public, private and non-profit providers who compete for the contract to deliver those asset services, tenant services or both.

As a critical prerequisite, those components of social housing where contestability would improve value for money and service quality must be identified. A key recommendation from the Queensland Commission of Audit was that governments should focus only on those genuinely core services that others will not or cannot undertake; leaving services with a commercial element to be delivered in a competitive market; and the remaining services to be delivered in the most efficient way possible through arrangements with private and non-government providers.

It is the services in this third category – including dwelling maintenance and management, tenancy management and administration – that are the most logical candidates for contestability-based reform.

Critically, this approach wholly retains the public sector's role as the funder of services, setter of public housing allocation policies and regulator of providers; thereby ensuring society's most vulnerable citizens continue to receive the services they need.

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Within this framework, there are a range of reform options that could be adopted in New South Wales to more efficiently and effectively deliver social housing outcomes. The options discussed in this submission are:

- Contracting out maintenance and management;
- Estate renewal Public Private Partnerships; and
- Transferring public housing assets to the community housing sector.

While all of these options are contestability-based, each differs in their scope and impact. These impacts range from improving the efficiency of a particular service; to redeveloping (or delivering a greenfield estate) and managing an entire estate, thereby removing the entrenched intergenerational disadvantage experienced by families living on such estates; and finally to transferring stock to community housing providers, who can borrow against the value of the transferred stock and use the funds to build more dwellings, ultimately making the sector financially sustainable over the long-term.

CONTRACTING OUT OPERATIONS AND MAINTENANCE

The contracting out of operations and maintenance involves the government housing authority retaining ownership and title of the dwellings, and drawing on the services of private and not-for-profit organisations to deliver a specific range of services including tenancy management, administration, relocation, communication and consultation, as well as maintenance and repairs (KPMG, 2012).

This approach captures the principal of governments transitioning from the role of direct public service provider, to that funder and smart purchaser on behalf of public clients (in this case social housing tenants). In short, with a robust review and monitoring process in place, there is no logical argument for why the worker maintaining a dwelling or the administrator servicing the estate need be public servants – particularly given that these functions are readily contractible, and for which there is a mature and high quality private market which governments can access.

As discussed above, public sector value from the contracting out of public services accrues through the competition on price and quality that is an integral aspect of competitive tendering. The profit motive provides a strong incentive for providers to better manage business risks and costs, and achieve efficient supply chains and better pricing – which in turn reduces the cost burden for government as the funder. By holding robust competitive processes to select providers, the government can align the profit incentive with their own cost and quality incentives on behalf of taxpayers and tenants – ultimately arriving at a structure where 'the best provider, provides.'

Contracting out, or outsourcing, public services allows for the private contractor to be held accountable for the performance of service levels in a transparent way both through regular performance targets within contract structures and through renewal and retendering processes. This level of structural transparency is substantially more difficult to achieve under a traditional public service delivery model. For instance, under the outsourcing model, contracts can be structured to trigger financial penalties for non-compliance or to provide incentives for good performance, such as the automatic renewal of contracts for meeting or exceeding key performance indicators.

The approach is also flexible and can be tailored to individual circumstances. For instance, contracting out can be rolled out progressively to ensure transitional certainty for tenants or the depth and scope of outsourcing can be tailored to the needs of a given asset stock or tenant need.

In contracting out social housing services, the Government must ensure there are adequate frameworks in place to protect tenants in the event of any poor performance by a provider, for instance through regular and comprehensive audits and an independent tenant advocacy function.

The accounting treatment of the housing stock is not affected by the contracting out model, with asset values retained on the Government balance sheets.

While the contracting out model is focused solely on existing stock, cost savings from the services being delivered more efficiently can be reinvested to grow the overall housing stock.

Case Study – the Victorian community housing provider outsourcing model

The Victorian Department of Human Services (DHS) has outsourced operations and maintenance of public housing dwellings to CHPs under 5-year Lease and Property Management Agreements.[2]

A significant proportion of operating risk is transferred to the CHPs, but DHS retains ownership and legal title. Regulations ensure that rents charged to tenants stay within limits set by DHS and tenancies are allocated to applicants most in need.

[2] The Lease and Property Management Agreement is a standardised contract that replaced the multitude of individual agreements between DHS and the CHPs that existed before its introduction in 2007.

The CHP is responsible for collecting rent; managing tenants, including ensuring consistent occupation of the dwellings; soft facilities management including cleaning, waste management, and landscape gardening services; and general repairs and maintenance. The model has driven operational efficiencies and risk transfer (KPMG, 2012).

ESTATE RENEWAL PROJECTS

Social housing concentrated in large estates, is neither meeting housing need nor adding value to New South Wales' asset base, with properties on estates costing more to manage and maintain than those that are not on estates. As a result of locational or socio-spatial disadvantage, people living in public housing estates on average have reduced education, health and employment outcomes, which are manifested across generations.

Large, concentrated legacy public housing estates in Australia are both places where disadvantaged people live, and places that disadvantage people. There is now comprehensive literature demonstrating links between living in a disadvantaged location and reduced life outcomes, including that:

> Large, concentrated legacy public housing estates in Australia are both places where disadvantaged people live, and places that disadvantage people.

- private sector activity is reduced and prices driven up by concentrations of deprivation;
- job networking opportunities and employment ambitions are reduced by high levels of unemployment;
- schools are overwhelmed by trying to educate disproportionally poor student populations;
- poor neighbourhoods drive higher levels of crime and disorderly behaviour; and
- health inequalities align with area-based deprivation (Berube 2005).

Quality of life is reduced for those public housing tenants directly impacted by locational disadvantage, and significant costs result for broader society, including increased costs of welfare provision and lost economic opportunities to utilise a potential workforce (Ware, V., Gronda, H., and Vitis, L., 2010). Social housing neighbourhoods across Australia also tend to be subject to discrimination and vilification at the hands of the wider community (Jacobs et al. 2011), particularly larger public housing estates as they are highly visible examples of concentrated deprivation.

Estate renewal projects involve the transformation of concentrated areas of social housing into sustainable mixed income suburbs. They are intended to break the stigma associated with concentrated public housing and improve the education, employment and recreational opportunities of estate residents, helping to reverse socio-spatial disadvantage (Spiller 2004).

Additionally, estate renewal projects:

- eliminate the high management and maintenance cost environment, generating savings for government;
- remove the drag on asset values in and around public housing estate areas – creating economic value through the increased value of private housing and Government assets;

- can release a stock of affordably priced housing into the market – creating economic value by reducing the housing stress suffered by families who cannot afford private housing but are not eligible for social housing;
- improve social inclusion and employment participation, and deliver savings to governments through reduced outlays on health, employment and policing; and
- stimulate the economy through increased investment in construction and related economic activity.

Public Private Partnerships

One model for transforming large, concentrated public housing estates is the Public Private Partnership (PPP) model.

An estate renewal PPP involves the government contracting with a private sector partner for the design, construction, financing, operations and maintenance of social housing to redevelop an existing public housing estate, without any reduction in the total number of social housing dwellings under a time limited concession. The redevelopment of existing stock and development of new stock is funded by a combination of title transfer of public sector housing stock, capital return on new dwellings sold to private purchasers and rental income from social housing dwellings; providing a financeable capital and revenue base for the private sector provider (KPMG 2012).

Case Study – Bonnyrigg Estate Renewal PPP

In 2007, Bonnyrigg Partnerships (now Newleaf Communities), was selected by Housing NSW to undertake a $733 million redevelopment of the Bonnyrigg public housing estate. Under the PPP contract, Newleaf Communities became responsible for the finance, design and construction work, and tenancy and facilities management services for the social housing on the estate under a circa 30 year concession.

On 20 October 2007, the management of all public housing in Bonnyrigg was transferred to Newleaf Communities and their specialist housing management team, St George Community Housing. While all aspects of tenancy management are now to be handled by St George Community Housing, the existing rights and responsibilities of Bonnyrigg tenants remain unchanged.

Once completed, the project will see the replacement of 833 existing social housing dwellings with 2330 new homes. Of these, 699 will be social housing homes and the balance of 1531 homes will be sold to home buyers, achieving a 30 per cent social housing to 70 per cent private housing social mix. The project also involves the building or purchase of 134 dwellings off the estate to ensure that achieving the social mix doesn't result in a reduction of the social housing stock. In terms of aesthetics, the public and private homes delivered so far cannot be differentiated from one another.

The project is being delivered in 18 stages over 13 years, to minimise disruption to existing tenants. Stage 1 was completed in June 2010 providing 39 social and 67 private dwellings, a new park, sporting facilities and local roads. Prices ranged from $330,000 to $535,000. Stage 2 which was completed in July 2011 provided 40 social housing and 64 private dwellings. Stage 3, which will deliver a further 75 social and 84 private dwellings, started in early 2012 and is progressing, and all stages are scheduled to be completed by 2020 (NSW Department of Family and Community Services 2012).

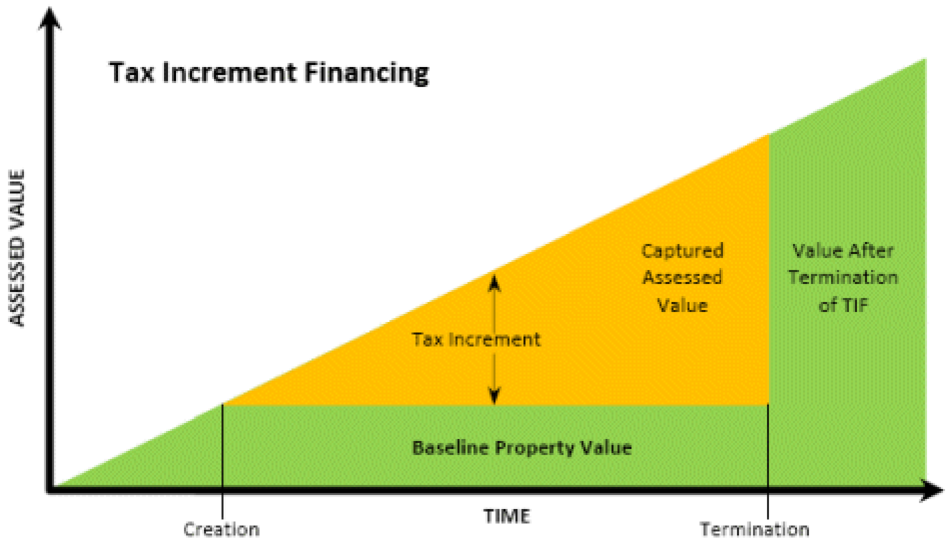
Approximately 20 per cent of the dwellings have been designed so they can be easily modified as residents age or become less mobile (Newleaf Communities 2012), helping to reduce more expensive modifications in the future.

Like with stock transfers to the community housing sector, some investors argue that for this model to be a success on a large scale, government subsidies will be required. Private sector and institutional participation in estate renewal PPPs could be encouraged through grant funding or Tax Increment Financing (TIF).

TIF is a partial financing mechanism that enable governments to take tax revenues derived from future increases in the property values of a prescribed geographic precinct and use those 'incremental' tax revenue increases to access the financing required to deliver the infrastructure projects that will lead to (or at least significantly contribute to) this property value appreciation (Infrastructure Partnerships Australia, 2012).

In practice, government will define a TIF district, usually based around an identified need for community infrastructure within that district. Government will assess the base property tax revenue level within the district (see Figure 2); this revenue base constitutes a pre-TIF and pre-infrastructure investment level. An 'above base revenue' projection (post-TIF and infrastructure) will then be used by government to borrow funds, usually through bonds tied to the particular investment. Over time, as the new infrastructure leads to increased economic activity and higher property values, the quantum of tax revenue generated by the precinct will increase. A portion of the difference between the tax revenue delivered and the base tax level, established at the beginning of the TIF, will be directed to servicing the debt used to fund the initial infrastructure investment (Infrastructure Partnerships Australia, 2012).

Figure 2: Tax Increment Financing – Basic Concept



Source: http://www.ci.farmington-hills.mi.us/GrandRiver/Funding.asp

Applying this model to an estate renewal project, the government would identify a TIF district within which was a large, concentrated public housing estate in need of renewal, and determine the base property tax revenue level within the district. Recognising that a housing renewal project will significantly increase property values and therefore tax revenue in the district, the government could borrow against the projected 'above base' property tax revenue. The government could use the borrowings to finance a subsidy to the private sector, making the project more attractive to investors. The government will then use a portion of the difference between the tax revenue delivered and the base tax level will be directed to servicing the debt used to finance the subsidy.

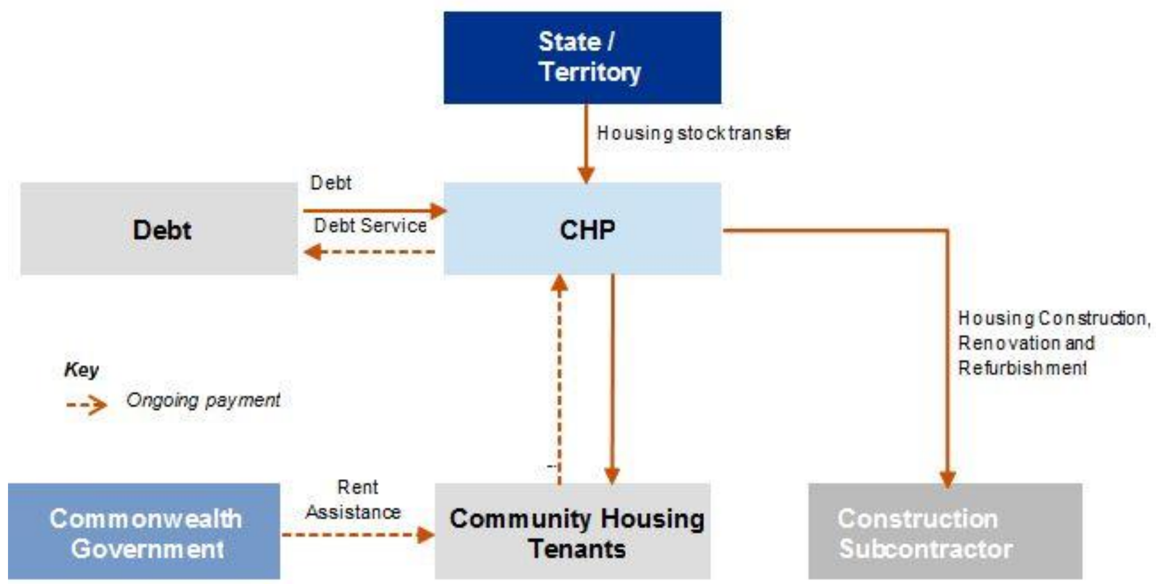
The TIF model has been used to assist with the delivery of affordable housing in the United States, for example the state of Maine's Housing Authority, MaineHousing, introduced TIF in 2004 as a tool for jurisdictions to partially finance the costs of affordable housing and associated infrastructure (HousingPolicy.org, 2012).

It should be noted that TIF is not a silver bullet, and government funding will still be required for the delivery of estate renewal projects.

TRANSFERS TO THE COMMUNITY HOUSING SECTOR

Stock transfers involve government transferring some of their housing stock (either transferring legal title or by way of a long-term lease) to non-government sector community housing providers (CHPs), along with the responsibility and costs associated with ongoing maintenance and asset renewal. The CHP typically provides a range of services, including assessing eligibility, allocating housing, tenancy management, and maintenance over the asset's lifecycle (KPMG 2012) (see Figure 3). Once again, government remains the funder of services, setter of public housing allocation policies and regulator of the community housing providers to ensure service quality and continuity of service provision.

Figure 3: Overview of stock transfer and CHP provision of housing



Source: KPMG, 2012

This model resolves some of the problems of the current complexities around financial viability. The mix of tenants that CHPs are able to house may be broader than SHAs, meaning the average rent charged by community housing associations may be higher. Furthermore, a larger revenue stream can be generated as rents would be covered by Commonwealth Rent Assistance (CRA) (AHURI 2010), unlike the public housing rents charged by State Housing Authorities (SHAs). Additionally, CHPs in Australia receive preferential taxation treatment; they don't pay GST when buying or constructing a house, and their charitable status means that they can claim a large amount of their running costs. It should be noted that additional stock transfers to the community housing sector will have a revenue and expenditure impact to the Commonwealth, and any reforms or initiatives in this area will therefore require Commonwealth cooperation.

The NSW Government owns around $32 billion in public housing assets, and the stock transfer model represents a significant opportunity for these assets to be leveraged to fund the construction of new stock and asset renewal. Stock transfers will result in a reduction in the asset base of the State (KPMG 2012); however, this must be weighed against the accompanying removal of the forward maintenance liabilities for the transferred dwellings.

In addition to improving the sector's financial viability, the model can improve housing outcomes. Tenants rate community housing as superior to public housing in meeting their needs. Community housing tenants more frequently report being satisfied or very satisfied with their housing, and less frequently report being dissatisfied or very dissatisfied with their housing. For example, in 2012 only 31 per cent of public housing tenants surveyed across Australia were v*ery satisfied* and 34.2 per cent were *satisfied*; a total of 65.2 per cent satisfied or very satisfied. Comparatively, of the community housing tenants surveyed in 2012, 38.8 per cent were very satisfied, and another 35.1 per cent were satisfied with their housing; totalling 73.9 per cent (Productivity Commission, 2014).[3]

Furthermore, with adequate scale and funding, CHPs have the capacity to generate growth in supply by leveraging other sources of private finance for the construction of new dwellings. *'The value of the transferred stock and its appearance on the balance sheet of the CHP allows the acquisition of new properties from any net positive cash flow and borrowings secured against the value of the transferred (and new) assets.'* By comparison, SHAs are typically unable to borrow against the equity in the social housing assets they manage (KPMG 2012b).

The transfer of legal title is not a prerequisite to a CHP leveraging its surpluses; there are examples of organisations raising debt where a lease is the only security. Title transfer is also not required for tenants to be eligible for CRA, nor is it required for a CHP to access preferential tax treatment.

KPMG (2012) found that CHPs can deliver a higher level of operational efficiency and service quality when compared to their public sector counterparts. However, ensuring providers are continually providing high quality services, and are doing so efficiently is one of the challenges associated with transfers to the community housing sector.

With title transfer and lease terms being necessarily long-term in nature – including multiple decades under long-term leases and title transfers – the normal incentive structure, where poor performance to customers could threaten the long-term viability of a business, are less likely to apply fully. That is, during the term of the lease, the threat of extinguishment is lessened by the structure being an effective local monopoly. This challenge can be overcome, and providers incentivised to continually

[3] 8561 public housing tenants and 2922 community housing tenants were surveyed.

improve, through the introduction of regulation that introduces proxy competition in the market; for example by regularly reviewing rents charged/setting rents in line with the most efficient of a group of providers, thereby encouraging the other providers to improve. A similar approach is the regulated asset base model used in utilities contracting.

Another challenge to be overcome in growing the stock and improving services through transfers is that the community housing sector in most Australian states, including New South Wales, is not yet of a scale or maturity to be able to have a transformative impact on the social housing system. They are yet to reach the size and level of sophistication required to fully leverage their assets and do not yet have sufficient in-house development skills to deliver the redevelopment and construction projects required of them, reflecting a relative immaturity of the Australian community housing market.

Lessons from the UK Government initiatives of the late 1980s and 1990s provide a way forward for the development of the community housing sector in Australia, and demonstrate how developed the market can become, with adequate support. These initiatives involved government subsidies that incentivised many public housing authorities to transfer their stock to community housing associations. Implementing similar strategies in New South Wales could open up new funding streams necessary to enable the community housing sector to reach a sufficient scale to generate its own growth.

Case Study – UK Housing Associations

The UK has a high-functioning social housing sector, made up of private sector non-profit Housing Associations (HAs), who provide rented social housing at sub-market rents (Heywood, 2010), while the Homes and Communities Agency (HCA) – the government department responsible for housing – distributes grant funding and regulates the HAs.

While HAs were originally established in the 19th century, the sector began to grow significantly during the 1980s, when the UK Government offered subsidies that made it advantageous for local authorities to transfer their housing stock to HAs (Sturgess, 2012). The HAs were required to agree to bring the dwellings up to “decent home standard” in order for the transfer to go ahead.

Over the last two decades, the Large Scale Voluntary Stock Transfer (LSVT) Scheme has been the single largest contributor to new HA stock, driven by the need to tackle the maintenance backlog and the desire of the Government to reduce public expenditure by introducing private finance (Heywood, 2010).

The UK *Housing Act 1988* facilitated the expansion of the LSVT programme and created a framework for the introduction of private finance for HAs on a large scale. The Act allowed HAs to combine grant funding and private finance; allowed HAs to take development risk; and made possible the continued availability of the Housing Benefit to cover the whole social housing rent payable if means testing finds this necessary (Heywood, 2010). By 2008, close to 50 per cent of all social housing stock provided by local authorities in England had been transferred to HAs (Heywood, 2010), who collectively own around 3.5 million dwellings, and are growing that stock.

A number of HAs have successfully secured further funds for development, having completed their original required asset improvements. By May 2010, more than £58 billion had been raised by HAs in

England and around £62 billion UK-wide, used for repairs, redevelopments and the construction of new stock (Heywood, 2010).

After 20 years, stock transfers in the UK are reaching their natural conclusion and what remains is a well-functioning social housing sector, with better quality dwellings and a sustainable rental revenue stream. Providers have grown to a size where they can achieve economies of scale, improve efficiency, and leverage their stock in order to finance the growth of their portfolios. The largest of the HAs own roughly 60,000 to 70,000 dwellings, and are rated AA by Moody's and Standard and Poor's.

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