

REPORT OF PROCEEDINGS BEFORE

STANDING COMMITTEE ON SOCIAL ISSUES

**INQUIRY INTO HOMELESSNESS AND LOW-COST RENTAL
ACCOMMODATION**

At Sydney on Tuesday 30 June 2009

The Committee met at 2.00 p.m.

PRESENT

The Hon. I. W. West (Chair)

The Hon. G. J. Donnelly

Dr J. Kaye

The Hon. T. J. Khan

The Hon. M. S. Veitch

CORRECTED

MAURA CLARE BOLAND, Executive Director, Policy and Strategy Division, Housing NSW, 223-231 Liverpool Road, Ashfield,

LEONIE RUTH KING, Executive Director, Community Housing Division, Housing NSW, 223-231 Liverpool Road, Ashfield, and

JOHN MACMILLAN, Manager, Homelessness Unit, 223-231 Liverpool Road, Ashfield, on former affirmation:

HELEN JANE O'LOUGHLIN, Director, Centre for Affordable Housing, Housing NSW, 223-231 Liverpool Road, Ashfield, affirmed and examined:

CHAIR: Welcome to the sixth and final public hearing of the Standing Committee on Social Issues Inquiry into Homelessness and Low-Cost Rental Accommodation. The Committee will table its report in the Parliament during September. Today we will be hearing from Housing NSW and Housing Choices Australia. Before we commence I would like to make some comments about procedural matters. In accordance with the Legislative Council's broadcasting guidelines, only Committee members and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photographing. In reporting the proceedings of this Committee the media must take responsibility for what it publishes or what interpretation is placed on anything that is said before the Committee.

The guidelines for the broadcast of proceedings are available at the table by the door. I remind everyone that any messages for Committee members or witnesses must be delivered through the Chamber and support staff or the Committee clerks. I invite everyone to turn off mobile phones. Should any of you consider at any stage that certain evidence you wish to give or documents you may wish to tender should be heard or seen only by Committee members, please indicate that and the Committee will consider that request. Any questions that you may have taken on notice we would request that you return those within 21 days. Before the Committee goes to questions, have you got some opening remarks you would like to make?

Ms BOLAND: I would like to start by acknowledging the traditional owners of the land on which we meet, the Gadigal people of the Eora nation. I wanted to start with some opening comments, particularly about reform in the community housing sector because of the importance of the sector in the provision of affordable housing and also because of the emphasis on the sector in your inquiry and on some of the questions that I think you have asked us along the way.

For some years Housing NSW has been working to better enable the community housing sector to play a role in broader affordable housing provision. To do so we saw that there were basically three essential preconditions for the community housing sector to become more involved. These became three planks in our reform. I particularly wanted to focus on them because I am pleased to say that I think we have now put in place each of those planks. These three planks are a steady and predictable stream of income that would enable providers to have some certainty about how much funding would come in but would also give them sufficient operating circles to be able to invest; the second one is the confidence of investors in the community housing sector and the third is an asset base against which they can borrow. We saw that those three planks would work together to give a really solid base for the community housing sector to play a bigger role.

To talk a little bit more about them: the first of them—steady and predictable stream of income—we have previously provided the Committee with some detailed information on the rent reform in community housing. Those rent reforms collectively generate an extra \$23 million that the community housing sector can use to invest in more housing for people who are in considerable need. The reforms were introduced sensitively with phasing provisions to try to protect people who were on low incomes, and we are starting to see the impact of that extra funding coming through already. We will talk about this probably as you ask us some questions as we go through. But we are starting to see the impact of that additional funding on some of the funding proposals that have come through from community housing providers.

The second plank of the reform—the confidence of investors: We talked before about the regulation of community housing and the confidence that we hoped such regulation would give the investors of government—because government is still the most significant investor in community housing—but also the private investors: the banks and the other parties, with which community housing will partner. The statutory regulatory system was introduced on 1 May 2009, since we last gave evidence here. So all organisations that

now receive assistance from Housing NSW are provided to be registered in accordance with the Act. All organisations that currently receive assistance have up until 30 April 2011 to become registered. So we have introduced a registration system, and, again, we are starting to see the impacts of that. The financial institutions that we have spoken with about that system have indicated that the statutory regulation that is on offer will provide them with the increased confidence that community housing providers are viable, well governed and well managed.

The final plank of the reform was an asset base against which community housing providers can borrow. This is a particularly significant development since the last time we met with the Committee. Last week the New South Wales Government announced that up to 7,000 properties would be transferred to community housing ownership by the end of June 2012. This includes a very high proportion of the stock currently under community housing in the Nation Building—Economic Stimulus Plan, as well as a proportion of the stock that is already under the management of community housing organisations. We believe that by owning the properties that they manage, community housing providers will have an asset base that will better enable them to get private sector finance and at better rates than they are currently able to get.

This is a historic milestone in supporting the growth of the community housing sector to deliver more affordable housing for people on a low to moderate income in New South Wales. It is particularly because of the interest that the Committee has shown in the community housing sector that we have with us Leonie King, the executive director of the Community Housing Division. The Committee's broader interest in affordable housing led us to bring Helen O'Loughlin, the director of the Centre for Affordable Housing. As we did at the last hearing, we have John MacMillan, the manager of the Homelessness Unit in Housing NSW.

The Hon. MICHAEL VEITCH: I want to ask a couple of questions with a rural or regional slant. There is a need for affordable housing in both cities and regional areas of New South Wales. What policies have been adopted to address the different needs and facilities required by the homeless and those at risk of homelessness and those in need of affordable housing in both cities and regional areas? You would have seen from the Committee's transcripts that it has heard from a number of rural organisations that have raised the specific nature of their regions.

Ms BOLAND: The first thing to outline with regard to affordable housing and homelessness is that we try to start from the evidence base. That is, we do detailed needs analyses across the State to understand the needs of each location. When we look at the properties that are owned by Housing NSW, we make decisions based on the residual need in every location and what the housing market is like. For some high-cost locations, usually non-regional locations, we would probably say that we need a higher level of social housing because the housing markets in those locations are relatively non-substitutable. It is much harder to use something like Commonwealth rent assistance to get a property in the private market.

In the case of some regional locations, the addition of Commonwealth rent assistance for those who are experiencing difficulties in accessing affordable accommodation can be enough to make a difference. Commonwealth rent assistance, plus the relatively more affordable rents are okay. That still leaves a gap for people who perhaps do not experience housing affordability as their biggest problem, but have some other issue that they must deal with. Where they have another issue, social housing is generally the most important response. We still have a considerable level of housing in regional locations.

Under the Nation Building—Economic Stimulus Plan we have quite a large amount of housing that will be delivered in regional locations as well as in metropolitan locations. That is partly because we see needs in those locations. We have classified markets into high, medium and low demand. Where we see that there is still a level of need in a market, we are looking to target nation building properties. If members recall, there are up to 6,500 of those properties across the State. The other reason we are doing it is that we must try to deliver those houses for \$300,000 per property in New South Wales. That has necessarily meant that we probably have a slightly higher level of housing being delivered in regional locations than would otherwise be the case. That is a very brief outline of affordable housing.

As members would appreciate, homelessness is slightly more complex. At the moment homelessness services seem to be concentrated with population. Where there are population centres we see higher levels of services; where there are low levels of population obviously the services are a little more sparse. That creates some challenges for us in working out how to get good responses in regional locations. As we have been working through those issues in the Homelessness Action Plan for New South Wales we have tried hard to get

an evidence base of what works in regional locations. To be honest, the evidence base for regional responses is sparse. That has become a priority: How we can put responses in place and simultaneously get some evidence?

We are doing two specific things with the Homelessness Action Plan. First, we have tried to develop some rural specific projects that provide new ways of addressing the difficulties of getting support where services are sparse. When the Homelessness Action Plan is released—hopefully within the next month or two—we will see some specific regional projects. The second thing we are trying to do with the Homelessness Action Plan is to put in place provision for a good round of regional planning. Because we do not have a strong evidence base and because our information base is not strong, we think there needs to be as robust as possible a process of regional plans that address the specific needs of each location so that we can get grassroots involvement. We particularly hope that we can get broader engagement of communities beyond government agencies and service providers and involve business communities and so on to be able to come together to develop a response to homelessness for the location.

Funding has been made available for these projects through the Homelessness Action Plan. This starts to become a web of agreements. The New South Wales Government and the Australian Government have signed a homelessness national partnership agreement that has some funding attached to it. We are required to do an implementation plan for New South Wales that sits underneath that. That forms part of the broader Homelessness Action Plan. The Commonwealth has provided \$100 million in that plan to invest in the homelessness to stimulate some change in responses. The New South Wales Government is required to match the funding. We have taken some of that funding and allocated it to projects in year one and, as I have mentioned, to some regional projects. We have left aside a tranche to ensure that the regional planning process has some funding behind it. That means that we will not simply be getting people together to come up with new ideas. There will be some funding to feed into that as well.

The Hon. MICHAEL VEITCH: The Northern Rivers Social Development Council proposed a concept of regional partnerships that would assist in pulling together the regional plans. Have you heard of that concept or are you aware of it? What are your views about whether that would work?

Ms BOLAND: We are aware of the broad concept of regional partnership coordinators. As members would also be aware, the Government has replaced regional coordinators. We are hoping to build on the regional coordination mechanism to be able to do some of the homelessness responses.

Ms O'LOUGHLIN: We do have some responses from the Affordable Housing Centre. The centre has met with a number of those councils to assist them in developing housing strategies and approaches. It has also funded positions to assist with that facilitation. We also have regular contact through either email or their coming to visit us. For example, on 9 July I have a developer coming from the Coffs Harbour area who is interested in the National Rental Affordability Scheme [NRAS]. They will come and get advice and assistance from the Centre for Affordable Housing. There is the ability for us to facilitate with a community housing provider. This particular person felt they needed some advice from the centre. We said, "Come on down. We can put you in touch with what the NRAS program means and how it operates and also put you in touch with a local provider in your area." We facilitate that kind of assistance and we have done so in the past.

The Hon. MICHAEL VEITCH: It is interesting you should mention the developer at Coffs Harbour. I also sit on the State Development Standing Committee, which is currently inquiring into planning. The New South Wales Planning Department in its submission to that committee stated there were a number of initiatives in place to create affordable housing. They included streamlining new land release processes, reducing levies on new housing developments, reforming residential development and approval processes, protecting existing low-rental housing and providing incentives for the development of affordable housing to be managed by social housing providers. Do you have any views on those initiatives that Planning says it is putting in place for affordable housing?

Ms O'LOUGHLIN: Yes, I do have some views on those. The revised State Environmental Planning Policy [SEPP] is probably quite a good one. The ISEPP has made provision for social housing providers—

Dr JOHN KAYE: ISEPP?

Ms O'LOUGHLIN: The Infrastructure SEPP, which is colloquially known as ISEPP.

CHAIR: Do you have a dictionary for this?

Ms BOLAND: It stands for State Environmental Planning Policy.

CHAIR: We understand SEPP.

Ms BOLAND: The Infrastructure SEPP was put in place as a result of New South Wales becoming involved in the Nation Building - Economic Stimulus Plan package to try to streamline some of the approvals associated with that.

Ms O'LOUGHLIN: That particular SEPP—I am thinking of your earlier question about the regional areas—makes provision for social housing providers or the department to lodge applications in areas that are not currently rezoned to allow multi-unit or residential flat buildings, provided they have a compatibility certificate from the Department of Planning and meet certain locational requirements. Those include that they are within 400 metres of 32 nominated regional centres. This is important for us because it will increase our ability to deliver social and affordable housing in those regional areas. It should increase the efficiency with which we can do it and the cost effectiveness with which we can do it in high-need areas. That is one of the planning reforms they have talked about.

They have also been talking about streamlining levies on housing developments—that is, metropolitan levies, State Government levies, and infrastructure levies. They have been reduced. Also, a \$20,000 cap has been placed on section 94 developer contributions. All of those measures should assist—they are kind of supply side measures—in reducing the demand for affordable housing and increasing supply.

The Hon. TREVOR KHAN: Should reduce demand?

Ms O'LOUGHLIN: Should reduce demand through the provision of additional supply. That will help the moderate income household earners that possibly would have bought new property but no longer can afford it because of the price costs associated with holding costs, planning delays and demand exceeding supply. All of those factors should assist in prices coming down and those people being able to purchase and free up rental stock that they were perhaps occupying. When they occupy that rental stock they squeeze lower income earners. They end up either having to leave and placing pressure on the social housing system or remain in more unaffordable housing because they have to stay and pay higher rental costs. There are a number of flow-through effects. Obviously the effectiveness of those measures will depend on how much they facilitate an increase in supply and also possibly on how much those measures are passed on to the end purchaser in the form of reduced costs. That is often linked to location and market substitutability, so if all the supply is happening in one area and people want housing somewhere else that is better located for transport and facilities the impact may not be as great. If the supply is located in areas where there is demand the impact may be greater.

CHAIR: Before we ask further questions, can you give us a rundown on the Centre for Affordable Housing and your particular function?

Ms O'LOUGHLIN: The Centre for Affordable Housing is a business unit located within the Department of Housing. It works across the State Government, the not-for-profit sector and the local government sector. Its purpose is to try to generate creative responses to declining housing affordability and it aims to foster increasing the supply of affordable housing and management practices for affordable housing. We provide funding for affordable housing through a number of programs. We tend to broker partnerships with State and local government for not-for-profit organisations and the private sector so they can deliver affordable housing. We provide advice on finance and delivery models for specific projects and we provide good practice advice on the development of affordable housing projects. We have recently extended our role significantly. We administer NRAS for the State Government and we will be administering the HAF [Housing Affordability Fund] program. They are Federal schemes and I am happy to provide more information on those if you require it.

CHAIR: I am assuming you have a lexicon of all these acronyms!

Ms O'LOUGHLIN: We need one ourselves because sometimes they change several times.

CHAIR: We can laugh but it is extremely important to us and the world at large because it gets to the point where you start to wonder about where it is all heading and who really understands the overall picture. All

the acronyms become very glib. Is there a proactive or reactive definition of affordable housing? Does affordable housing incorporate other than low and medium income?

Ms O'LOUGHLIN: The definition that people like to use is that it ranges from very low to moderate household incomes. That can range from less than 50 per cent of the median up to about 120 per cent of the median. That is gross household income. At the top it is about \$75,900 in Sydney. In a conceptual sense we think about affordable housing across a spectrum of need, if you like. At the bottom is crisis housing and it then moves through homelessness, people in social housing, community housing, people in the private rental market in need of affordable housing, people in need of assistance for home ownership, and home ownership. Affordable housing in its broadest sense probably moves across all of those areas from crisis to those in need. It is defined by saying that there are some people that have greater choice and greater ability to make housing choices, with people on very low to moderate incomes paying more than 30 per cent of that income considered to be in housing stress. People sometimes talk about the concept of trade-offs. I guess there is some concession that people under lower and moderate incomes have less ability to trade off perhaps location and housing type than others in higher income groups do.

CHAIR: So your role is the coordinator?

Ms O'LOUGHLIN: It is the Centre for Affordable Housing and it is very much about coordinating responses and linkages. Responding to your question about the Housing Affordability Fund and the National Rental Affordability Scheme, what we looked at as a centre is we are aware of the linkages that can be made across the policy levers that can build up a response to address affordable housing. We all know the problem is quite significant and it requires a layering of subsidies or grants and incentives from across the planning system and funding to be able to develop responses, and that in some ways is the value of the centre, that it can do that for people. It can say: Do you understand there is an incentive here and this is how it works, and it can be used this way. If you were able to put this planning incentive with this grant funding incentive what might be the outcome that we could achieve?

CHAIR: So are we overvaluing or undervaluing your role in saying you are, within the department, the driver and coordinator of affordable housing?

Ms O'LOUGHLIN: I think that is a reasonable description. It is affordable housing probably in that smaller affordable housing sense. Obviously I am not responsible for the full spectrum I described before.

CHAIR: Sorry, that is exactly what I was getting at. Where the different areas join is vital to the overall picture.

Ms BOLAND: Absolutely, and that is the broader responsibility of Housing NSW. Housing NSW positions itself as being responsible for the broadest range of housing, from housing for those who are in crisis and are experiencing homelessness through to potentially influencing the supply of affordable accommodation in the private market as well. The way the Centre for Affordable Housing is positioned is to look particularly at that kind of housing that is provided often through a partial subsidy by government, whether that is a direct grant funding or a planning incentive or, as Helen talked about, the various other kinds, usually in addition to somebody putting in their own equity or getting on debt finance—how you might be able to pull those together to be able to deliver housing at a submarket rate, usually rental but not always rental, and sometimes home ownership. If we look at the full spectrum it is important to understand the crisis at the social housing end, and that is probably done elsewhere in Housing NSW. This attempts to augment the direct delivery of social housing by social housing providers, whether Housing NSW or community housing providers by trying to facilitate more submarket housing.

The Hon. TREVOR KHAN: How long has the centre been in existence?

Ms O'LOUGHLIN: It was established in 2002 or 2003.

The Hon. TREVOR KHAN: It having been in existence for six or seven years were key performance indicators established for the centre when it was established?

Ms O'LOUGHLIN: There would have been a business plan prepared and key performance indicators at that time. I might not have been in place at that time but I imagine that would have been the case.

The Hon. TREVOR KHAN: Imagining that is the case, would that business plan be available?

Ms O'LOUGHLIN: I would have to take that on notice.

The Hon. TREVOR KHAN: Is that on notice because you do not know whether it exists or you have to determine whether it is capable of being released?

Ms O'LOUGHLIN: It is probably the former.

Ms BOLAND: There are a couple of things. There was a business plan at the time. The business plan was partly linked to some funding that had been allocated by the Rental Bond Board.

The Hon. TREVOR KHAN: With the greatest respect, I do not want a lengthy answer.

Ms BOLAND: No, it will not be a lengthy answer. But some funding was made available by the Rental Bond Board to fund affordable housing services inside the Department of Planning. Some of those responsibilities were transferred over to Housing NSW along with the funding. The initial proposal was negotiated with the Rental Bond Board, so there will be a record of that on file and we can provide that if you would like it. The most critical performance indicator there was to turn that funding into housing, and that has been achieved.

The Hon. TREVOR KHAN: So, do I take it there is a business plan and it is available for us?

Ms BOLAND: I cannot guarantee you that it is a business plan. I can tell you there is a funding agreement that was negotiated with the Rental Bond Board and it has some indicators in it and, yes, we will be able to find that on file,

The Hon. TREVOR KHAN: The Chair asked the question I am getting to and that is how do you measure the outcomes of the centre now?

Ms BOLAND: One of the most significant ways of measuring the effectiveness of the centre—and you would appreciate there are a number of different ways of doing it—

The Hon. TREVOR KHAN: I am interested in qualitative measures.

Ms BOLAND: Absolutely. The single most important measure is: Are we getting additional affordable housing as a result of the centre being there? The answer is yes, we are. As far as possible we count the additional amount of affordable housing that is still there.

The Hon. TREVOR KHAN: Ms Boland, is there a document that sets out year by year key performance indicators for the centre?

Ms BOLAND: No, there is not, but there is a corporate plan for Housing NSW that sets out indicators for the whole of Housing NSW.

The Hon. TREVOR KHAN: With regards to the provision of affordable housing?

Ms BOLAND: Affordable housing is one of five outcomes in the current corporate plan.

The Hon. TREVOR KHAN: The answer is yes, there are key performance indicators for affordable housing?

Ms BOLAND: Yes.

The Hon. TREVOR KHAN: Are you able to provide that?

Ms BOLAND: We can provide you with both the corporate plan and any measures we have against that.

CHAIR: Does that take into account the homelessness unit? They are separate units?

Ms BOLAND: Homelessness is a separate outcome in the corporate plan. Homelessness is much more difficult to get good measures on. I think we probably talked last time about some of the difficulties in assessing homelessness and we were relying on a census. The work we are doing with the Commonwealth at the moment around homelessness, and the work that is being done nationally around homelessness, is to try to come up with much more robust measures for homelessness that will allow us to track our success there.

CHAIR: I am trying to understand the important connection between the two. I understand that homelessness comes under affordable housing?

Ms BOLAND: Not exactly.

CHAIR: In terms of the definition?

Ms BOLAND: In terms of the broadest definition of affordable housing they are related, and that relates to the work of Housing NSW. If it helps structurally, both homelessness and the Centre for Affordable Housing are inside policy and strategy, and both report to me. So, the spectrum of responses across that range sits within.

CHAIR: It would be nice to understand that structurally, because out there in the big bad world the two are really interwoven and are intrinsically necessarily leaning on each other, and one affects the other. I am trying to understand the connection between the big bad world out there and the structure.

Ms BOLAND: Yes. The way Housing NSW is structured, we have a policy and strategy division. The policy and strategy division considers the whole spectrum. The reason we have both a homelessness unit and a centre for affordable housing inside policy and strategy is so that we can make sure all those connections work as effectively as possible. There are then other delivery parts of the organisation I guess we influence to make sure as things are rolled out they are rolled out in a coordinated manner.

CHAIR: But who is responsible for ensuring that they work as effectively as possible? Is it you, as the executive director?

Ms BOLAND: I am responsible for making sure that we have the right spectrum of responses, and that the spectrum of responses integrates properly. Some of my colleagues would be responsible for making sure they were implemented inside the organisation as effectively as possible. Equally, through some of the work we have, like the Centre for Affordable Housing, we try to influence others to provide affordable housing to make sure that is as effective as possible.

CHAIR: So, who would be responsible for developing reports to the State Plan?

Ms BOLAND: Policy and strategy, my division.

CHAIR: That is you?

Ms BOLAND: That is right.

CHAIR: How does it get to the State Plan? Does it go through the director general? Do you do a monthly report, a six-monthly report? How do you physically get documents on one of the key performance indicators and measurement outcomes to the State Plan strategic meetings?

Ms BOLAND: I honestly cannot tell you how often we do reports.

The Hon. TREVOR KHAN: I think that is an interesting question at the present time, since Robyn Kruk, disappeared as to how much—

Ms BOLAND: I am.

CHAIR: That is not part of my question.

Ms BOLAND: I am very cautious, but part of the work in my division is to do those reports. I have certainly reviewed and approved those reports. They go via the director general via the Minister into the Premier. I am afraid I cannot tell you the frequency of the reporting at the moment.

Ms KING: Perhaps I can provide some additional information around affordable housing and the State Plan reporting. The current version of the State Plan—I guess the original version of the State Plan—focused predominantly on supply side measures, which were the responsibility of the Department of Planning. It talked about the role of the Department of Planning, particularly through the metropolitan strategy—things like the Growth Centres Commission. It made limited reference to the role of housing, affordable housing and its policy role in particular. So, there are no real commitments other than that it determined that Housing NSW had a responsibility for developing an affordable housing strategy. That responsibility was picked up and monitored through the Department of Planning through its various interagency structures, such as metropolitan CEOs meeting. Those indicators were coordinated through Planning and reporting was done through Planning on that. I would envisage in this updated version of the State Plan that there would be perhaps a much-greater focus on affordable housing and homelessness, and Housing would feature much more strongly.

The Hon. TREVOR KHAN: One of the State Plan components apparently was the development of the affordable housing strategy. Is there an affordable housing strategy?

Ms KING: There is not a document called an affordable housing strategy.

The Hon. TREVOR KHAN: The department is tasked with developing an affordable housing strategy, but there actually is not a document that evidences an affordable strategy?

Ms KING: That is correct. There have been, I guess, components of an affordable housing strategy developed through the department. One of the big reforms from about approximately two years ago is an affordable community housing strategy. The focus was very much on the role that Housing could specifically influence through the community housing sector to deliver affordable housing. There is a set of reforms that were approved by government and announced by government at that time. We can cover those in more detail if required. We have been working closely with Planning—I understand Planning has made reference to it in a submission and may well have made reference at their appearance—on a set of planning reforms around affordable—

The Hon. TREVOR KHAN: I do not want to cut you off, but I asked a question about affordable housing strategy, not other strategies. Was the homeless action plan to be completed by June 2009?

Ms BOLAND: That is correct.

The Hon. TREVOR KHAN: Is it complete as at 30 June 2009?

Ms BOLAND: It is not complete. The work is well advanced. Would you like more detail?

The Hon. TREVOR KHAN: You are quite right, but I will ask the questions and we will move on.

Ms BOLAND: Certainly.

The Hon. TREVOR KHAN: When was the preparation of the plan commenced?

Ms BOLAND: The preparation of the Homelessness Action Plan commenced mid last year.

Mr MacMILLAN: Yes, the action plan as it is known—it had an earlier iteration called a strategic framework—has been in development since mid-2008.

The Hon. TREVOR KHAN: Was the plan to be completed by June 2009 and was implementation to commence in July 2009?

Ms BOLAND: That is correct.

The Hon. TREVOR KHAN: Was that an agreed time frame not only within the department but also by the Department of Premier and Cabinet?

Ms BOLAND: Yes, that is correct.

The Hon. TREVOR KHAN: Was that also an agreed time frame with the Federal Government?

Ms BOLAND: No. The Homelessness Action Plan is a plan for New South Wales. It is a New South Wales Government plan and it has not entered into any arrangements with the Federal Government.

The Hon. TREVOR KHAN: If we have to deal only at our level, when will it be completed?

Ms BOLAND: I am just trying to work out how to answer your question best.

The Hon. TREVOR KHAN: With a date, I would suggest.

Ms BOLAND: I think I need to explain to you the contingency and the dependency involved in it.

The Hon. TREVOR KHAN: Perhaps if you start by answering the question and then we might give you some wiggle room after that.

Ms BOLAND: Okay. My best estimate at this stage is that we are certainly still working to an end of July date. It may move into August. There is a dependency on a piece of work with the Federal Government because even though the Homelessness Action Plan is a piece of work for New South Wales and of the New South Wales Government, there is also an inextricable link at this stage with the Homelessness National Partnership, which I mentioned earlier, and the implementation sitting under that. The focus in the last couple of months has been very much on fleshing out that implementation plan. By fleshing that out, I mean coming up with, as I mentioned before, very specific projects through which we could assist people in New South Wales that we could include in that. We have had some negotiations with the Commonwealth Government on those. We are very hopeful that they think our proposals are good. The proposals that were developed were put to Cabinet and were agreed on 1 June this year.

The submission on the implementation plan has been lodged with the Australian Government. We as yet have not had approval from the Australian Government. We cannot finalise the action plan until we have had approval from the Australian Government on that component of the plan, which involves these projects. Now that said, we have progressed the action plan and some of the work commencing under that. Because we have identified some specific projects, we started scoping some of the new projects. Work is underway in different agencies at the moment towards scoping those projects with a view to having those implemented as soon as possible. There are some specific initiatives that have been developed, one of which was announced recently, the Safe Start top-up subsidy for women escaping domestic violence to allow women who were escaping domestic violence—

The Hon. TREVOR KHAN: I suggest you are going beyond the wiggle room of the contingencies. We are now going into some sort of policy-announcement area.

Ms BOLAND: Demonstrating that even though the action plan was due to be signed off by the end of June and to commence on 1 July, there are in fact projects that are proceeding now under that action plan. Even though the action plan has not been finalised, we have made sure that we are still doing the important work that is necessary to make sure people are assisted.

The Hon. TREVOR KHAN: Excellent. Are there key performance indicators set down for the time frame of the transfer of the 7,000 properties by 2012?

Ms BOLAND: Not at this stage.

The Hon. TREVOR KHAN: Will time frames be set down for the transfer of these properties?

Ms KING: Yes. The community housing division is working at the moment on planning out the time frames.

The Hon. TREVOR KHAN: When will those time frames be available?

Ms KING: This is going to sound like a wiggle question again. The nation building property program has to be finalised before we can finalise the implementation plan for the transfer of title. What I mean by that is that we actually need to know and have the Commonwealth approve the whole program, which includes where all of those properties will be located.

The Hon. TREVOR KHAN: When you say "where the properties will be located" does that mean the organisation to which the properties will be transferred?

Ms KING: No. Just what is in the program of those 6,500 properties because a number of those properties were sourced from the private market through land and housing packages and the assessment process, the negotiations around price points, are still underway and the Commonwealth approval has not been given for that entire program as yet. Once we have that program finalised we will be better able to identify the phasing of those properties to the community housing sector. But the implementation plan is under development as we speak.

The Hon. GREG DONNELLY: We have had the opportunity to both hear from and visit the City West initiative. Others can speak for themselves but in terms of what they present, it seemed to be pretty impressive in the way in which the whole thing was originally established with an amount of money from the Government and then followed by the running of it in what appears to be a very professional way. We have had an opportunity also to meet some of the tenants who reflected back to us that they are very happy with the whole thing—being accommodated in the way they are, particularly in terms of a very personalised service they receive and their ability to raise issues and, for example, the way in which a minor maintenance things are quickly attended to, et cetera. What would be the reasons, if any, for the State Government not to press ahead and try to initiate through providing sums of money for similar types of projects like City West, which seem to be, as I understand it, pretty much stand alone and very much left to themselves to run—obviously with oversight from the Government, but allowed to get on and do the job of providing affordable housing?

Ms BOLAND: In many ways, that is exactly what we are trying to achieve with the community housing sector at the moment. I guess we can go back to look at what it is that distinguishes City West from any other community housing provider. The major distinguishing feature is the source of revenue. In the case of City West, as you said it was established with a grant from the Commonwealth Government, plus a dedicated funding scheme as a result of sales of government land in the Pymont-Ultimo area and ongoing developer contributions from both that location and eventually also from Green Square. So it has a dedicated funding stream. It was established because, with the redevelopment of the Pymont-Ultimo, there was seen to be a potential displacement of people who are on low incomes. So that was, I guess, the trade-off that the Government made at the time about making sure, or it was the rationale for making sure, that that dedicated funding stream continued.

There probably are very few parallels with that where there has been such a whole-scale redevelopment of a location leading to—and which therefore has not led to—the Government going back and re-examining whether there is a dedicated funding stream that could come out of any other location. Also it is probably worth acknowledging that the Building Better Cities was a one-off funding opportunity, and that is why. Nevertheless, I guess that is the point that distinguishes City West. City West, though, in many ways is very much like a community housing provider, particularly those community housing providers we have been talking about as growth providers. It is an organisation that is strongly accountable to the tenants who are there. It is highly responsive to the tenants. We mentioned last time the high tenant satisfaction rates in community housing.

The Hon. TREVOR KHAN: We know all that. We have been there. We know all that.

Ms BOLAND: Those are the things that are similar and that is exactly the sector the Government has been working to support—to try to get more borrowings and to try to get more development—so that we can see a flourishing of organisations, maybe not exactly the same as City West but certainly with the same kind of principles of operation as City West.

The Hon. GREG DONNELLY: What would be some examples of these initiatives or activities by the Government to encourage that tighter structure like City West, or like organisations?

Ms BOLAND: If I could answer that not so much in terms of structure: the structure of City West again is a little bit unique in that it has an independent board but it also has the New South Wales Government shareholders in the Minister and the Minister for Housing.

The Hon. GREG DONNELLY: Yes.

Ms BOLAND: If we look instead at community housing organisations, which also have an independent board and have their own organisations, Housing NSW has done a number of things to try to encourage development by those organisations. I have talked about the three planks of reform, being rent reform, title and regulation, as the basis. What we have been done to try to make sure that we get some of the returns from that is to look at what kind of funding streams might be available. There are a number of things that we have done. The first was in the Affordable Housing Innovations Fund. Leonie mentioned the Affordable Community Housing Strategy. The Affordable Housing Innovations Fund, which funded around \$50 million, was one of the most significant planks of the Affordable Community Housing Strategy. That fund was to be spent, and has been spent, directed by community housing organisations in a way that pulls together debt and equity as well as the grant of funding so that they can develop their own properties. That is one example.

More recently we have had some funding that has been available to us from the Australian Government through the Social Housing Growth Fund as part of the Social Housing National Partnership. In other jurisdictions, many other jurisdictions have just delivered housing through a State housing authority. We have made a choice instead to put the full \$130-odd million through community housing providers and to leverage up that so that we can get considerably more properties in New South Wales. Those properties are owned by community housing organisations. They have been acquired by them and they are often being leveraged up. I am hoping that at some point Helen can give us some more specifics on the kind of leverage levels that we have achieved through that. We have done that specifically to try to build up the holdings of community housing organisations, and to get more housing for people who need assistance.

The Hon. GREG DONNELLY: That is the whole purpose of getting leverage, of course.

Ms BOLAND: Absolutely. It is to help more people, ultimately. That is the reason that we have been trying to get this reform. We think it is essential to get some growth in the system. The third one is the National Rental Affordability Scheme. Helen has also mentioned that. It is a Commonwealth-funded program. The State Government is required to put in only \$2,000 per National Rental Affordability Scheme property, with the Commonwealth Government contributing \$6,000. What we chose to do instead was to boost that level of funding through a scheme that we call NRAS-A, which was aimed, again, specifically at community housing providers to try to encourage leverage. So we have done a number of things to try to channel funding specifically through community housing providers to get some leverage. I think it would be helpful to get some indications of the levels of leverage that we have been achieving so far—recognising that some of these are still a work in progress, I guess.

Ms O'LOUGHLIN: Sure. The precursor to that was something called the Debt Equity Program. As Maura said, we started off seeking that we would provide 60 per cent of the grant and they would provide 40 per cent of the total project cost—20 per cent roughly in equity and 20 per cent in debt. When we came to NRAS we were able to flip that because we had the extra Commonwealth funding that it attracted, so that we were providing 40 per cent of the grant and there was more like 60 per cent coming in debt and equity. If we look at some of the debt equity schemes, that kind of ratio of government to non-government, we were putting in, for the first debt equity, 32 per cent and got 68 per cent back. For a total project cost of \$10.5 million, the Government put in \$3.4 million and got back \$7.5 million in debt, and there was some land in a particular project.

In the Social Housing Grant Fund, which was the Social Housing National Partnership [SHNP], or the national partnership program that Maura spoke about, that was actually money for social housing, but you were able to bring extra debt and equity, and that funding could be used for affordable housing. The proportion that was from the social growth fund must be provided for social housing and with the additional funding they brought, they could have provided affordable housing. So we got mixed income-outcomes and additional units. We actually required that if they wanted access to that funding, our preference would be for people that could bring extra debt and equity to make it go further. In NRAS-A we expanded \$17.3 million and we actually received something like \$45.5 million in private and not-for-profit debt and equity contributions, so that was significant. For the NRAS-B component of our program, we put in initially, in the first round, expenditure of about \$15.7 million. We actually got in excess of \$150 million in terms of the attracted funding from debt and equity. There has been quite significant leverage been able to be obtained from those schemes.

Ms KING: I would like to add just one comment about City West. In my most recent discussions with them, I encouraged them to become a registered community housing provider. They sought and received a temporary registration as a community housing provider. That was in the light of the fact of their growing awareness and recognition that the funding sources that they have had will eventually peter out or dry up because there are only so many developments that are occurring and so much that can be extracted in developer levies. In terms of their ongoing capacity for growth, one of the few mechanisms available to them is either through sourcing Commonwealth funding or through State funding for affordable housing. To the extent that many programs are administered through the State, they are being administered by Housing NSW. Therefore, if they want to access that assistance, they have to be registered community housing providers. So the intent is much more that they are going to be brought into the same regime as are the other community housing providers.

The Hon. GREG DONNELLY: Is there a need for them to have a change in legislation or regulation to restrict where they can operate? They currently operate at Ultimo, Pyrmont and Green Square. They are restricted to do their work inside those boundaries, are they not? They cannot, for example, pursue initiatives outside those geographical boundaries, can they?

Ms BOLAND: My understanding is that they can pursue initiatives outside those boundaries but they cannot use their dedicated funding streams to finance any operations outside of those boundaries. That is specifically because those funding streams have been about replacing affordable housing in those locations. To the best of my knowledge there are no boundaries on their operations outside those locations though. As Leonie has talked about, if they are able to access other sources of funding then potentially they will be able to move outside those zones.

The Hon. MICHAEL VEITCH: Their funding is tied to the geographic region?

Ms BOLAND: That is right.

Hon. GREG DONNELLY: What would be required to change that?

Ms BOLAND: A change to the planning instrument that enables it. The Government would need to consider whether it wanted to broaden the use of the funding that had come from development in those locations to then have it used in other locations as well. Administratively it is probably relatively straightforward but I think there is a bigger policy issue as to whether it is appropriate to do so.

Dr JOHN KAYE: I would like to take you to page 25 of your submission, where you talk about the St Marys development or joint venture, which I presume is the old Australian Defence Industries site—much beloved of locals. Can you explain how that particular structure on that set of properties came about? On page 25 of the answers to questions on notice you talk specifically about the St Marys' development as being undertaken by a joint development venture, Delphine Lend Lease the developer, and State and Regional Environment Plan No, 30 St Marys et cetera. Could you expand on that and explain how that came about in the first instance? What were the negotiations? What were the things that led to that happening?

Ms O'LOUGHLIN: I think this was actually undertaken in the Department of Planning. I am happy to give my opinion on how it occurred but the expert for the actual time it started should come from the Department Planning. My understanding is that this was a major redevelopment site that required rezoning, and quite significant rezoning, from obsolete land as a former Australian Defence Industries site to residential that would significantly increase its value. There was understanding that there was a need for affordable housing located within that quite significant development of some 5,000 dwellings. The development agreement was signed between the Department of Planning, the local councils and the development consortium, which had a number of players shift and move over the lifetime of that process.

The Minister for Planning was the consent authority and within those 5,000 lots he negotiated that there would be 150—or 3 per cent—of those lots to be provided for affordable housing. The requirement for those lots to be provided was not actually triggered until they hit 500 lots. It was somewhere along that line that the Minister said, "I need someone to develop the affordable housing strategy so we have the lots but we do not necessarily have the funds to develop on them." So a requirement was placed on the developers that when they prepare a precinct plan they are required to identify subdivisions, and within the subdivisions they are required to identify the lots they are going to provide, and they must be equivalent to the range of lots there and not have any encumbrances that the other lots do not have—

The Hon. TREVOR KHAN: Like a drain down the middle?

Ms O'LOUGHLIN: Yes, equivalent size and location. The Minister for Planning then recognised that the Centre for Affordable Housing was, perhaps, the place to develop the actual housing strategy. In discussions between the departments it was decided to make it the Minister for Housing, and the Minister for Housing then on-delegated or made the centre the nominee. So now when they actually prepare subdivision plans, it is the centre that negotiates with them, goes and looks at the plans and decides which lots are reasonable. We get to look at those lots and say, "Yes, that is a fair representation of the lots." It did take quite some time—the development agreement was signed in 2002 and you may recall on that site there were a number of issues that held up development for quite some time. There was a ruminant kangaroo population, Cumberland Bush and a number of environmental planning issues that had to be worked through.

Dr JOHN KAYE: Not to mention huge local opposition?

Ms O'LOUGHLIN: That is right. The centre actually sought funding from the Rental Bond Board at that time. The Rental Bond Board has an interest fund—that fund is for the purpose of assisting private renters—and we said this project would in fact increase the supply of private rental housing. It made available to Housing NSW an amount of about \$10.4 million to look at developing a strategy. A number of strategies were considered—

The Hon. TREVOR KHAN: That is enough for about 30 dwellings?

Ms O'LOUGHLIN: Yes. We thought we could deliver approximately the first 70 lots because we do not have to pay the land costs; just the construction costs because the land is made available.

Dr JOHN KAYE: That \$10.4 million gives you 70 dwellings?

Ms O'LOUGHLIN: Approximately. At the time we thought, for the price that was available, we could deliver about 70 lots. The rate of subdivision has actually been slower as well. So getting to the point of being able to subdivide was a bit slower. The rate of subdivision has been slow—

Dr JOHN KAYE: But they have passed the 500 threshold?

Ms O'LOUGHLIN: They have now. In December 2006, they passed that threshold. Even since then the subdivision rate has remained slow. The trigger for us is when they subdivide the land; that is the legal requirement to provide it. What we have done is to negotiate with the developer and the Rental Bond Board to say, "Can we actually bring forward? You are not obliged to deliver us at this point in time more than 3 per cent, but can we bring forward some of the purchase so that we can start spending some of those funds?"

We also decided that we would tender for a community housing provider—a growth provider that Maura spoke about earlier—to develop and manage the affordable units at stage one. We called the tender in November 2008 and we closed it in December 2008. We required that they would put in 30 per cent. So in the total cost of the project we would deliver 70 per cent, in terms of the land and the grant funding that we had, and we asked them to bring 30 per cent, so we could stretch that further. We selected—

Dr JOHN KAYE: In effect you are asking them to deliver more like 60 per cent of the housing costs, because the land effectively was free to you?

Ms O'LOUGHLIN: Yes.

Dr JOHN KAYE: With your \$10.4 million you are asking them, roughly speaking, to throw in another \$10 million?

Ms O'LOUGHLIN: About 30 per cent of the land—I have to check if it is the land and construction or just the construction costs.

Dr JOHN KAYE: Can you get back to us on that?

Ms O'LOUGHLIN: Yes.

Dr JOHN KAYE: Because that changes the equation considerably.

Ms O'LOUGHLIN: Yes. BlueCHP, the growth provider, was selected in March. That is a consortium—

Dr JOHN KAYE: Who was that?

Ms O'LOUGHLIN: BlueCHP. They are one of the seven growth providers or community housing providers that Maura and Leonie have referred to as being identified. BlueCHP is a consortium and one of its members is Wentworth Affordable Housing, who worked already in the area. Under the terms of its appointment it has to purchase and construct an additional five lots. So in addition to the 70 lots that we have talked about, we have negotiated for an additional five lots to occur. We think that will possibly occur by December 2009. Previously we had accepted a couple of earlier lots and their scheme thought it might be able to purchase gallery lots—gallery lots allow you to do two dwellings on the lot rather than one. So we might swap some of the ones that we originally talked about for some more gallery lots and increase the amount we will be able to generate. Just to give you an idea of the kind of time frame, the transfer of the next two lots required under the development agreement is not likely to occur until July—

Dr JOHN KAYE: July of what year?

Ms O'LOUGHLIN: July 2009, and then after that there probably will not be another number of lots, probably 3, I think, transferred in early 2010.

The Hon. TREVOR KHAN: That is going to make a big inroad into affordable housing issues in New South Wales!

Dr JOHN KAYE: Yes, 3 per cent is not a huge percentage in terms of land. The rate at which it has been rolled out, you would have to admit, has been fairly slow.

Ms O'LOUGHLIN: Yes, I would have to agree that it has been a fairly slow process since it has come online. However, there are only a few schemes in Australia where governments are levying developers to provide lots in this way, and at the time the 3 per cent was negotiated.

Dr JOHN KAYE: Can you make reference to other schemes in Australia where developers on greenfield sites, which is what this was, are providing land for affordable housing?

Ms O'LOUGHLIN: Yes, I can. There is another at Rouse Hill.

Dr JOHN KAYE: What is the percentage of land?

Ms O'LOUGHLIN: It is the same, 3 per cent. In New South Wales that is what was required to be provided.

Dr JOHN KAYE: Are there any outside of New South Wales?

Ms O'LOUGHLIN: Yes. In South Australia there is a scheme where they require 15 per cent—5 per cent for social housing, 10 per cent for affordable housing. It has a slightly different scheme in that housing that is provided is on-sold to low- and moderate-income households. The land and housing we provide is dedicated to a community housing provider.

Dr JOHN KAYE: I am sorry to interrupt you but my time is short. South Australia is getting 15 per cent?

Ms O'LOUGHLIN: Yes.

Dr JOHN KAYE: Is there an equivalent scheme in Victoria?

CORRECTED

Ms BOLAND: I think it is worth clarifying, South Australia is getting 15 per cent but much of that is affordable home purchase rather than low-cost rental being provided in perpetuity. The financial equation is quite different.

Dr JOHN KAYE: They are getting 5 per cent as affordable housing and 10 per cent is on-sold at submarket rates, presumably?

Ms O'LOUGHLIN: Yes, they have to sell it to low- to moderate-income earners. They tend to be developing a cheaper product. They are getting close to a market price for that product. Even though it is more affordable, it is a more affordable product. So there is a return to the developer in that scheme.

Dr JOHN KAYE: Even so, it makes our 3 per cent look inadequate.

The Hon. TREVOR KHAN: That is 3 per cent undelivered.

Dr JOHN KAYE: Yes, 3 per cent that is happening only in bits and pieces.

Ms O'LOUGHLIN: There are schemes both nationally and internationally that are greater than that amount. What they have to trade off at the time they negotiate is what impost that might have on the rest of the development. As I say, we were not involved in that particular negotiation at the time.

Dr JOHN KAYE: In your answers to questions on notice, would you provide the Committee with a list of the schemes and percentages that you are aware of, including those around Australia and internationally? What percentages are typical? What were the mitigating circumstances in respect of, for example, South Australia?

Ms O'LOUGHLIN: Yes.

Dr JOHN KAYE: In answer to your questions on notice, you spoke a little about the advantages and disadvantages of inclusionary zoning and you identified four inclusionary zoning schemes that are in force in New South Wales. These schemes seem to have been effective in achieving the purpose. Would you agree with the proposition that inclusionary zoning schemes have been effective?

Ms O'LOUGHLIN: In delivering the housing that they have been required to deliver?

Dr JOHN KAYE: Yes, in terms of delivering affordable housing, affordable outcomes.

Ms O'LOUGHLIN: Yes, they have been.

Dr JOHN KAYE: Is there any intention to introduce them anywhere else in New South Wales?

Ms O'LOUGHLIN: I think that is a question that is probably best posed to the Department of Planning, who have responsibility for inclusionary zoning schemes.

The Hon. TREVOR KHAN: Can you answer the question?

Dr JOHN KAYE: I appreciate that you want to deflect that question. Would you be providing advice that there should be further inclusionary zoning schemes? Would that advice include a positive reference to the South Australian model?

Ms O'LOUGHLIN: There are two things. There are a number of pros and cons about inclusionary zoning. Some of the advantages are you get a certainty of the contribution. So you are not negotiating like you perhaps have to in voluntary planning agreements. It is generally a rate that is known across the board for developers and may not be accepted after implementation, but it is a known rate, if you like. It appears transparent. It is mostly effective in high-value markets. It does not seem to work in not so high-value markets.

Dr JOHN KAYE: Why is that?

Ms O'LOUGHLIN: Because the actual inclusionary zoning is more attractive in areas that are being rezoned and redeveloped where the land is of a high value. It is captive, if you like, to that and the development

CORRECTED

cycle. If your stream of funding for affordable housing is linked to the rate of development that is occurring, if that is slowing down it is not a guaranteed stream. There are advantages as well as disadvantages. The advantages are you can combine it with some other granting centres, the kind of layering up we were talking about before. The disadvantages are that it is commonly portrayed as a "pass on" to the homebuyer—that those costs are passed through.

It probably depends on the demand and supply elasticities or inelasticities of that particular market—that is, housing substitution. It might be passed back partially to the land costs that are paid or it may be passed forward partially or it may be absorbed. It depends on the market circumstances. But it is difficult to support in an environment where there is an economic climate of not much growth occurring. To say they are pros and cons. It is one of the mechanisms of a range of mechanisms that can be used to develop affordable housing and a matter for consideration by the Government.

The Hon. MICHAEL VEITCH: You took a question on notice from Dr John Kaye about the various percentage models. I am unsure how you come up with the percentage numbers—3 per cent, 5 per cent, 15 per cent. When you provide the information to that question on notice, would you also tell us how the New South Wales percentage was derived? What was the basis for it?

Ms BOLAND: Certainly.

CHAIR: We appreciate your evidence. Unfortunately, we have not allocated enough time. There are many other questions we want to ask. We ask that you take the questions on notice, one of which goes to the important issue of the National Rental Affordability Scheme and the different housing providers, who seem to see this as an important area and would like assistance from you in terms of being proactive and planning for the future. Thank you for your attendance today. We may have to ask you more questions in the future.

Ms O'LOUGHLIN: Thank you, very much, we would be delighted to answer any questions that you put to us.

CHAIR: It is a very important area.

(The witnesses withdrew)

(Short adjournment)

MICHAEL ANDREW LENNON, Chief Executive Officer, Housing Choices Australia, Victoria, before the Committee via teleconference:

CHAIR: Welcome to the sixth and final public hearing of the Standing Committee on Social Issues Inquiry into Homelessness and Low Cost Rental Accommodation. Today the Committee has already heard from Housing NSW and will now hear evidence via teleconference from a witness who is unable to attend in person, Mr Michael Lennon, Chief Executive Officer of Housing Choices Australia, a provider of affordable housing based in Victoria. Although we are hearing evidence via teleconference, this remains a public proceeding and the same rules apply as to a public hearing. As with a public hearing Hansard will produce a transcript of evidence which will be published and placed on the Committee's website.

Mr Lennon, as you are not in New South Wales, the Committee will not ask you to take an oath or an affirmation. I take this opportunity to remind you of the gravity of today's proceedings and of the responsibilities that accompany the opportunity to speak on public record. If you should consider at any stage that evidence you wish to give should be heard only by the Committee, please indicate that fact and the Committee will consider your request.

Mr LENNON: It is my pleasure to be part of this inquiry today. I apologise for not being able to attend in person. I am the Chief Executive Officer of Housing Choices Australia, which is a registered housing association in Victoria.

CHAIR: Do you want to make some opening comments before questions?

Mr LENNON: Glenda helpfully provided me with some background of the work of the Committee and suggested that I might make some initial observation prior to getting into detailed discussion. With your approval, Chair, perhaps I will make some overall comments?

CHAIR: Thanks very much.

Mr LENNON: In the past 15 to 20 years we have seen some fairly significant changes in the way in which governments intervene to deal with deficiencies in housing markets. Up until the 1970s in most jurisdictions in the Western World, the two fundamental pillars of government policy were, firstly, an absolute preference for home ownership, reflecting the aspirations of the general public, and secondly where government was to protect those people not able to be well catered for by the private market, various forms of publicly sponsored interventions put in place. Until the 1960s the dominant form of those was housing owned by the State so it can be referred to as public housing, or council housing in the United Kingdom, or by different titles in various jurisdictions.

The important thing is that from the 1970s onwards we started to see those policy frameworks go in rather different directions. Firstly, I think in most places we have seen an intensification of home ownership rates, and in most OECD countries they have kind of peaked upwards of around 70 per cent. In some places it went considerably higher than that so in New Zealand where I worked for three years—I should say I went there to set up the Government's Housing New Zealand Corporation—in fact, home ownership rates went up to around 74 per cent in the late 1990s. However, on the other side where governments intervened we also saw some reform, and a substantial shift away from what is termed supply side interventions into essentially voucher-based schemes of a variety of kinds. Basically, cash transfers that were enabled to allow people to make greater personal choice.

So if you look at Commonwealth outlays in Australia over the 1980s and 1990s you saw a reasonably static picture in terms of Commonwealth State Housing Agreement outlays for public housing but what we saw was an escalation in the growth of Commonwealth rent assistance and assistance through the private market. So these kinds of debates over the relative merits of demand and supply side interventions by governments characterised much of the debate for about 20 or so years. Through the 1990s and in more recent years, however, what we have seen, in broad terms, are two further intensifications of the trend. We have seen an absolute and substantial decline in public outlays and housing assistance. We have seen an increasing dependence on the private market either through home ownership in its subsidised forms or in the private rental market. We can maybe talk about trends in other countries but I think it is important to see a consistent pattern that has emerged over this period, and I think it is true to say that in the last 10 or so years—maybe 15 years—

the Australian housing system has moved towards a kind of American US style set of arrangements and drifted away from the patterns that are established in some countries we might compare ourselves with in Europe.

The consequences of that are essentially what is described as the housing affordability crisis. Housing affordability is defined in a whole series of ways but we know that from the 1970s up to, say, 2004-05, the proportion of household incomes spent on housing costs almost doubled, and I can provide you with the verification for some of these figures. So housing distress was occurring in the private rental market and for people buying their own homes. It gets more complicated but the reason for people who are owning their homes is obviously the price of housing, the price of land, the transfer of government charges into land cost and the housing price bubble caused by an undersupply of land, so obviously there is an acceleration in real purchase prices. That created its own stresses.

But the housing stress has been in the private rental market because for those people who either will not or cannot access homeownership the only options they have are in the private rental market or in public housing. In the private rental market we have seen certainly an increase in stock numbers but we have seen very low vacancy rates as Australia has gone through this very significant period of population growth, fuelled partly by the usual factors but substantially by increased immigration rates during that period as well. So we see the vacancy rate as being very low and we see annual rent increases in the major urban centres being well above inflation. I think the figures now, from memory, are that there are something like more than 200,000 households in the private rental market paying in excess of 50 per cent of their household income in housing costs. That is an extraordinary position for the country to have reached, and I think, worked out internationally, Australia does not fare well.

If we turn then to say what about in the government-sponsored end of the supply equation, then of course we have seen an enormous static figure on housing stock numbers over the last 15 years, faced with much larger population and demand pressures. Equally, we have seen the various housing agencies in Australia inevitably go into an operating deficit model. Essentially, they are unable to meet their annual costs, and that is further evidenced by the size of the capital backlog faced by those organisations with all the maintenance liabilities in stock that was built 45 years ago. Against that background, my basic position is we have to be very clear about the problem that we are trying to solve and how we got there before we comprehend what kind of solutions might be advanced. Maybe if I can leave that as a backdrop and we can get into some discussion about what the options going forward might be. Against that broad picture of the last 20 or 30 years to try and define what are the main elements of the housing affordability problem in Australia now, I was going to pause at that point and suggest that we can maybe have some discussion about what some of the options going forward might be.

CHAIR: I will ask Mick Veitch to ask the first question.

The Hon. MICHAEL VEITCH: I am really keen to know about the governance structures you have in place with Housing Choices Australia. Are you an incorporated association under Victorian law or are you a company limited by guarantee under Commonwealth law? Can you talk us through your own governance structures?

Mr LENNON: The community housing or not-for-profit housing sector in Australia is quite small. It is made up of over 1,100 organisations, which, in total, only have about 40,000 stock under management. What has tended to happen is that all of these organisations have built up over a number of years with small government programs. In forming Housing Choices Australia what we were trying to do was to consolidate a small group that was able to combine its governance capability, management capability and balance sheet in order that we might advance and make a material difference in terms of housing supply. In terms of our legal structure, we are probably more complicated than most, but I think you would find that it is not uncommon in this sector.

So Housing Choices Australia is, in fact, a trading name for a group that is made up of eight different legal entities. We have been through two lots of mergers in the last 12 months, so the entities we have at the moment comprise the following: There are two registered housing associations registered under the Housing Act in Victoria; they are both set up as public companies under corporations law; they are not-for-profit organisations, have charitable PBI status and are regulated by the Registrar of Housing in the State of Victoria. In addition, on the disability side we have Disability Housing Limited, which is an organisation that has assets mostly in congregate living for people with acute or severe disabilities, and that organisation is the trustee also

for the Disability Housing Trust, which is a small organisation trying to do, I guess, new and experimental things in the disability sector.

We have two other organisations: one the Inner-City Housing Trust, which was established by the capital city of Melbourne some years ago in order to expand affordable housing supply in the inner-city; and, lastly, we have the Ecumenical Housing Trust, which was set up by a number of the major churches in the State of Victoria—ecumenical meaning it is non-denominational but supported by all the major churches, and in that case the churches trying to find solutions to the affordability and homelessness problems in the city. It is a complex legal structure where, essentially, we populate each of the legal entities with common directors but have a single management structure that supports each of the entities. So when we meet as a group we receive management reports across the group but when decisions are taken they are taken on behalf of individual legal entities.

The Hon. MICHAEL VEITCH: Housing Choices Australia, you have a board so each of those constituent organisations have representation on that board?

Mr LENNON: The board kind of reflects the origins, the history of the organisations. So in each case the constitutions of the organisation allow members to elect directors to the board. Our board is made up currently of 12 individuals. I can provide you with the details of that, but we have very senior people from the financial and banking sector, from property, from architecture, from the university sector and from community services and the disability sector, as well as, I guess, a couple of leading public figures. The electoral structure involves members voting people on to the board. People are appointed for three years.

The Hon. MICHAEL VEITCH: Can you get those details to us?

Mr LENNON: I am happy to do that.

The Hon. MICHAEL VEITCH: With regard to that sort of structure, how do the tenants of the various organisations have input into the decisions of Housing Choices Australia?

Mr LENNON: We formed the new organisation only in April this year. We had a substantial debate about the most effective means of getting tenant engagement and participation. At present we do not have positions available for tenants on our board, but it is a matter of debate and we are in the middle of a governance review. The means by which tenants are engaged are the usual tenant feedback surveys and mystery shopper surveys. We interview tenants anonymously and get feedback on the service and against particular projects. We will have tenant groups involved when we are developing new policies.

That stands in contrast to arrangements in some other places. You might tell by my accent that I was not born here. I have spent most of my life here, but I am Scottish. I came back to Australia two years ago and before then I ran the Glasgow Housing Association, which involved the largest single transfer of housing assets in Europe—86,000 units were transferred into one housing association. In that case there were two matters of tenant participation that were quite distinctive compared to Australia. The first was that transfers of the stock went through a tenants' ballot—that is, the tenants themselves had to vote for it. Secondly, the tenants had a majority on the board of governance for the organisation. The culture of tenant empowerment and control in other jurisdictions is a lot more advanced than it is in Australia.

The Hon. MICHAEL VEITCH: What is the size of your organisation? How many units do you have under management and how many tenants?

Mr LENNON: We currently have almost 1,000 units and about 1,300 tenancies.

The Hon. MICHAEL VEITCH: Are there eligibility criteria for someone to take up a tenancy within Housing Choices Australia?

Mr LENNON: Yes, there are. Partly because of our origins and partly out of policy preference we have a strong basis in the disability sector and our directors are very committed to normalising housing for people with a variety of disabilities. I can go through the process we use to get tenants from those places. Our stock is available for anyone within some affordability limit. Obviously, as a charity we are restricted in whom we can assist. Generally the upper level of income that we would charge would be about 80 per cent. As a mix

in new developments we are trying to avoid concentrations of disadvantage—the very significant problem that has built up in public housing estates over many years.

On any new development we strive for a 30:40:30 split; that is, 30 per cent would be people on statutory incomes—Centrelink payments or disability support pensions; 40 per cent would be households with some part-time work and some extra income; and 30 per cent would be low income households where some person works full time. The idea is that all of those people have a housing need. Our aim is to avoid concentrations of people with complex needs or in crisis for reasons I can explain. We also have a non-binding agreement with the equivalent of Housing NSW called the Office of Housing in Victoria. We agree to take up to 50 per cent of people on the public housing waiting list in our tenancies. As an organisation, we are generally prepared to take 100 per cent as long as they can meet the broad policy criteria I have just outlined.

The Hon. MICHAEL VEITCH: Does Victoria have a centralised waiting list for tenancies?

Mr LENNON: Yes, Victoria has a fairly standard public housing segmented waiting list of the kind you would be familiar with in New South Wales.

The Hon. GREG DONNELLY: Thank you for making yourself available to this inquiry. Can you explain for the benefit of the Committee the relationship between Housing Choices Australia and the Victorian Government across a range of perspectives, including funding and financial support?

Mr LENNON: There is an emerging sector in Australia that sits between government and the marketplace. This is the in-between space. It is not uncommon in other parts of government—health, welfare and education—to have bodies which are in receipt of public money but which are blending that money with private money in some form. Specifically, two of the entities in the Housing Choice Australia group are registered housing associations. This is where the bulk of our activity takes place and where we see our future. Those housing associations are set up as private companies and they have full director's duties and liabilities as part of that.

However, those companies are subject to the requirements of the Housing Act in that they have been accepted as being a registered housing association. The Registrar of Housing has certain powers and powers of intervention over the organisation. Those include annual and regular monitoring of the financial health and capability of the organisation, regular checks on compliance with funding agreements, deeds and the like and audits of who is being housed and in what circumstances. If the registrar is unsatisfied, certain reserve powers can be used, including powers over the appointment of directors and the internal management of the organisation.

If these organisations are in receipt of government funds, be that money or assets—that is, equity in any form—those cannot be disposed of without the express permission of the nominated public officer and the government. Against that background, the organisation is also able to receive non-government funds. That can be contributions from third parties or, more typically, debt raised in the private finance market. These are blended institutions with a private legal structure receiving public moneys and raising private contributions. The intention is to increase the level of housing outcomes above what would otherwise be obtained through straight public expenditure.

The Hon. GREG DONNELLY: To follow up on that point, the impression I have been gathering as this inquiry has gone on is that the structure you have just described, the "hybrid model" if I can use that phrase, or somewhere between the traditional large public sector provider and the market—in the mid-range—seems to have increasing support as the model to provide community-type housing. There seems to be increasing acceptance that this is a way to proceed and develop properties at a faster rate than if it were just straight public funding. Is that a fair assessment of what is happening in Australia today?

Mr LENNON: Yes, I think that would be fair. Perhaps I can take a moment to explain why this sector might represent an important future direction in terms not only of housing, but perhaps in social and community policy on the ground. The existing public housing model was not designed to serve the purpose that it now is required to serve. You would all be aware that in the post-war environment as Australian cities industrialised, public housing sat alongside mass immigration and the build up of the manufacturing era in the country. The vast majority of people who were housed in public housing for 40 or 50 years were working families. Public housing provided a platform upon which both individuals households and communities grew and prospered.

The dilemma that has been created in more recent years is really threefold: firstly, of course, economic activity is inherently transient so the manufacturing era in Australia grew up very quickly and then declined very quickly in the '80s, '90s and beyond. The factories went but the housing stock stayed. You would know large numbers of industrial communities around New South Wales where that has happened. Secondly, I think public funding policy decisions were made to essentially withdraw levels of real funding available to public housing authorities, which meant they could no longer keep up with demand and had to ration more severely and tightly what they offered. The cumulative effects of insufficient stock and ever-tightened rationing or targeting had some very dramatic and unintended consequences.

I think you would understand that when those two things come together you end up quite quickly with communities in which all the people living there have very similar complex backgrounds and portray very similar day-to-day behaviours. No-one ever intended that public housing would become the repository of concentrations of disadvantage and poverty, but that is in fact what has occurred. I think we have found that that is both a difficult constrict in social policy terms and certainly disastrous in financial terms. The third and more significant thing is that by breaking up and diversifying the provider systems, as long as there are protections on public funding and so long as there are powers to intervene if things are not going according to policy frameworks, we have the ability to diversify the range of products that are provided by housing association-type models and to apply business disciplines to the running of these organisations, because essentially Corporations Law and private funding impose those decisions on recipient organisations.

Finally, we have the ability to respond more flexibly to local, community and neighbourhood circumstances than mass providers are able to do. As an observation, of course, large monolithic organisations simply have to operate on the basis of quite firm and rigid rules and procedures. That is how we run the kinds of Fordist organisations of modern times. There is a strong argument to say that flexibility, diversification and attention to local and regional circumstances are good characteristics. I think it is because of all those factors that we have seen in most European countries a quite dramatic shift towards this kind of model over the last 15 years. I would submit to the Committee that in Australia the reform process has kind of passed the country by for a period of time, but the affordability crisis now really does call for considerable policy clarity. Because the assets are all long term we need a sense of policy direction that can be followed over time. I think your observation about this being the emerging direction of travel is one that I would share.

The Hon. GREG DONNELLY: I think you are saying that in some sense what has been happening overseas has washed over us but now there is increasing realisation that these models or variations of them might have some relevance to domestic needs in Australian States and Territories. Is it your observation that a particular State or Territory in Australia seems to be doing this quite well? I mean by that it is developing fruitful and close working relationships in trying to stimulate these community-type providers.

Mr LENNON: I think if you asked that question in every jurisdiction they would tend to say they were the ones leading the pack. If you asked in Victoria they would say that in advance of other States two years ago they made a historic decision to put \$300 million into the not-for-profit sector, the housing association sector, which they could have put into public housing. The Victorian Government would assert that they have invested heavily in a regulatory system and that they have also put their own outlays purposely into this sector.

New South Wales has its own registration system and has also allocated more stock to the sector than Victoria has done, but only to date by advancing management rights whereas Victoria has been building up the balance sheets of these organisations by title resting within the housing associations. That is a crucial point. If part of the policy is to leverage private debt and additional contributions, then building the balance sheets of these not-for-profit organisations becomes critical.

Just in closing on that question, there are some complex issues that need to be addressed early rather than later. It is the case that if we are trying to build up alternative providers to deal at scale against the problem we face we have to comprehend how these organisations can trade across jurisdictions. For example, if one of the major churches or one of the major charities or an organisation like ours wants to build up a supply chain and offer services in different places should we be registering in six places? Can the equity raised in one place be used in order to leverage resources in another jurisdiction? There are some quite complex issues to be sorted. I think the evidence tends to point towards certainly the main populated States moving down this track.

The Hon. TREVOR KHAN: Just bouncing off your last question in a sense, it seems to me that your proposal that there are cross-jurisdictional issues is valid, but if I look at your model I see that you are principally based in Melbourne.

Mr LENNON: Yes indeed.

The Hon. TREVOR KHAN: Are you based in a particular area of Melbourne?

Mr LENNON: No. The properties we have are based across metropolitan Victoria. We have just opened an office in Geelong in regional Victoria and we have stock as far as Shepparton, way out west. It is not just by historical accident, we are acquiring stock in regional locations as well, but we are Victorian based.

The Hon. TREVOR KHAN: Would it be right to describe your ownership structure, without being critical, as cumbersome?

Mr LENNON: Absolutely.

The Hon. TREVOR KHAN: Before we look at cross-jurisdictional issues, perhaps we have to look at the underlying ownership structure for a start?

Mr LENNON: It is our expectation that in the next three or four months we will consolidate our legal structures quite substantially. The reason ours is complicated is that we have been through two mergers but I think that is a consequence of the way in which the community sector is structured, a long history of very small organisations.

The Hon. TREVOR KHAN: I understand that but if you were looking at leveraging funds, for instance, the structure you presently have would be daunting to say the least, would it not, to many financiers?

Mr LENNON: Surprisingly not. What is interesting, because the banking system operates internationally, the banks here are drawing on experience elsewhere in funding these organisations. They are interested in three things. They are interested in the asset cover that can be offered. So, as long as the assets can be offered as security, irrespective of what legal entity they sit under, they meet the banks' first test. Asset cover and cross-securitisation, that is the first test. The second is about interest cover and demonstrating that the organisation can, with its net income, meet its operating costs and, of course, having access to rent assistance is the key to that. The third for the banks is about a stable client base. Surprisingly, we found in dealing with them, of the four major banks only two showed a real appetite for funding the sector at the moment.

The Hon. TREVOR KHAN: Do you mind letting us in on the secret as to which those two majors are?

Mr LENNON: This is going on the public record. I can certainly talk about the National Australia Bank, because that is who we are dealing with. But I should leave the other ones to make their own declarations.

The Hon. TREVOR KHAN: In terms of your sector as opposed to your specific example, what percentage of leverage do they require, if I use the term correctly? That is, is it 70 per cent, 80 per cent, or what sort of debt-equity ratio are they allowing?

Mr LENNON: The term leverage needs some definition. So, if we can talk about it as the additional value that might be added to stock that is otherwise funded 100 per cent by public funding, then leverage tends to come from four sources at the moment. The first is through just third-party contributions. For example, the Melbourne City Council granted us a space over a building upon which we can build six storeys. It is doing that on the basis that we are providing affordable housing in their jurisdiction and we are a charity. The second is where the organisation undertakes development in its own right and therefore gets the value chain through the main development process. So, if we take an existing 800 square metre block with one dwelling on it and put six on it, we have added value through that. The third and most common is private debt. Private debt in our projects can range from 15 per cent to 25 per cent of the total project cost. I will come back to that in a second.

The fourth and the one that is being debated around parliaments in Australia is around the planning gain. This is the proposition that is used in America, called inclusionary zoning whereby when land in one use is given approval for a higher use there is a condition that a proportion of the development is set aside for affordable housing purposes. So, each of those four elements adds to the leverage that can be added to a project. The issue of private debt, if I can just pause on that very quickly, is very sensitive to the income profiles of the households you want to have. So, broadly, the higher the debt the higher income range you have to climb. The

opposite is clearly true; in our case we are looking to maximise assistance for people very low on statutory income and that appetite for debt is therefore lower.

The Hon. TREVOR KHAN: Are you able to give us a potted description of the sorts of developments your organisation is undertaking at the moment?

Mr LENNON: Obviously the nation building stimulus and, before then, the \$300 million fund the Victorian Government created have given a bit of impetus to the supply of these types of organisations. In our combined, merged, organisation we go all way from house and land packages in the growth areas of the city through to substantial new developments in designated growth centres, and then—

The Hon. TREVOR KHAN: Could I just intervene and say in terms of designated growth centres, where are you talking about?

Mr LENNON: In Victoria we are talking about places like Ringwood, Dandenong and Geelong. If you think of the metropolitan planning strategy for Sydney, I am trying to think of—

The Hon. TREVOR KHAN: No, I think some of those have some experience outside Sydney.

Mr LENNON: It is basically the centres that are trying to converge, growth manage, but with transport and infrastructure. As a priority we are trying to get access to those locations for our future tenants.

The Hon. TREVOR KHAN: Are you building medium- or high-density dwellings in those locations?

Mr LENNON: We had house and land packages that are mixtures of relatively traditional, but in the growth centres we are buying apartment blocks and we have a framework for the levels of intensification we will have. I guess our appetite for density is stronger the closer to the city we are. In the city centre itself we have a six-storey building which has just got approval next to the Victoria Markets and is being funded by a substantial land contribution by Melbourne City Council. We have a building with Lend Lease in the Docklands redevelopment that you would be aware of, down the end of Collins Street.

We are currently negotiating a large development on the other side of Docklands, a place called New Quay, which is due to come under construction in 2010, and in the middle suburbs we are actively pursuing anything that is close to a heavy rail transport connection. Our view of the future is very much connected with access to public transport of some form. I guess I am trying to say there is a variety of product type. One and two-bedroom apartments are in particular demand and also there is a need for larger accommodation at the other end of the scale as well. The broad framework we would be following in terms of location is the metropolitan strategy.

The Hon. TREVOR KHAN: I best leave the remaining time for questions for Dr Kaye. Thank you for your answers.

Mr LENNON: It is a pleasure to speak to you.

Dr JOHN KAYE: As Mr Khan foreshadowed, I have questions about inclusionary zoning. What would a good system of inclusionary rezoning offer an organisation like yours?

Mr LENNON: It would offer three things. It would offer, firstly, a financial contribution into the cost of housing supply. Secondly, it would give us access to locations that the market would prohibit effectively. I think, thirdly, it would give the sector a profile and a consideration in urban planning that it currently does not have.

Dr JOHN KAYE: How significant is the middle of those considerations? How significant is it for you to be able to get land and sites in areas that would otherwise be precluded to you because of the cost?

Mr LENNON: Hugely. As you would know, land economics is all about trying to get the highest and best use onto a site. What you are trying to do is address market failure for people who are sick, infirm, coming out of trauma, recent migrants, disabled or whatever. Those are the people precluded from those places. Getting access to those locations is a major bonus for people like us.

Dr JOHN KAYE: Would you respond to the proposition put to us that inclusionary zoning pushes up prices for other residents of the development?

Mr LENNON: In an abstract economic model, that is the case. If you impose higher public costs, portions of those costs are going to flow either through into reduced dividends for the owner or higher prices for somebody else. But I make the point that if you look at the history of Australian cities, it has never been a stable or unencumbered operating environment for the last 200 years. In fairness, the land development industry will fight for its own interests, as you would expect. But the land development industry has fought against subdivision controls, building controls and easements of a variety of kinds. If I look over the last 20 years, in New South Wales developer charges have been put in place for water, sewerage, local roads, arterial roads, power supply and in some cases all the way down to community services and the provision of library services. It is not as if we are dealing with a static concept here; we are talking about government and the public interest constantly intertwining with the land market and looking at what is in the public interest going forward.

In the United Kingdom, section 106 requirements—which is what we would understand to be inclusionary zoning—have represented something like a quarter to a third of the value of housing association stock supply in the last 15 years. If I can refer you to the publications of the housing corporation and English partnerships, you will see the evidence of that. But there is a downside as well. In a growing market where land costs are going up and there is considerable confidence in pricing going forward, developers tend—not willingly, but grudgingly—to accept that. But of course we have seen a situation now where in many parts of the world land prices have been going down, and quite substantially. That has cut off the supply capability of housing providers as a consequence.

Dr JOHN KAYE: If inclusionary zoning is based on a percentage of units developed, even if they are lower cost, would you not still be providing the same net amount of land and units?

Mr LENNON: The way in which it is supplied is when the developer gets his or her approval. Basically it is the point at which a public authority through a regulatory process causes an increase in the value of land to occur that we are inserting a requirement there to withdraw part of that added value and apply it to a public purpose.

Dr JOHN KAYE: Are you really talking more about land value capture?

Mr LENNON: Yes.

Dr JOHN KAYE: Rather than an affordable housing requirement?

Mr LENNON: I mean that is the way in which it is supplied normally. It is a point of planning approval. The theory is that you are capturing—if we go back to the old Henry George league—the un-earned increment and you are applying that back in. The Henry George hypothesis was that when people were given regulatory approvals to do things, land inherently was increasing in value without any particular effort. Therefore, it was legitimate for the public good to extract some of that for public purposes. This is a long way forward from those times, but that is how it is supplied. At the point of planning approval, a jump in the value of the asset occurs and some of that is held back for, in this case, affordable housing.

Dr JOHN KAYE: Sometimes it is paid as cash?

Mr LENNON: Absolutely. That is exactly right.

Dr JOHN KAYE: Sometimes it is paid as land?

Mr LENNON: Yes, that is right. You can take it in stock, you can put it into a fund, you can do a whole lot of things with it.

Dr JOHN KAYE: If it is taken as stock, it is not so badly affected by the global downturn—save for the fact that there is less stock coming onto the market—so there is a lower percentage?

Mr LENNON: Yes. If you take it as stock you also have a chance to integrate the households and the tenures within the neighbourhood as well. There are lots of advantages in doing that.

Dr JOHN KAYE: I want to change the topic and ask you to cast your mind forward 10 or 15 years. Do you look forward to a period in which, as has happened in the United Kingdom, the community housing sector, social housing sector, actually overtakes the traditional public housing sector as the dominant provider of affordable housing?

Mr LENNON: If you are asking me is that my expectation, I think the answer is yes, and almost certainly the case.

Dr JOHN KAYE: Is that because you can do it at a lower cost?

Mr LENNON: I should indicate to you that I have been a longstanding supporter of public housing, and still am. I have now come to the view that the model as it operates in Australia is neither representing the interests of tenants nor is good value for money for the taxpayer. That is a big change in my personal opinion. I can go into the reasons for it, but I think going forward, the combination of smaller and more localised decision-making, the disciplines of private finance and corporate governance, and the flexibility to respond to differing circumstances are all powerful arguments for building a more diverse provider system than we historically have had. I have a sense that Australia is going to head down what is essentially a mainstream path in most of the OECD countries with which we would compare ourselves. I make an important submission to the Committee to pause and reflect on whether it is desirable that Australia now has the second lowest proportion of social housing stock in the OECD after the United States.

Dr JOHN KAYE: Can you quantify that? Is that total community and public housing as a proportion of total housing?

Mr LENNON: Yes. We are the second lowest after the United States. I can provide you with the table.

The Hon. TREVOR KHAN: Please do.

Dr JOHN KAYE: That would be very useful, thank you.

Mr LENNON: But it is not a trend that has grown up quickly. It is an accumulation of a number of factors over a long period of time. I think the country has positioned itself in almost an extreme position. Those of you who have travelled would understand the level of homelessness in American cities and the inability of a support and service structure to deal with it. That is a manifestation, I would submit, that we would like to avoid here.

Dr JOHN KAYE: Hear, hear!

Mr LENNON: And the path? When you asked about predicting the next 10 or 15 years, I guess my submission would be that it is desirable for us to go down a more moderate path that puts us in a kind of mainstream position that is being followed by advanced economies elsewhere.

CHAIR: Thank you, Michael. You have reinforced my pride in my Scottish blood.

Mr LENNON: I can say "murder" for you!

CHAIR: My Scottish blood is a little bit watered down, but the Douglasses, the Mitchells and the McGregors are back there somewhere. I have two quick questions to ask. Firstly, with regard to the optimal size, with tenant satisfaction being a major criterion of the definition, what do you regard as optimal size? Secondly, what effect has the Nation Building—Economic Stimulus Plan had on the provision of affordable housing by your organisation and on the sector in general? Have recent incentives, particularly the National Rental Affordability Scheme [NRAS] resulted in an increase of availability of affordable rental properties?

Mr LENNON: I will take those questions in turn. On the question of optimum size, I guess my submission to the Committee would be that you will struggle to find hard evidence in which anyone will define a particular size as being ideal. In the position I had in Scotland, when we sought to disaggregate the monolith or the mass provider we had into a smaller number of units, I did research this topic quite exhaustively. The two conclusions that I drew on in the end were, firstly, from the Housing Corporation in the UK and, secondly, what might seem like an unusual place, but it was a Swedish industry body for the not-for-profit sector. In fact, we both said similar things.

In the Housing Corporation, organisations under 5,000 units were considered to be unlikely to have the management capability or the governance structures required in order to run a substantial service. That is a very long way from where we are in Australia. There is no similar organisation in Australia. I think the biggest one is managing 2,000 units, but the largest ownership one—well, I think we would be one of the biggest ones, but there would only be a handful with more than 1,000 units owned in Australia. In Uppsala in Sweden, the organisations there were quite definitive. They said that organisations with 10,000 to 15,000 units in their view were getting too big and too remote from their customers and tenants, and under 5,000, they did not have sufficient economies of scale or flexible resources to do the new and varied things that these organisations might hope. Arising from that experience, I would have thought in Australia we might aim towards a number of organisations around the 5,000 mark. That would seem like a reasonable ambition in the next few years.

On your second question about nation building, nation building is an extraordinary amount of money in a short period of time. There is a challenge to deliver the 20,000 units that they have set as a target. At the risk of being too dour and Calvinist a Scot, can I make the observation that one of the biggest risks of nation building is that it in fact masks the real problem and that what we see is a two-year very welcome expansion, but the underlying model and its inherent weaknesses could in fact be covered up by this.

My worst fear would be that under nation building we could go into a public works mentality and do some very good things, but neglect the major reforms to the system that are needed in order to keep a supply and expansion of stock going forward. I think it is important that in the public documents relating to nation building under the Council of Australian Governments [COAG] agreements, there is in fact a Social Housing Reform Program that is set alongside the availability of the money. That talks about greater transparency in the allocation of money, more consistent treatment of tenants, stair-casing tenants through different tenures, having more consistent allocation processes, having contestability among providers for their delegation of funds, building alternative providers of scale, and having consistent registration and regulation arrangements. In my view, the social housing reform requirements are immensely important if we are actually to make a real difference to housing through nation building. The stock alone will not be enough.

On the third question about NRAS, NRAS is still in reasonably early days. I think it is a welcome additional tool to the weaponry, if you like, of people trying to battle against housing affordability problems. I believe very strongly that there should be more than one policy and funding instrument. When we went back to the very beginning and said we were left only with public housing and not much of it and a great big queue for what was there, I think having a range of different products and a policy stock in different people is inherently welcome. I think it has been problematic introducing NRAS just before the collapse in the financial system that we have seen, so trying to get a new funding product accepted by people in probably the most cautious funding environment we have all witnessed is a huge challenge. But my view of NRAS is that we should see it as a long-term project and that over time it may well be able to be flexibly blended with a whole range of other schemes. So my hope is that in the next two, three and four years we will see NRAS being utilised in a variety of different kinds of settings, including the blending of public housing, in my view.

CHAIR: Michael, unfortunately we have run out of time. On behalf of the Committee, I thank you for giving us your invaluable time today. Along with any questions that you took on notice, would you agree to receive additional questions that members have not had the opportunity to ask?

Mr LENNON: Mr. Chairman, I would be very pleased to, and if there are matters of detail that you would like me to provide some commentary on, I would be more than happy to do that.

CHAIR: That would be appreciated. If you could return those questions, if possible, within 21 days—easier said than done—that is the ask.

Mr LENNON: I will undertake to do that. Perhaps Glenda and I could speak outside the meeting and follow up any further matters that you may have.

CHAIR: You referred to some Swedish research when we were talking about optimal size. Is there any chance of getting hold of that?

Mr LENNON: The material that I got was actually based on discussions. We had a kind of a sister organisational arrangement with a housing body in Uppsala. It came out of a seminar that we had there. If I can source that, I will.

CORRECTED

CHAIR: Thank you very much, Michael. I think that brings us to a close.

The Hon. GREG DONNELLY: Thank you very much.

Dr JOHN KAYE: Thank you.

Mr LENNON: Mr. Chairman, I apologise to you and to members for being unable to come and be there directly today, but wish you all well. If there is anything I can do to assist the Committee, I will be very pleased to.

CHAIR: Thank you.

(The witness withdrew)

The Committee adjourned at 4.39 p.m.