

REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON SOCIAL ISSUES

INQUIRY INTO COMMUNITY HOUSING

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At Sydney on Wednesday 13 February 2002

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The Committee met at 9.30 a.m.

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PRESENT

The Hon. Jan Burnswoods (Chair)

The Hon. Dr Arthur Chesterfield-Evans

The Hon. Amanda Fazio

The Hon. Doug Moppett

The Hon. Ian West

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BILL RANDOLPH, Professor, Urban Development, University of Western Sydney, and

HELEN WOOD, Housing Consultant, 8 Wallace Street, Ashfield, affirmed and examined:

CHAIR: Professor Randolph, in what capacity do you appear before the Committee?

Professor RANDOLPH: I am currently Director of the Urban Frontiers program at the University of Western Sydney and also Director of the University of New South Wales-University of Western Sydney Australian Housing and Urban Research Institute [HERI]. I am also a member of the Community Housing Advisory Committee.

CHAIR: Did you receive a summons to appear before the Committee and do you understand the terms of reference of the inquiry?

Professor RANDOLPH: Yes.

CHAIR: You have not made a formal submission.

Professor RANDOLPH: No.

CHAIR: Did you receive an outline of the questions that we might discuss with you?

Professor RANDOLPH: Yes.

CHAIR: Ms Wood, in what capacity are you appearing before the Committee?

Ms WOOD: I am a self-employed housing consultant. I have a long-term contract part-time with the Department of Housing. In that capacity I am in the role of project manager with particular duties for looking after community consultation in the housing finance investment group. Otherwise I work for different clients. My background is social housing in the United Kingdom [UK].

CHAIR: Did you receive a summons to appear before the Committee?

Ms WOOD: Yes.

CHAIR: Would either or both of you like to make an opening statement?

Professor RANDOLPH: Helen has some points she wants to make first. We were asked to bring some expertise on the United Kingdom system to give you some context. Helen is very well placed to do that.

CHAIR: We will be fairly informal and cover various matters. You can remind us if you think we are going too much in one direction.

Ms WOOD: The sheet that I have handed out is a little summary of what I thought I might go over this morning. Obviously I would be guided by your questions. I am trying to highlight the background I come from in the UK and the very significant differences between housing associations there and community housing in Australia, although they have a lot of similarities. Perhaps I will devote a little time to discussing whether those differences if employed in Australia would help the situation. The governance of housing associations in the UK is very similar to here. They are run by voluntary management committees who are usually drawn from the local area.

They are not-for-profit organisations, although some in the UK have charitable status and others do not. They house a range of family types, similar to in Australia but perhaps slightly differently in that a lot of housing associations within the UK provide a lot of care and support for people with special needs. That would range from the elderly to people with physical disabilities, people with learning difficulties or even people whose support needs come from having had a background of drug or alcohol problems or having been in prison, something like that.

CHAIR: In other words, the housing association itself does that rather than a partnership model.

Ms WOOD: Yes. There are also partnership models, but a lot of housing associations, I think because they came out of a sector that dealt with housing for elderly people, were already providing care and support and then diversified. There are very specialist associations. There are generalised associations that house ordinary families or young people or older people, then there are very specialised accommodation which specialise, for example, in helping people who have a history of drug or alcohol problems. Similarly, they are accountable to government through the fact that they have government funding. That is very highly regulated in the UK through the Housing Corporation. One of the main differences—something you probably heard about yesterday and, I understand, is quite a contentious issue—is the ownership of land and whether housing associations in Australia will ever be allowed to hold their own assets. In the UK this has always been the case.

In 1988 when the housing associations were deregulated and private finance was brought in, insofar as that they were able to borrow privately, that was not the point at which assets became held by the housing associations. They have always been able to hold their own assets. That has never been considered a problem. It does allow borrowing outside of the public sector with borrowing requirements. Funding is different in the UK. They are funded by a mixture of different sources. The government grant is a direct grant. It can come from local government or direct from the Housing Corporation. Associations are free to raise private finance dependent on the status of their financial health, good management and general good reputation. That is heavily monitored and policed, if you like, by the Housing Corporation. The private lending sector values that extremely highly and considers the sector an extremely good risk.

The other sources of funding are the reserves which the associations have generated themselves. As not-for-profit organisations, they would always put the reserves back into housing. Also, I have put "rent assistance" in inverted commas because it is the equivalent of rent assistance. It is called housing benefit, but it is a more generous form of rent assistance than you have here. That enables rents to be charged which perhaps here you would feel could not be justified because they are too high. I know the system is different here because of the affordability ratios. I am not trying to say, "Do what they do it in the UK", because obviously the funding systems are all quite different. That needs to be taken into account in any attempt to move housing associations and the community housing sector of Australia into a direction where the sector perhaps was more able to function in the way that things function in the UK.

When I say that, I mean in order to enable those associations to grow independently and to start developing their own housing where they see the need for housing to be and for the client groups they wish to address. One of the benefits of that is you can respond to locally based needs and be a locally responsive organisation in terms of provision and management. The UK sector also provides low cost home ownership, which is something that has a slightly chequered history in Australia. It has not been all plain sailing in the UK, but they have now developed models which are successful and work well. They protect marginal home owners or scan out people who are not going to make it is a marginal home owner. So the success of those programs is now very well established. The main providers of new rental housing in the UK are housing associations. It used to be the local authorities. They do not provide it any more, they are just the enablers. It is quite a big and important sector. They have about one million properties in the country.

CHAIR: The private landlord—

Ms WOOD: The private landlord is basically targeting a different market, a much more accurate market. It is a much smaller sector than it is in Australia for lots of reasons. There are not the negative gearing benefits, for one. Because of the difference in the sector, the skills within the staff of housing associations are quite different. They have very highly developed property development skills, asset management skills and financial management skills in terms of treasury management, financial planning, forecasting and negotiating with private lenders. All those kinds of skills have been developed since 1988 when the sector started to borrow privately and take on the risks of having private loans.

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CHAIR: Yesterday the issue of relative size was raised. By our standards, some of the British housing associations are huge and I assume that is relevant to the kind of management skills and functions you have mentioned?

Ms WOOD: That is correct. My housing association was, by United Kingdom standards, very small; we had about 700 units.

CHAIR: That is the size of the biggest New South Wales association.

Ms WOOD: Yes, but only about 200 or 300 are larger than 2,500 and up to a maximum of 50,000 units. Having said that, my staff development team included an architect, a professional project manager and three other people working on our bricks and mortar developments. We had a fully qualified accountant, who was the finance director. Even though we were small, we had to have highly qualified people as part of our full-time staff complement.

CHAIR: And the mix of funding is sufficient to enable you to employ those people at, presumably, relatively high salaries?

Ms WOOD: Yes, they were high salaries. Sometimes it was difficult for the smaller organisations to attract accountants in particular; they tended to have other reasons for wanting to work in that sector. It has to be said that there were social reasons, or other reasons of commitment, for that. There were enough of them around for us to get good staff, and we did need them because this is a complicated business. In order to shift the Australian system a little in that direction there would need to be a specific funding program targeted at giving some kind of grants to community housing associations. You will never be able to provide subsidised housing cheaper than the market without putting some kind of money into it. That is the bottom line.

If you allowed asset bases it would allow you to lever in private funding, because the private sector is not going to be happy to lend without some kind of collateral security. That is the advantage of having asset bases. Obviously there would need to be a growth of skills in that sector, both on the committees and amongst the staff. There are lots of skills in the State, but we have to get them into the right places and train the people who have the capacity to be trained. Freeing up that sector to be more independent from government, while still having a regulatory role of an organisation—whether it be the Department of Housing—would ensure that all asset-based decisions are monitored and justifiable and all lending decisions are sensible and have the right profile on financial planning.

I refer now to managing risk. The regulation has been so successful in the United Kingdom that that model is very good one for regulation of a sector. People have said that we cannot allow housing associations to have their own assets, because people might go off and do all kinds of weird and wonderful things with them. It is quite easy to regulate that. In the United Kingdom permission is needed to acquire or dispose when taking on a loan. They are all quite standard regulations, they are looked at and checked. Consent will not be given if something is wrong.

CHAIR: How long has the current regulatory system operated in the United Kingdom?

Ms WOOD: The regulatory system has operated since the early 1970s, but with private finance as a factor since 1988, that is 14 years. There have been no collapses of housing associations because the monitoring is so good that any problems are foreseen. If a housing association is going into financial trouble, it will be sorted out by either another association that is more robust taking it over, or the property will be divided up among other associations that can take over its duties. The problems are sorted out within the sector, and there are no public failures. The lending sector considers that investment opportunity in the housing market is extremely secure and attractive.

CHAIR: Which bureaucracy specifically does the monitoring?

Ms WOOD: The Housing Corporation, which is also the grant-giving body. It is as if the Department of Housing were to not provide housing, or manage it any more, but just give out money and regulate the sector. That is similar to what the Office of Community Housing now does in New South Wales. It regulates, monitors, and takes action if there are problems with a management committee, or whatever. It will visit associations and has lots of forms that need to be filled in such as

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quarterly financial returns, annual returns, performance indicators, and that kind of thing. If there are problems, it will put people on a board, that is what I mean by a proactive approach to regulation. It will not just say that a board better sort itself out. The office might give a warning, but if a board does not sort itself out or makes decisions that the office considers are bad, the office will put people onto that board.

CHAIR: You sound at ease with and supportive of that system. Would other people be less supportive or find it overbearing? Are their tensions?

Ms WOOD: Associations have made a lot of complaints about the amount of paperwork involved in having to give regulatory people those forms. However, I think it is a good discipline because things are predictable, they do not go wrong without people knowing that something is going to go wrong.

CHAIR: Is this framework enshrined in legislation?

Ms WOOD: Yes.

CHAIR: Unlike New South Wales, for instance, in which there is a framework but not much legislation.

Ms WOOD: Yes, there is legislation for the regulation and for the grant, which is called the Social Housing Grant.

CHAIR: Bill, would you like to make a contribution now?

Professor RANDOLPH: Yes, I will address some of the questions that have been provided. I spent eight years in the United Kingdom working for the National Housing Federation, the peak representative body for housing associations. Helen's organisation was a member of that federation, a bit like the New South Wales federation. I ran its research department, so my background is basically in housing policy research and as an academic. I have worked in commercial and consultancy sectors as well as my stint at the National Housing Federation. In 1992 I spent four or five months in Australia on a fellowship studying community housing. I have an understanding of where community housing was 10 years ago, and have come back since then.

I have some understanding of where community housing has gone since then. Interestingly, the conclusions in a paper that I wrote at the time are frightening, I read through them last night. Things have not changed a great deal: such as fragmentation, lack of scale, problems with a rent-setting system and the difficulties that imposes on raising private finance and bringing additional funding into the system, and the close control that State housing authorities have over the system. They are all inhibiting factors now, as they were then, although the sector has moved on significantly in the past 10 years.

The strategic directions for housing assistance is something that Michael Darcy will address. I think that social housing is at a crossroads. I believe that community housing has a huge potential to play in the next 40 years of affordable housing development, if the conditions are right for its development. One thing that Michael and I stressed in our document was the notion that at the moment we have a very polarised housing system. We have public housing in one pot, and we have the large private rental market that does not work particularly well because it is highly inefficient and soaks up subsidies. What do we get out of that? We get unaffordable housing, poor quality housing, housing in bad locations.

It is a highly transitory system. It lasts about six months and has very little security of tenure. It is poor public investment, as far as I can see. We maintain that you should shift those resources to produce a much broader continuum of housing choice for people with low and modest incomes. The community housing sector could play a real role in that, and that leads to the whole issue of affordable housing. I could talk at length about the need for affordable housing in Sydney and in New South Wales. There is no doubt about the case for action on a proper affordable housing system. We have planning instruments being developed at the moment, a new State environmental planning policy is under wraps. I do not know what stage it has reached. There are some positive initiatives by the joint

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industry housing group, which I am sure the Committee has heard about, on bringing in private funding. It has worked on models for doing that.

There are other things in Sydney. I cannot remember the exact term for it, but the development fund which set up the Land Commission in the 1970s is still available and could be used as an important factor. So I think we see community housing as part of that affordable housing sector. That is why I think the social housing system is at a crossroads. Public housing, which is heavily constrained, is unlikely to be refunded in the form that it has been for the last 50 years when the Commonwealth-State Housing Agreement is renegotiated. In a sense, why should it be? That agreement was set up just after the Second World War under very different circumstances—very different social and financial conditions.

We ought to be looking forward to a much more flexible choice-driven affordable housing market. That is where community housing can play a real role. The British and American examples are clearly pointing towards a wind down of large-scale public ownership of housing. A large stock transfer program which is going on at the moment in Britain—it has been for the last 10 years—is successful in transferring public tenancies into housing association ownership. In doing so it is bringing large amounts of private funding into the social housing mix. That has freed up all sorts of resources to allow repairs, renovations, redevelopment and restructuring of stock to reflect modern needs.

A lot of the public housing stock in New South Wales is in family housing when we know that that is not where the growth of the sector will be. The growth of the sector will be in small housing. It is in the wrong location. Public housing is very much involved in trying to address those issues. Community housing could play a real role there. I suppose that that is my kind of beef. You have probably heard a lot about the profile of tenants and the nature of stock from previous witnesses so I probably do not need to comment on that. This issue of attracting private funding I think is critical. If community housing carries on doing what it is doing it will get better at what it is doing. It could carry on what it is doing for the next 10 or 20 years and it could grow modestly.

The question that Committee members ought to ask themselves is: Where should community housing be in 20 years time? What role will it play? Will it be constrained to a small, perhaps very specialised role for a highly dependent population, or will it move into a sector which, basically, takes on the private rental market where the private rental market fails? That is the critical issue. What are the conditions that would allow it to take on that wider role—to provide real choice for people in need of affordable housing? At the moment you have either got to get on a waiting list and wait for seven years before you get in, or you live in an unsuitable and highly unaffordable rental property.

I think the issue of attracting private funding is tied up with a number of quite complex issues. There is the issue of high rents. We all know that rents are set on affordable criteria, which is a good thing and we would not want to decry that. Interestingly, if you read a lot of literature about community or public housing, nobody mentions rents at all, whereas in the United Kingdom rents are at the centre of the system. Associations are allowed to charge cost rent to cover their costs. If you ask people about cost rents here they do not know what you are talking about. That is critical because it means that people who run housing associations and social housing providers know what it costs to do that business. They form their judgments, their decision making and their management structures and all the rest of it to ensure that those costs are minimised and that public funds are used effectively.

That is a critical thing that is missing here. So I think the issue of how rents are set needs to be considered. I think the issues of asset ownership and title are critical. Helen has already mentioned that and I am sure you have had your ear bent by a number of people in relation to that issue. That asset should be used creatively to attract additional funding into the sector because at the moment it is a dead asset. The figure I have here is \$871 million of capital properties, but that is a dead asset. You cannot use that. How can you use that to bring additional funding into the sector? That is the critical issue. I have already mentioned the work being done by Mike and John on affordable housing finances. If you have not come across that—and I am sure you have—you need to bear that in mind.

Community housing in the State has developed considerably in the last 10 years. It is a much better regulated and it is a much more professional sector. I think the skills have been developed and clearly the size of organisations has grown remarkably. My view—for what it is worth—is that until

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you get to 1,000 units you are not really playing a grown-up game. If you are serious about bringing the community housing sector in to the twenty-first century you have to think about the size of those organisations.

CHAIR: That is interesting. Yesterday the Federation of Community Housing Associations nominated 1,000 as the upper limit. It thought that it would lose the local community.

Professor RANDOLPH: I understand where they are coming from. I think they are coming from a system whereby 200 and 300 is big and you look up to see 1,000 and you think, "How the hell are we going to cope with that?" We have had experience of a system which runs the other way round. You look down and think, "Five hundred is small. Are they efficient enough?" There is the whole issue of capacity and scale. There was a big argument in the United Kingdom 10 years ago about the effective size of a housing association. A lot of clever university people went off and did research on that issue. The answer that they came up with was that small associations were effective, they could be efficient and they could be locally based and do things which larger associations perhaps lost track of. Helen might have a view on this. She had a small association.

Ms WOOD: I was small, with 700 units. I was one of the representatives on the London Federation of Housing Associations advocating for smaller associations. When we discussed with the regulators what their views about size were, they would say, "We know how efficient housing associations are. We have examples of well-managed efficient housing associations who have 20,000 and 30,000 units, and well-managed efficient housing associations that have 200 or 300 units." It is not necessarily about size; it is about skills and management and your relationship with your local people and your constituency.

The Hon. IAN WEST: How do you define "small" and "large" when you are comparing the population size and geography of the two countries? What is the definition of "small" and "large"?

Professor RANDOLPH: It was not related to size. It was a rule of thumb that we all operated under that 500 and below was small. Then there were the medium associations, which were about 500 to a couple of thousand. Then above 2,500 you were considered to be a large association. That was the rule of thumb.

The Hon. IAN WEST: If I relate that to Australia, might I not be talking about 50 and 100?

Professor RANDOLPH: Yes. I can see your point. Clearly, there is a difference in scale here. We need to bear that in mind. The point that I am trying to make is that once you get to a certain scale you start to attract the sorts of skills into the sector that you need. In 1974 when housing associations were picked up by the then Government to play a critical role in the urban renewal process—and that is when the new form of housing association came in with the capital grants that we now have—they went out and hunted a cadre of skilled non-housing association people; people who had development skills, financial skills and superior management skills. They were called the flowerpot men. I am not quite sure why they were called the flowerpot men, but they were there to grow the sector. So they were actually head hunted.

Ms WOOD: They came out of the union sector and the financial services sector and they housed them in the skills that were required. Those people, who are still in the sector, tend to be the gentry of the sector, running large housing associations in various regions.

Professor RANDOLPH: So there was a deliberate attempt at that time to change the character of the staffing and the skills base of the sector. In fact, one of the flowerpot men is currently—or has been for the last 10 years—the director of the National Housing Federation. They are now senior people and they are on the board of the Housing Corporation. This was related to the resources that were going into the sector and the growth and size. Once you get to a certain size you will start to attract people with the sorts of skills that we are talking about.

CHAIR: I suppose, without trying to be insulting, you are saying that, in New South Wales particularly, the sector is perhaps old-fashioned or amateurish? There is a threshold that was reached.

Ms WOOD: It has a management focus. It is providing good housing management services. But they do not have a role in developing or in financial asset management decisions because that is all done through the Office of Community Housing or the Department of Housing.

The Hon. AMANDA FAZIO: One of the issues that was raised yesterday by one of the community housing organisations that expressed concern about having more than 1,000 housing units per association was the fact that it liked to have its tenants involved in the management. Do you see that as being more of a community development focus and not essential for good community housing? How do you balance it out when you have a housing association in Britain that has, say, 20,000 housing units?

Ms WOOD: If that large housing association did not have tenants involved in its management it would probably have its funding cut off. It is considered to be a fundamental, essential duty of housing associations to involve tenants in the management. That should be either through tenants directly sitting on the management committee or through tenant forums, tenant representative councils or whatever mechanism works for that association. They might have regional councils that feed into a central tenants council, or whatever it is. Whether it is small or large you have got to involve tenants in your management.

Professor RANDOLPH: It is part of the charter.

Ms WOOD: It is part of the regulatory framework. That is expected.

The Hon. AMANDA FAZIO: Do you think that the concerns that were expressed yesterday were based on not being aware of other forms of tenant participation that may be appropriate for larger organisations?

Ms WOOD: Yes. The Department of Housing has a tenants council now and it has 130,000 units. It now has tenants actively involved in its management, thankfully. It is quite a new thing for it, but it has done it.

The Hon. IAN WEST: My first question related to comparative sizes of associations. What is the geography of the organisation in which you were involved?

Ms WOOD: I could pretty much walk to all our stock, which does not compare to some of the huge geographical distances that you would have here. Clearly, there are different issues which relate to travelling. But the central London association was only a specific kind of association. You get rural associations as well.

The Hon. IAN WEST: I refer now to the issue of governance and to voluntary management committees. How did the voluntary management committees get their expertise and training?

Ms WOOD: Partly through targeted recruiting. There was a system run through the Federation of Housing Associations where interested professionals could register. So if you needed an accountant or somebody with particular skills on your committee they did a matching service, or you could actually advertise. A lot of associations advertised for board members with particular skills. So if you did not get the right balance you would have to go out and specifically recruit people with the skills that you needed.

Professor RANDOLPH: The National Housing Federation ran annual committee members conferences, national conferences and regional conferences. A large support mechanism was built up over 10 or 20 years to support the professionalisation of boards and management. That includes tenants. There was support for bringing tenants. Not everybody knows how to sit on committees. So there was a lot of support there. The Housing Corporation was positive in the way in which it supported that voluntary management board. In the last few years people have been arguing that some of the management boards on these very large associations, essentially major corporations with hundreds of millions of pounds of assets, should have paid board members and that has been resisted to a large extent. I do not think that has happened.

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Ms WOOD: It may only be a matter of time before it does happen. I used to provide training for my committee members. We would ask them their needs and sometimes provide training for an hour before a meeting, give them a session and also run two-day sessions for them. Some large associations would provide more training and allow smaller ones to buy into it. The federation ran training courses that they could attend relating to grant mechanisms, the financial and legal side of housing associations and their responsibilities to tenants and their responsibilities as an employer. Training courses were available.

The Hon. IAN WEST: So you as a full-time employer acted as a secretariat to the committee. If that is the case, were you able to access resources from the Government?

Ms WOOD: We could afford to provide training for our committee and if an association was too small to be able to afford it there would be bursaries attached to the training provided by the Federation of Housing Associations or by the Housing Corporation.

Professor RANDOLPH: In the funding equation the association charges a rent for the property cost rent but within that there is a proportion of that rent that is called the management allowance. There are fixed management allowance rates around the country and those allowances are what the association is allowed to take out of the rent to cover its internal management costs and there is always a small surplus, which would allow them to fund the sorts of events with their committee members.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: I was interested in the financing of this. I went to the United Kingdom in 1979 to 1982 and worked there. I was amazed by the confrontationalist approach in housing there, with the squatters, the empty houses and the lack of care in public housing of the tenants. Therefore, I was a little horrified when I came to Australia to find it was not as different as I might have hoped. I have been a landlord as well as a tenant and I know that in negative gearing times it acted as a subsidy to rent. It is now more difficult to negative gear because it is not as fashionable and interest rates are low, therefore the tax deduction is lower. It seems to me that the price of housing has gone up as interest rates have gone down. In other words, the price of housing reflected the capacity of people to pay rather than any other more rational cost of housing.

While interest rates were low and there had been a huge growth in the price of houses in Sydney, for example, it seems that everybody who lives in houses in Sydney has a \$200,000 mortgage for a \$400,000 house by definition of the subtle rise in prices. I therefore suggested a model in which somebody interested in housing and the management of tenants went to the Rotary clubs of the country and said, "You give us your house at 1.5 per cent or 2 per cent more than the bank interest rate and simply borrow the equity in your house and give us that money and we will manage it for you and guarantee you get 1.5 per cent with no grief."

CHAIR: Is this a question?

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: Yes. The average model of housing from the private landlord's concept is that it is very confrontationalist. You have to have a pretty tough agent and a pretty short lease. You take your risk and get a higher return. If you were going to go away from that model to people who have never done this before, you would want a good management structure so you could guarantee that if they were mortgaging their house they would get a low return and get a warm fuzzy. I have suggested this to a number of housing associations and they have all looked aghast as if to say, "You are talking private", as if this is something exploited and dirty. I put this to witnesses yesterday and they said the mathematics were such that this would be impossible. When you talk about cost rents and people talk about ceiling rents—

CHAIR: Is this a question?

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: Yes, it is a question. I am trying to wrap the whole thing up to get a sensible answer. The ceiling rent is a percentage of the pension and that is it. Can you comment on the economics of that in this context?

Ms WOOD: I cannot work out the maths and give you a sensible answer about the maths. There is a model in the United Kingdom for renting from private landlords and guaranteeing them a

return in return for taking the flak on the tenancies, doing tenancy management and handing back a property in good condition at the end of the lease to the landlord. I think that can work. I am not commenting on the economics you just outlined. I could come back to you on that. In the system at the moment quite a lot of leasing goes on, so there is a model existing here for head leasing. The Department of Housing does it and the community housing sector does it.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: Yes, but with huge subsidies, I gather, because of the rent as a percentage of the pension being a ceiling rent but in the private market people have to spend a much higher percentage of their income?

Ms WOOD: That is right and the rent assistance portion and the housing benefit in the United Kingdom is much more generous. The maximum here is about \$40 a week. The other issue is standard repair. If you do not have the income, where is the money going to come from to do the maintenance? Is the house in a decent enough state in the beginning? There are those issues as well. I cannot give a simple, sensible answer.

Professor RANDOLPH: You raise the issue of affordability. The point of having cap rents here in relation to income is at the heart of whether housing should be provided at an affordable level. We could have a debate about what is an affordable level and what proportion of income people should have to pay or what amount of money they should have left in their income after they have paid rent. The big problem with doing what you suggest that is that you would end up with rents that are simply unaffordable. Traditionally, 25 per cent to 30 per cent have been the notional long-term proportion of income that people should be expected to pay in rent. We all know we pay huge amounts of money up-front to buy a home but over time the proportion of your income falls back, income goes up and repayment rates generally stay around the same, although I know interest rates vary. There is a long-term affordability issue and I am not sure that what you are suggesting would provide those cost rents or whatever the rents would need to be charged which would be affordable and certainly the rent assistance system would not make up the difference.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: Those are the figures we were given yesterday.

Professor RANDOLPH: We have a problem in Sydney particularly with the price of property and the rent assistance scheme does not cope with the price of property here. The problem we start to get into is that you move into a very dodgy area of Federal support for housing policy, rent assistance policy, which is in their hands, not in yours. In relation to the role of the private market in determining prices, any landlord would say, "I am looking for my long-term return on this and this is the investment I am putting in." It is tricky and you stumble on this problem of affordability and the rents that flow out of a straightforward system like that would probably be unaffordable.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: I am proposing a model that has the lowest return on capital that any private person would be willing to accept and you say that is impossible without a huge subsidy. Sydney is exceptional because property prices are so high. Would this model work outside Sydney where the capital value of properties is lower?

Ms WOOD: I cannot work out the maths on the spur of the moment but it might do. If you go to grow the system in Australia you cannot do it without a specific funding program. You cannot get submarket cost housing without subsidising it.

CHAIR: One of our problems is the Federal-State component, which Britain does not have.

The Hon. DOUG MOPPETT: Can I refocus our argument a little. One of the most vital questions that you, Professor, said that the Committee should focus on is where we think community housing will be in 20 years, given that it has been going for about 20 years. While the amount of the stock they are managing has expanded, the actual number has contracted a little. They had an impulse to start with and whatever the circumstances that existed, they have not encouraged development of new housing associations. One of the questions facing the Committee is: Is it an appropriate long-term public policy for the Department of Housing to get out of owning and managing property, get back to regulating and trying to push that asset down, at least into management—one can talk about ownership because that is important—and meeting supply and demand through some form of

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community non-government organisation. Do you see that as viable? Do you think there always has to be, in the Australian context, a residual amount of stock owned and controlled by the Government or do we have enough experience now of community organisations to say, "This is the model which is more appropriate to modern society."?

Professor RANDOLPH: The answer broadly has got to be yes. This is the way in which a lot of other countries that had big public stocks are now moving. What do people who consume housing want? It is a matter of providing people with a range of choices. I think what Mike Darcy was probably talking about was the notion of offering more choice. The model we have at the moment is this big monolithic public sector which is constrained on all sides by public spending constraints and so on and this needs to be broken into. We have to get out of what is essentially a declining cycle of difficulty. Community housing offers a way out of that. It is not the sole answer and we have heard that low-cost home ownership options might be another element in that mix, but we have to try to mix the choices.

I would probably see there is a role now to move towards breaking up the public housing sector. The New South Wales Department of Housing is probably one of the largest public landlords in the western world. Even China is breaking up its public housing. It has one billion units and it is divesting itself of its responsibility for those. It is not doing particularly well, but we have an opportunity to use the assets of the Department of Housing to do a number of things. One is to open up the use of that asset to allow private funding to be brought in. That is one critical thing. The model that was set up after the Second World War and that ran for 50 years has done a pretty good job. It now plays pretty much a residual role but it did a good job in the 1950s and 1960s but it is now time to move on to something else. I do not want to decry public housing because I am a product of public housing myself and it is certainly served us very well but maybe we have moved into a different era.

The Hon. DOUG MOPPETT: You do not see a paradox in what you said earlier about big is beautiful. We have this big existing organisation and if we could attract one of the lowies, perhaps Frank, to take it over, and say, "You are now head of the Department of Housing with its wonderful lot of stock. We want you to have a small return to the Government but we want you to achieve these social objectives. You have got the capital, you have got everything."

Professor RANDOLPH: I do not think that achieves what we are looking for. One of the strengths of community housing is the fact that it is locally based and one of the problems of the Department of Housing is that it is not.

CHAIR: The one in Britain has 50,000 people and although the figures can be misleading we have a public sector with 120,000 people, which is very big.

Ms WOOD: The United Kingdom is an exception and most associations are not that big.

CHAIR: But where does community stop?

Ms WOOD: That is one of the very few national associations. Most associations work in a particular region of a country, town or city.

Professor RANDOLPH: The large one does have a very strong regional component to it.

CHAIR: That is the north British one.

Professor RANDOLPH: The north—I forget what it is called now. I think it is called Places for People.

The Hon. DOUG MOPPETT: I think that is our fundamental philosophical point.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: It seems to me that if you talk about flogging off the stock, at one stage you are talking about devolving an asset. All the community housing people talk about needing to have assets in order to be able to do anything so you are kind of going in exactly the opposite direction there. The rise in the pension, which would be your affordable rents, if you like, is linked to the consumer price index [CPI], and property values are going up at five

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or six times the CPI so the subsidy will be increased. As the Chair said, the Federal-State Housing agreement is not coming within a bull's roar of fixing that gap. If you sell your stock you will still have a decreasing amount because your subsidy will be caught between the CPI, which is rising slowly, and your property value, which is rising fast.

CHAIR: I did not actually say the Commonwealth-State Housing agreement. I think what I did was refer to the fact that Commonwealth-State relations—the fact that we are a Federation—create difficulties for us because rental assistance comes from the Federal level while provision of housing is a State responsibility, whereas the British system at least avoids those problems.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: It is a question of money, is it not?

CHAIR: Yes, but the difficulty is that some of what you are talking about can never be solved by the State of New South Wales. That is what I was talking about in terms of us going for solutions. We can only address parts of the cake, if you like.

The Hon. AMANDA FAZIO: Can I just ask a question?

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: The witnesses did not answer my point, which I would like them to do.

Ms WOOD: There was no intention to talk about selling off the stock at all. It was about moving the stock into different management and ownership arrangements.

Professor RANDOLPH: Which will then free that asset up. The problem with public housing—

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: You mean use it as equity for borrowing?

Professor RANDOLPH: Yes. That is one element of what could be done. Another element is bringing in wholesale private funding to mix with public subsidy. The British model works: you have approximately 50 per cent public grant and 50 per cent private funding for all new developments. That is how it is done. You can only do that if you are off the public sector budget and housing associations offer that opportunity, which is why they are transferring thousands of stock to housing associations from local government. That is the only way that government can see that new resources of the amount required to improve the stock and remodel it can be brought into the sector.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: So it is a question of using that equity.

Professor RANDOLPH: It is. It is freeing up that equity, and \$871 million is sitting here in 6,000 units. That is the just in the community housing sector area. I do not know the asset value of the public housing stock. That is the problem. We live in a society which does not want to spend the amount of capital subsidies in public housing that perhaps were appropriate or acceptable after the Second World War. So it is how you do the same thing but with a different mix of funds. I think that is what we are trying to suggest. Community housing could play a real role in that because it offers a vehicle to do that.

The Hon. AMANDA FAZIO: Yesterday we were shown some figures comparing the satisfaction rates of people living in community housing versus department of housing stock. From your United Kingdom experience do you have any comments on that? Have any surveys been done for community housing satisfaction levels versus council housing, of which you are aware?

Ms WOOD: Yes, and again it is one of the things that every housing provider is expected to do, and everybody does. I think the sectors were quite different in their satisfaction levels. The community housing sector had more satisfied tenants. There were lots of reasons for that, amongst them the awful concentrations that the local authority housing tenants had to live in—the very dense, high-rise estates, the lack of funding in local authorities which meant that they could not do repairs, all those kinds of things. That has been the motivation for all the transfers. Housing associations had a

more generous funding regime to enable them to look after their stock better. They had more local input which meant that they could not ignore things in the way that local authorities did. So there was that difference in tenant satisfaction.

Having said that, satisfaction did swing in a little bit the other way when housing association rents became quite a bit higher than local authority rents. Now the aim is very much to keep those rents on a par so that there are no differentials between the different sectors in the United Kingdom. In Australia part of that difference in satisfaction is about simply the number of units that one housing officer or client service officer must manage and look after. A big difference is in the way decisions can be made. If you are in a huge bureaucracy decisions must always go way up the line somewhere and then come back, whereas in smaller organisations you know your stock and you know that if you move such and such a person into that house it will not work because of whoever lives next door. Those decisions can be made more easily at the local level. Those are the two things on which tenant satisfaction depends: how quickly they get their repairs done and who their neighbours are. If you can manage those two things well, then you will have happy tenants.

Professor RANDOLPH: It is worth pointing out that the big stock transfers are all done after tenant ballots. I am sure that is quite different to here. All the stock transfers that go ahead have tenant ballots. All the public housing tenants are balloted as to whether they want to transfer and the details of the benefits of the transfer are put before them and they vote on them. I do not know what the ratio was but there certainly have been plenty of instances where ballots have been held with public housing tenants and the public housing tenants said, "No, we want a public landlord". At that point everything is off and the transfer cannot go ahead. I used to work in a business that did lots of tenant satisfaction surveys so I know the results of quite a lot of them. By and large, housing associations generally had higher satisfaction scores but I think there were a lot of instances where public housing tenants were happy with their landlords. Their public housing landlords were responsive and managed them well, and they did not want to move.

Quite a lot of the big transfers have stumbled on tenant ballots which have gone against the transfers. There is not a single picture. Some local authority landlords are very good and some are very bad. That brings up the whole issue of best value and the initiatives which are going on in the United Kingdom as part of the regulation and supervision system to put best value inspectors in the best value inspectorate on to housing providers and to essentially encourage poor providers to raise their game and to emulate those who score better on the best value system. That is something which I think public housing here is trying to introduce, and I think we would both support that. This is not a thing for bashing people on the head with; it is a thing for saying, "If you are not performing well, this is an example of how you could perform well. Let's raise your game."

CHAIR: Can you comment on whether there were any particular weaknesses in the community housing system in the United Kingdom? You mentioned that the rent differential is creating a problem but that may not be a weakness. You have also said a lot of very positive things. Are there any weaknesses that you would point to?

Ms WOOD: The rent differential is one weakness. A lot of the higher rent organisations came out of transferring from public ownership into housing associations because in order to make the figures stack up they assumed that interest rates and rents would be going up and they geared themselves right up and borrowed as much as they would. Then when the Labour Government was elected it came in and said, "You can't keep putting your rents up. We want your rents to be level with public sector rents." So all their financial planning was thrown out of the window. That has been a weakness—making assumptions that you can carry on getting annual rent increases because of the economic scenario that you predicted. In those circumstances if you became financially unviable because of those decisions what would happen is that the stock would probably be broken up and tenants in different locations would go off to be managed by different organisations that had the capacity basically to put in a bit more subsidy.

Professor RANDOLPH: The big negative thing of the private mixed funding housing association system is rents. That has been a big problem. What immediately happened once private funding came in is that rents rose. However, because of the housing benefit system in the United Kingdom, basically if you are eligible for housing benefit the housing benefit system picks up the whole of the rent if you are on the full pension. That is a very generous system. It also meant that the

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housing benefit bill ballooned and all the way through the early 1990s this was a huge problem. That has a knock-on effect of welfare dependency. If you went from being unemployed or on a pension and got a job you would lose your housing benefit and you would have to face the full value of your rent. That is a big issue which has not properly been resolved. It was certainly a big negative of private funding. If that were to be brought in here that is where your housing rent allowance system would need to be brought into line. So that is a big negative.

It is also true to say that housing associations have had an unequal playing field. They have been better resourced to do what they need to do—to manage and develop housing—than local authorities. There is a similar system here, I guess, where public housing is highly constrained. I do not think anybody would say that housing associations are without their problems. There are issues of representativeness and getting tenants involved. This is a real issue and is currently exercising people's minds as to how you do that. While there are regulations to do it, it is not necessarily happening. So representativeness, the costs of rents and the efficiency of some of the larger associations are all questions hanging over the sector. There are no perfect answers but I think rents and affordability are the big issue. If you move towards a private funding system that must be carefully looked at and allowed for.

Ms WOOD: One other thing that housing associations have been very active in is the regeneration of rundown areas of privately owned stock. By buying and renovating older properties that could not be knocked down in conservation areas or whatever, they have renovated and raised the whole tone of the neighbourhood. That is a role that has not been used here for housing associations which could be thought of in terms of enveloping streets and improving the urban scape, particularly in areas where the Department of Housing does not own a lot of the property, where it is basically all in different ownership.

Professor RANDOLPH: I fully support that, and we are doing some work which will develop into some proposals on that. Just to mention one last thing on participation and tenants' involvement and the links with the community, one of the problems with the big stock transfers that has come up in recent years is that they have been criticised for essentially being lumps of local authorities which have been sawn off and essentially has not changed their management structures. There is a new proposal to put together things called community mutuals and these are housing associations which essentially have a much higher level of tenant involvement and are essentially owned by their tenants.

You are kind of moving almost towards a co-operative model but not down that road. Essentially you are involving tenants more effectively in the management structures, because there is the criticism that housing associations do not do that properly. Different models are being developed all the time to address some of the critical issues facing associations in the United Kingdom. Some of these new models that involve greater levels of tenant participation and some sort of mutual ownership might offer some potential solutions, particularly if we are talking about breaking up the large DOH structure and evolving it.

CHAIR: Thank you for appearing before the Committee this morning.

(The witnesses withdrew)

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MICHAEL BERNARD DARCY, Senior Lecturer, School of Applied Social and Human Sciences, University of Western Sydney, Bulla Court Avenue, Milperra, affirmed and examined:

CHAIR: Dr Darcy, have you received a summons issued under my hand?

Dr DARCY: Yes, I have.

CHAIR: We have some potential questions but we can be fairly flexible about them. I invite you to make an opening statement.

Dr DARCY: I provided some short notes that I might refer to also. I would like to address several issues, some of which also come up in your questions. The Committee's terms of reference go to the role and the aims of community housing and to the operational procedures. To frame my comments at the outset, I think the role or the aims of community housing have been fairly ill defined and this has led to a lot of confusion amongst operatives within both the community and public housing sectors about exactly what they should do. This has meant that some operational procedures have some contradictory effects.

I certainly will not be arguing that community housing over all has been a negative thing; neither will I be arguing for the maintenance or restoration of the entire public housing system. What I do affirm strongly, after many years of working in this field, is that the viability and efficiency of the whole social housing system relies on its growth. That was one of the early aims of developing the community housing system. I think that aim has not been achieved, but that is not necessarily the fault of anybody involved in delivering the system. There has been a failure of will and understanding of the real goals of the system on the part of government and some government agencies. I have some comments about that role confusion and how it relates to the operational policies, and also some comments about the future. I have referred in my notes to a number of publications to which I hope you will have access because I will mention some of them in my evidence.

CHAIR: Would you like to tell us a bit more about your professional experience?

Dr DARCY: That is a good idea. My experience with community housing goes back almost 20 years. I was working in local government when the community tenancy scheme in New South Wales was first introduced. I was one of the local government operatives who applied for funding and took on the establishment of the community tenancy scheme in the Ryde-Hunters Hill area in the early 1980s. Subsequent to that I commenced working at the university and conducted research on community management in the social welfare sector in general but with a strong interest in housing. I then spent two years working at the Australian Council of Social Service [ACOSS] where I was director of the Housing and Urban Development Unit at the time of the national housing strategy. I either wrote or was closely involved in many of the submissions to the national housing strategy that recommended expansion of community housing, alternative sources of funding and so on.

Following my two-year tenure at ACOSS, I returned to the university and completed my PhD on community management in the housing sector. I have published extensively since then, including government-, AHURI- and sector-funded research for the department, the Federation of Housing Associations and national and New South Wales Shelter. I also served at various times on the boards of several housing associations and I was an expert member of the New South Wales Housing Assistance Advisory Committee for three years.

CHAIR: We are convinced. You have quite a background in this area.

Dr DARCY: It has been a very specific interest of mine, both professionally and personally.

CHAIR: Turning to the role of community housing, is your view different from that of other people? Are you conscious of the changes and stops and starts over time?

Dr DARCY: I am conscious that in its historical development community housing has served various purposes for various groups. If we go back to the national housing strategy, that strategy pushed the expansion of community housing very strongly as a way of providing a vehicle for

attracting outside non-government investment in social housing provision. Its proposal to set up a bond issue at the national level to fund the expansion of community housing and so on was all about increasing the proportion of housing stock in the non-profit sector in order to address affordability and other concerns.

The Industry Commission established fairly soon after that looked at the whole sector and strongly—and surprisingly in the eyes of most people—endorsed public housing as an efficient way of providing affordable housing, especially in the big cities. It also referred to community housing as a way of getting additional resources into the sector, mainly through sweat equity and participation of tenants. In New South Wales the Mant inquiry, which led to the restructuring of the Department of Housing in New South Wales in the mid 1990s, talked about community housing in terms of its being a competitor to the public housing system—in effect, a way of gingering up public housing and making it act in different and more responsive ways.

In many ways it has served many purposes for many different groups. I contend that it is a convenient safe haven for those looking at what is now seen as the failure of the public housing system—the notion of the large, bureaucratic public housing system with low levels of tenant satisfaction and high levels of management problems on estates at which the police turn up two or three times a day. This is seen as the failure of public housing, and community housing is a nice counterpoint to that. Therefore, lots of people think this is how we can escape these problems.

The difficulty is that we are comparing apples and oranges. The conditions under which community housing operates are totally different from the conditions under which public housing operates. It has totally different cost and management structures. There are different practices and different constraints in terms of allocations, eligibility and, until recently, even rent levels. So it is not surprising that there are different satisfaction levels or different outcomes in terms of performance. You are not really comparing like with like. When you look at the issues concerning tenants, you will see that if it comes down to the question, "Do you want to be a public housing or a community housing tenant?", tenants are concerned about the timeliness of offers, the location of offers and the quality of housing. It is not about who is managing the stock. If tenants could get timely offers in quality housing in the locations that suit them in public housing, they would take them up just as readily as they take them up in community housing.

CHAIR: Our previous witnesses raised the issue of neighbours.

Dr DARCY: Yes, and that goes to allocations practice. The issue is that the public housing system, like the public school system, must take all comers. It is constrained by the fact that it has a limited amount of stock and virtually no growth in that stock. There are 100,000 families on the waiting list and it must allocate to the most needy. So it is not surprising that as stock turns over in estates the social problems become more obvious. That is a function of the lack of supply not a function of poor management. The public housing client service staff have management portfolios of 300 to 400 units. In some cases, community housing has one tenth of that number. It is not surprising that the management of community housing organisations is more personal and provides more responsiveness and so on. It is an issue of resources.

CHAIR: Is that differential because the management is done by volunteers—tenants working together—whereas in public housing we pay for them? Are they better resourced?

Dr DARCY: Yes, they are better resourced. Community housing currently costs more per unit of stock than public housing. The management of community housing organisations is largely done by volunteers. If you took out the entire senior executive of the Department of Housing and replaced it with volunteers, you might get a more comparable cost structure. There is a large volunteer component but there is also a higher input of dollar resources per unit. To come back to the issue of the aims, I would like this inquiry to address itself to how community housing can actually come back to the aims that were originally suggested for it by ACOSS in the late 1980s and early 1990s, by the National Housing Strategy in the early 1990s, that is, to actually contribute to the growth of the non-profit housing sector.

If you look at the real issues of affordability they are not so much in the home ownership area, and they are not in the existing very small social housing area which in New South Wales is

something under 6 per cent of the total stock, but they are in the private rental area that lies somewhere in the middle. That is where all the affordability and the housing quality issues that we should be addressing are. The answer to those is to expand the social housing sector to take up some of that. A lot of those accidental landlords and small investors in the housing sector could be directing their investments through non-profit vehicles which could ensure that the stock in the rental sector generally is of the better quality and rents are more affordable. That is where I would be suggesting that the policy needs to go.

The Hon. DOUG MOPPETT: Other witnesses have said that the constraints of growth and the involvement of private sector funding is more about the equity, the ownership of the stock, and if they do not own the stock, they remain non players in this growth sector. Is that true?

Dr DARCY: No. We must distinguish between the ownership and management of the stock. If I were a community housing provider I would certainly like the freedom of being able to say that we control the equity for this stock and we can go to private institutions and borrow against it and so on. But there are serious public accountability issues on that basis because we are talking here about public funds. There is a history in some States, not in New South Wales, I am glad to say, of the public sector handing over equity in stock to community organisations who then use it in very unaccountable ways. I could refer you to some of the examples that I cited in the report I wrote for National Shelter in 1996.

For example, stock might have been handed over to a small co-operative housing association on the basis that they were providing housing to low income people. Once they had the stock in ownership they basically changed their allocations policies, made sure that all the people who were housed in those housing estates were people who they liked and got on with and were a bit like them. That is a serious equity issue. We are talking about public funds that are allocated for the most needy people and to ensure affordability. If you hand them over completely to non-government organisations you risk those accountability questions, and the equity questions arising from that.

I cite another example in a small rural area in a small State where the housing association was handed over stock and were refusing allocations to people with social characteristics or personal backgrounds of which the management committee did not approve, but the State Government in that case could do nothing about it because they had been given title of this stock to that organisation and it was a private organisation. They could certainly refuse them further stock and further funding that the horse had bolted. If you are going to go down that path you have to think something very seriously about its consequences. I also believe that if we are really talking about getting large-scale private investment into the sector, you really need to keep the asset together. You really need to be able to manage the asset across the States in ways that allow you to look for the best of opportunities, cross subsidised where necessary and plan. If you just hand over equity, and at the moment I do not know how many hundred small organisations, you will lose that ability to plan.

I refer you to the work done by the Affordable Housing Research Consortium which was presented at the national housing conference just a couple of months ago. That research shows that there are certainly institutional and large investors around who are very interested in what they would call quality paper and secure investments. What they are after is something where they can rely on a return over time, not where they can make small-scale housing loans. It seems to me that the is to look to some sort of intermediary corporation, quasi government or quango type operation, which would be responsible for assembling investments and holding the equity and would be seen in a position to plan the distribution of new stock development on the basis of business, service and equity provision plans provided to them by small organisations such as housing associations or, for that matter, regional offices of the Department of Housing.

We certainly need to get a lot more investment and that investment is not going to come from government. We are not going to get large scale new capital from the Commonwealth so it is the private sector investment we are looking at. To be serious about it, we are talking about institutional investors on a large scale. If we are serious about taking the social housing stock from 6 per cent, 12 per cent or 20 per cent—something which will have an impact on the private rental market—then you are talking about a lot of money and you need to assemble it fairly rapidly. The Affordable Housing Research Consortium has done the work with the private sector investors and can tell you what they are interested in.

There are some stumbling blocks and one of them is the tax treatment of those kinds of investments because clearly if you invest directly in rental housing then you get better tax treatment than if you invest in some sort of bond issue because of negative gearing provisions and those sorts of things. There are also massive tax advantages for people investing in owner-occupier housing. If you want to move more investment into the social housing sector we have to think about the tax treatment of those investments, and possibly that is something beyond the scope of the New South Wales Government at this point. Most State governments would agree with this position when they think about it, and I think there is a case for taking such an issue to the Commonwealth Heads of Government forum and trying to suggest some movement there. Tax treatment on those investments is an essential issue. I am not telling you anything new. It has been in the public domain for 20 years. I do not know whether Judy Yates is on your witness list, but you could certainly have a look back to the National Housing Strategy, Issues Paper No. 2 on Housing Affordability in Australia, in which she raised that issue going back to 1991-92, and it is in many other places as well.

CHAIR: In answer to some of the points you have just raised, our previous two witnesses would say that in the United Kingdom an effective regulatory framework overcomes some of the disadvantages you talk about in terms of handing over property to community associations?

Dr DARCY: I do not think there is, in fact, a regulatory framework. Professor Randolph referred to that when he talked about the weaknesses of the system in his final comments because the big issue in housing associations in Britain now is that their rents are much higher than public housing rents.

CHAIR: We assume that is why public housing estates are voting "no"?

Dr DARCY: There are a lot of reasons for that. There are still very few housing associations in Britain that are doing grant-free development. It is really still not a viable proposition. If you are going to say we are targeting the lowest income groups, in Britain you have effectively got a bottomless pit of housing benefit. The biggest weakness in the British system is that it is all very well to have some association managing stock all over the place but it is funded by the Social Security system. The housing benefit in Britain is what is funding the system, not private investors. The private investors are, basically, just taking the housing benefit. The housing benefit is being paid to the housing association and it goes straight back to the private investor. To the extent that the government is trying to restrict that, rents are going up and a different population is being housed in housing associations.

They are not addressing the same group as are the local authorities, and that will happen in this case also if you were to just go straight out and say "Let us just raise private capital directly in the marketplace." You need to add that intermediaries quango type operation which will be responsible for raising money in ways where, because of its tax treatment and the security that it can provide to the investor and so on, it can actually then have the effect of controlling rents and having an impact on the eligibility and the allocation policies of the organisations that it funds. When I say "the organisations that it funds", I am not making any distinction between community and public housing. It seems to me that you could operate exactly the same time of operation through the public housing systems. You could have regional offices of the public housing system and community housing organisations operating in the same areas, submitting business plans which comply with equity and eligibility requirements and planning goals set by the central authority and they could be just on the merits, and funds allocated to those organisations on the basis of those plans.

CHAIR: You decentralise and democratise the management without worrying too much about technically owns the stock?

Dr DARCY: Yes, that is right.

The Hon. IAN WEST: I am trying to come to groups with your concept of the quango and the rent control issue. How is the quango able to hide from the marketplace that there is a subsidy?

Dr DARCY: It is not hiding it from the marketplace. Part of the subsidy has to flow to the investor. If I have money to invest, and I think housing is a good investment, I am going to invest it

up-market, high-quality housing that I think I can sell in a few years time and on which I will get high rent returns in the meantime. I am not going to invest it in Liverpool or Campbelltown and promise it to people who I do not think can actually afford to pay the rent. That would not be a good business decision. If I can go to an intermediary who says "We will guarantee the rent. You do not have to worry about who are the tenants. The tenants will pay the rent to us and we will pay the return to you." Security is the key. Security is the attractor for the investor.

CHAIR: Is that not the British system?

Dr DARCY: In some aspects it is. The housing corporation does play that role in Britain up to a point but housing associations, especially the larger ones, on the basis that they actually own equity in large amounts of their stock, also seek investments privately in the market. In fact, the major institutional investors run a league table of housing associations in the same way that we have superannuation fund league tables here. They say which ones are going to provide the best return, the best security and so on and they publish it. While certainly this has the effect of bringing a lot more resources into the social housing sector, the question then is: At what cost? Under the model that I am proposing, I would not restrict the housing provider to housing only people on the lowest incomes. What I would be looking for from them is a business plan which allowed them to subsidise the lowest income consumer but also to provide housing that was sufficiently attractive to house people who were working and were in the low to middle income groups and then to be able to cross subsidise.

CHAIR: Is that what we were doing in the 1940s and 1950s?

Dr DARCY: That is what we were doing in the 1970s. When I started working in this field I was a community development worker in a housing estate in Airds in the late 1970s. At that time the balance of rebated rent tenants, that is, tenants whose incomes were sufficiently low to qualify for rent rebates, to fully market rent paying tenants was between 50:50 and 60:40. It was moving a bit at the time. It is now something like 97:3. The demand for public housing has been increasing. A much larger proportion of the population requires public housing. That is a product of different family formation profiles: family breakdown, single parents, deinstitutionalisation, people staying at home longer, people living longer. A whole range of demographic changes have created that increasing demand. While the demand has been increasing, we have been dramatically cutting back the supply. In doing that, we have completely eliminated the possibility of internal cross-subsidies and also, I might add, we have created unsustainable community dynamics.

Whole communities are made up of people who have multiple disadvantages, family breakdown histories, mental health issues, physical health issues and so on. Then we turn around and say, "Public housing has failed. We had better do something else." Public housing has not failed; we failed public housing. Then we turn around and say that the best thing to do is to transfer all this stock to community housing organisations. We set up a few demonstration projects and say, "Isn't this wonderful?" You will, if you have not already, have heard about or been to the Argyle Housing Association project in Claymore.

CHAIR: We have heard a great deal about it. We have not been there yet.

Dr DARCY: It is a terrific achievement, but Brian Minahan himself will tell you that if he had to operate under the same constraints the public housing system operated under that would not happen. He had a quite different allocations policy, a quite different funding framework and so on. You cannot go around the whole public housing system and say, "Let's just hand it all over to community housing organisations and it will all be like Proctor Way." It will not. At some point I also want to talk about the transfer process. We will come back to that.

CHAIR: We may not have time to come back because we are inspecting the St George association early this afternoon.

The Hon. DOUG MOPPETT: I think you have teased out the most critical point of our inquiry. You are perhaps the first of our witnesses who has said to be cautious about this wholesale rush to a parallel devolution of housing along with all the other devolutions we have seen of public ownership. Your remarks are very challenging. Where do you see the balance being struck? The community housing people think they have a larger role to play. The witnesses who are not involved

have said that they are doing very well, they are a good example and they should be expanding. But the truth of the matter is they are not. They talk about greater numbers of stock, but there are a fewer of them. So the model is not self-generating, unless there were some definite government policy that owning and managing property is all too difficult and government wants to step back, as we have in many other situations. How do we strike the balance?

Dr DARCY: Firstly, I am not the first person to say, if you like, that the privatisation of public housing would be a bad thing. In fact, as I said before, the Industry Commission said that. In 1994 the Industry Commission recommended that the public housing remain in the public sector because purely in terms of economics it was the most efficient long-term way for government to provide that service and that privatising the whole public housing system would actually be more expensive. If you had to privatise the stock and then lease it back in order to provide the service, in the long term it is more expensive than holding and maintaining the asset. I am not the first person to say that and I think that I am in fairly solid company with the Industry Commission on that particular point. In terms of where you strike the balance on management, however, a great paradox of community housing is that it is going to achieve what it says it will achieve in terms of flexibility, tenant participation, responsive management and so on, then it needs to be small. The bigger it gets, the harder it is to do those things.

I was doing some research in Britain in 1996 in Bristol and the west country area. I spoke to several people, including the manager of Public Housing Services of Bristol City Council who was responsible for managing 40,000-odd units and was in the process, through various means, of transferring some of that to housing associations. I spoke to lots of housing managers in housing associations. The interesting thing was that when I spoke to someone in the smallish seaside town of Weston-Super-Mare, I spoke to a housing manager there about tenant participation and how they involved tenants in the management of the association. She said to me, "I think you would be better off to speak to the local council people about that. They know much more about that because they are local and on the spot."

This housing association had housing under its management from Liverpool to South End. It had some 30,000 stock, but it was spread all over the country because it was looking for development opportunities and that is how it continued to get its investment from the private sector. So there are a lot of dangers in going to that private model for the values of tenant participation, flexibility and so on, which really come with smallness and localness. If it is smallness and localness we want, we need to think about separating, as I said before, the management from the asset in a sense. We already have that up to a point, but it is a little bit confused the way it is done now.

CHAIR: Should we get on to your study in New South Wales of stock transfer because that will raise those issues?

Dr DARCY: Yes. I will make one final point in relation to the balance. As I said before, the real issue here is about outcomes for tenants. The way I would like to see the balance determined—and this will come to my stock transfer issue as well—is by tenants. Whether it is a public sector provider, a fragment of the existing public sector provider, a regional operation or whatever, or whether it is a housing association, I would like to see those organisations having to actually bid for the available investment capital on the basis of business plans which set out the population they expect to house, include a component of the lowest income people and a component of working and middle income people to show that they will cross-subsidise in these ways, and show how they will ensure tenant involvement and so on. We get a plan from those people about how they are going to do it, assess the bids and then they are provided with the development capital to go ahead with the plan in a monitored way.

The way that stock is being transferred at the moment is excluding tenants, I believe. The recent study I did over the last year or two was initiated by New South Wales Shelter. It had tenants coming to it saying, "Community housing is supposed to be about choice. We have basically been presented with no choice at all. We have been told our house is being transferred to the community housing organisation. Our choice is transfer to the community housing organisation or move." That was a fairly disturbing report for me to hear. I have been a promoter of community housing, and I still am. I am not arguing for a minute that we should go back to the old public housing system, that we should not have multiple providers and so on. But that report was very disturbing to me. When we

went into this study in a more detailed way and looked at how stock was being transferred in various places, we discovered that while the overarching aim of having multiple providers was supposed to be about tenants' choice, the way that this has translated into operational policies is actually taking choice away from tenants. That is because transfers are being treated as property transactions and have nothing to do with the preferences of tenants.

When I say they are dealt with as property transactions, for a start, properties are always transferred in large blocks. So you take a whole multi-storey block, a whole street or a whole lot of streets and transfer them over. The reasoning for that is very unclear. The protocol that was developed between the Office of Community Housing and the department states that is because they have to be capable of separate title. In fact, in most of those cases, they are not on separate titles at all; they are on super lots because the public housing system has been developed in ways to get around the planning system. There are hundreds of houses on a single title. Even when you transfer 50, 60 or 100 units at a time, they are not actually capable of separate title without all sorts of work being done to move pipes and wires and all sorts of other things to enable that to happen.

CHAIR: Why are they being transferred in that way? You do not know?

Dr DARCY: I do. They are being transferred in large lots to suit the management needs of both the public and community housing organisations. The management needs of the public housing association are often, in the cases we identified, the problem street or the problem block which the public housing organisation wants to get rid of. The public housing association would go about decanting the tenants. If it could not decant the tenants, it would tell the tenants they would have to go to the community housing organisation with the house or be moved somewhere else. So it could break up a problem block or problem street and divest itself of the problem. The community housing associations see it in a slightly different way. They see it as being more efficient in terms of their tenancy management, but also in terms of tenant participation and community development type activities, if all of their tenants are in one street or one block. That makes it easier for them to get tenant organisation going and so on.

The contradictory effect is that they are doing that on a small scale within a public housing estate where someone else is trying to get community development and participation going across the whole estate. If we take the example of Riverwood, as part of the neighbourhood improvement program work going on in Riverwood over the last few years, the HCAP community development worker, funded by the Department of Housing, had a major effort going into building tenant councils, community involvement of tenants and so on. That initiative was largely based on the fact that these people have a common interest in that they have a single landlord and can get involved in street issues, security, tree planting and fencing. Those sorts of things can be the basis of community development activity. When the department decided to transfer stock to the association—that we are going to visit this afternoon—in blocks, away from that, the community development worker there was at a loss. She could not understand, she saw that as being completely counter to the whole effort that she had been asked to put in over the past three or four years. Effectively it was breaking up the estate on which she had based her community development work so that someone else could do microcommunity development within the estate.

CHAIR: The committee visited Riverwood last year, or the year before, and a lot of refurbishment was going on. We talked to a lot of tenants who were temporarily or permanently being moved from block to block partly because the buildings were being rebuilt from the inside out. Was that process of transfer to community housing going on at that time? That was quite disruptive, but everyone supported the aims of the project.

Dr DARCY: There are separate but concurrent strategies about estate redevelopment. A number of different philosophies operate and one is a kind of physical determiner strategy, and I do not want to denigrate it. The strategy says that if the estate and houses can be made to look better, people will want to stay there longer and therefore it will be more stable and it will be a more socially mixed community. There is a lot of truth in that. At the same time, another philosophy is that the real problem is that it is a single public landlord and it really needs to be broken up into a more diverse management. The difficulty is that tenants do not get a lot of say in any of that. Tenants have come to me in Claymore and said that a lot of money has been spent on refurbishing the houses that were transferred to the Argyle Community Housing Association, why not do it for us?

Other tenants have said that they have to transfer to the housing association because the department cannot afford to maintain their houses. There is a lot of confusion over just exactly what this transfer process is for. Fairly clearly, when you get into the process—and I have been closely involved in that through the Housing Assistance Plan Advisory Committee—the main motivator for the transfer program is basically to grow the community housing sector as fast as possible so that we can see whether it is comparable. The victim of that in the short term is real choice and real participation for tenants.

CHAIR: Earlier the Hon. Doug Moppett asked you questions based on the presumption that the community housing sector is not growing.

Dr DARCY: The social housing sector, as a whole, is not growing. To the extent that the community housing sector is growing, it is growing at the expense of the public housing sector. That might well be a good thing, but it is like deck chairs on the *Titanic*. We really need to set up both the community sector and public sector in ways that both will grow and where they will represent, between them, a much larger proportion of the total rental housing stock and represent an investment opportunity not for opportunistic investors who want higher risk, higher return, but for large institutional investors and people who currently have their money in rental property but have all the management problems that go with that. Through a bond issue or some other kind of institutional arrangement they could have a secure, long-term investment through a non-profit corporation. I see that as the vehicle for growing both community housing and public housing. The distinction between them under that sort of arrangement is moot. It is a matter of who does the best job.

CHAIR: You have not been asked about accountability mechanisms and framework, because we have concentrated on tenant participation. What is your recommendation on that development in either sector?

Dr DARCY: The current accountability process is driven by fear and suspicion rather than by outcomes. That is not particularly productive. Within the public sector you still have a lot of suspicion of non-government organisations. In the public sector there is a lot of feeling that government is telling them what to do at every move and they cannot move without its say so. Various people have their own views on how to break out of that. My view is to restructure the whole system, not to make it more minutely accountable for funds or tenant outcomes. If community housing is able to provide better outcomes for tenants, I cannot see why the choice could not be given to tenants almost on an individual basis. For instance, with a housing association in an area, it will charge a certain rent, and a management service will be provided. If people want to transfer the management of housing to it, they may do so.

The Hon. Dr ARTHUR CHESTERFIELD-EVANS: There was a Department of Community Services inquiry similar to that, about the transfer of housing and the lack of say that inmates in group homes had.

Dr DARCY: That was in the disability group homes area.

CHAIR: Yesterday some groups very much stressed that the groups they cater for, sometimes in partnership, included Tongan and Tamil groups, and a retirement village that was run by CentaCare but was part of the housing association. You mentioned that before. With special purpose and participatory groups is there a need for properties to be adjacent in a particular street or building? They suggested that there were a lot of good aspects to that.

Dr DARCY: That has to be judged on a case-by-case basis. That is when I come back to the idea of submitting plans showing how developments were going to address affordability and equity needs as well as liability issues. The Proctor Way example is a case in point. A large proportion of the houses in Proctor Way are occupied by people of the same ethnic background, with lots of family links. That has had a lot to do with the success of the community garden, which is so famous. It also raises questions about equity of allocation.

CHAIR: One ethnic group gets houses, so another one misses out? Or a group with physical disabilities misses out?

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Dr DARCY: If you are housing on the basis that it would be better for a group of tenants and better for management purposes, and so on, you are pushing those issues up the allocation points ladder and pushing down the individual needs of tenants. The department's problem is that it has a very rigorous needs assessment process and, basically, the next person on the top of the list has to get the next house. Unless people submit, and have approved, special allocation strategies in minute areas—which they do in some places, usually to exclude certain tenants—basically the department has to house the next person on the top of the list. This is a totally equity-driven allocation process.

CHAIR: No matter how inappropriate that person may be. We hear stories of blocks of pensioner units working perfectly until the next person on the list comes in and a riot breaks out.

Dr DARCY: That is true, but here we have a paradox of the whole social housing system. On the one hand we want to say that we are housing the most needy, we are providing them with affordability and so on. If we do that entirely we create unsustainable community dynamics. So we look at the community's side and say that maybe we should give the community control over this. To the extent that we do that, we compromise the equity aspect. In some communities, if you hand over control of social housing, there would never be another black person or single parent housed in that town. I can name of those places, but I will not.

There has to be some government responsibility for making sure that equity objectives are kept high on the priorities. That does not mean that I am rejecting the notion of community management or tenant participation. Absolutely not! These things have to be managed on the basis of very well thought out plans about local needs and issues. At the moment one part of the system has the weight going in one direction and the other party has the weight going in the other direction, and they have both probably got it wrong.

CHAIR: It is like comparing apples to oranges, as you said earlier. The Committee may contact you for further information and seek your advice about good places to visit. Thank you for your attendance today.

(The witnesses withdrew)

(The Committee adjourned at 11.42 a.m.)