Risk Management in Community Housing

Managing the challenges posed by growth in the provision of affordable housing

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with assistance from Barbara Livesey

National Community Housing Forum

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Executive Summary

Recent research has identified a transition currently taking place in the social housing sector in Australia. Traditional models of social housing supply, encompassing large public housing agencies and small niche market community housing organisations, are making way for a more diversified system of affordable housing provision including larger scale non-government housing development vehicles engaging in partnerships with the public and private sectors. This report examines the risk management implications of the transition for these 'growth' housing providers as their business grows in scale, diversity and complexity.

The report begins with a survey of the evolution of the community housing sector in Australia (Chapter 2). Five phases in the development of the sector have been identified culminating in one which commenced around 2003 and which is characterised by the emergence of new affordable housing models involving private finance which require non-government ownership and management vehicles with the capacity to raise private debt and undertake project development, long term asset management and facilities management.

The report notes that the community housing sector has continuously adapted to changes in public policy throughout previous phases of development and, since the early 1990s, has developed long term strategic directions to grow the sector and make a more substantial contribution to the alleviation of housing need. This has resulted in gradual consolidation of the sector and the emergence of a small number of larger scale organisations alongside a few State government initiated affordable housing agencies. These organisations have accumulated significant intellectual property and market experience which places them in a good position to take up the challenge of the emerging affordable housing models.

Chapter 3 turns its attention to changes in the role of non-government housing providers in the Netherlands and the United Kingdom – two countries with large and highly developed social housing systems. In both cases governments are increasingly looking to the non-government sector as the major instrument of new affordable housing supply. The decision to channel significant growth funds through the non-government sector however, requires a corresponding investment in a risk management framework designed to provide high levels of confidence to both the public and private sector in their financial investment in the sector. In the Netherlands the emphasis is on a tiered system of guarantees whereas in the UK emphasis is placed on the role of the regulatory authority and its powers of intervention. In both cases however, the critical factor is the recognition that risk management is a systems issue, requiring investment in infrastructure and capacity building.

A review of contemporary affordable housing Examples (Chapter 4) leads to the identification of the essential characteristics of 'growth' housing providers if they are to take up "market opportunities" for affordable housing.

- Current initiatives by community housing organisations in arranging debt finance from banks indicates that 'growth' housing providers can be expected to take up a broader range of activities such as property development and asset management. They also highlight the important role to be played by State government agencies in supporting their initiatives – such as land procurement and the provision of capital subsidies secured through arrangements that do not preclude bank finance.

- Recent initiatives to facilitate the growth of affordable housing by State governments also highlight the requirement for 'growth' housing providers to demonstrate the capacity for more diverse and complex professional skills in management and commercial experience at board level. They also indicate the importance of greater continuity of business and effective regulatory oversight – providing assurance to government and private investors alike.

- Neighbourhood renewal programs in large public housing estates provide another opportunity for 'growth' housing providers. The driving factor in these initiatives however, is in the capacity of non-government organisations to bring a sophisticated community development approach to the housing management task – one which is based on a place management approach and is committed to the implementation of local economic development initiatives.

- There are numerous opportunities for 'growth' housing providers to participate in the development of affordable housing within large scale development projects around the country. However, they require the provider to have the capacity to deal with much larger projects (50 plus units), developed over a much longer time frame (5-10 years), involving multiple financial contributors and corresponding complex legal arrangements, and accepting significant development and ownership risks. These projects also require involvement in a broader range of functions and the provision of a more diverse range of products.

- The opportunities beginning to emerge as a result of the private investment industry seeking to diversify their portfolio to include the residential property market highlight three important factors – the risk management capabilities of 'growth' housing providers will be a paramount consideration when assessing any loan application. The establishment of a formal system of accreditation of 'growth' housing providers, and the subsequent monitoring of their performance, and the implementation of government regulatory powers, which include the right to intervene in the case of failure to perform, are important contributions to the development of a comprehensive risk management framework.

Chapter 4 concludes that risk management is a systems issue involving all the interconnecting components or players which are participating in the development of an affordable housing strategy. The system will encompass those responsible for policy, finance, development, ownership, management and regulation of affordable housing. A systematic approach to risk management will be the most strategic and cost effective way to implement an affordable housing growth strategy. However, the quantum of growth and the rate of implementation will be key issues determining the direction of the strategy. If the scale of growth is small and the capacity of the community sector limited the most cost effective approach for government may be the establishment of a special purpose non-government vehicle to develop and own affordable housing. On the other hand, if government is committed to significant growth over a longer time scale and the community housing sector is further advanced then it could be more cost effective to invest in a regulatory framework and identify existing community housing providers with the capacity to develop their business into development and ownership of affordable housing.

Chapter 5 moves from the present to the future. It assumes governments in Australia have made a commitment to significantly grow affordable housing and presents a vision for an affordable housing system which will nurture that growth. The vision is built on the foundations laid by the community housing sector and State government initiatives and informed by both the overseas experience and local market opportunities reviewed in earlier chapters. The vision assumes a small number of 'growth' housing providers, differentiated from the traditional community housing provider in Australia by role, scale and complexity of business, will emerge to provide the new affordable housing model. Six key characteristics of the future affordable housing system are identified.

- A nationally consistent affordable housing policy framework and a collaborative approach to the development of affordable housing infrastructure.

- The development of an integrated affordable housing system within various State jurisdictions encompassing land supply, subsidies and regulation.

- A uniform understanding of the culture and capabilities of 'growth' housing providers.

- The recognition of community development as a way of doing business and the allocation of resources to community building.

- An acceptance of diverse functions and structures for 'growth' housing providers reflecting the nature and scale of the State.

- The provision of diverse housing assistance products for lower income households and the flexibility to develop products suitable to local markets.

Having established that risk management is a systems issue the report then turns its attention to a framework for internal risk management by 'growth' housing providers (Chapter 6). By drawing attention to the Australian/New Zealand Standard for Risk Management the report firstly recognises the fact that a 'growth' housing provider is essentially a social enterprise requiring a commercial framework and comprehensive approach to risk management.

The report then analyses the functions a 'growth' housing provider may be responsible for and, based on this analysis presents a generic risk management framework. The framework focuses on the core functions of property procurement, housing development, asset management, property management, tenancy management and community building.

The framework identifies that one of the most important risk management strategies for a 'growth' housing provider is the employment of people with the requisite skills, competence and experience to manage each function. Starting with this assumption a calculation is undertaken to identify the minimum scale of a 'growth' housing provider to cost effectively manage risk. We propose that 12.5 EFT staff are required, at a cost of approximately $1.25M per annum, as the minimum level for a 'growth' housing provider undertaking all six core functions. Employing industry benchmarks for the unit cost of these functions we come to the conclusion that the minimum size of a 'growth' housing provider that is capable of comprehensive risk management and operate cost effectively is one with a portfolio under management of 500 dwellings and which is developing 25 additional dwellings each year.

The report concludes (Chapter 7) with a summary of the implications of the findings for both the community housing sector and both State and Commonwealth governments.

If existing community housing organisations are to make the successful transition to 'growth' housing provider they will have to develop and sustain a culture of risk management – the scale and complexity of their business will demand a comprehensive and continuous process of identifying and assessing the risks they are exposed to and designing and implementing strategies to mitigate those risks.

Failure to do so will place their organisations in jeopardy, threaten the homes of their tenants and place scarce public resources at risk. The capacity to achieve such a culture however is dependent on scale and there are limits to growth. This implies a degree of "stratification" of the community housing sector. As in all other countries where there is a strong commitment to growth in affordable housing through the non-government sector, there will be a small number of very large 'growth' housing providers and a large number of small community housing managers.

The major implication for State governments is the need to develop an Affordable Housing Strategy and transparent industry infrastructure. Together, these will provide greater certainty and improved capacity for 'growth' housing providers thus directly reducing their risk exposure. They also provide a framework by which the private sector can understand the nature of their involvement in affordable housing, increasing their confidence and reducing the risk premium on the cost of their services.

At the Commonwealth level the implications are twofold. First, clarity and consistency with respect to tax and subsidy arrangements for affordable housing is an essential ingredient for greater involvement of the private sector and will make a substantial contribution to risk management. Second, the Commonwealth can improve both the effectiveness and efficiency of State based affordable housing systems if it provides leadership in the development of a nationally consistent approach to key elements such as land procurement, capital subsidy arrangements and regulatory frameworks.

1. Introduction

1.1 Background to the report

According to a recent study published by the Australian Housing & Urban Research Institute (AHURI), Australia has commenced a transition from traditional models of social housing supply, encompassing large public housing agencies and small niche market community housing organisations, to a more diversified system of affordable housing provision. The new system involves alternative delivery arrangements, non-government responsibility for asset and tenancy management, mixed private and public funding sources, planning innovation, different rent setting models, and a mix of target groups (Milligan et al, 2004, p3).

This transition has been a long time coming. The first seeds of change could be traced back to the National Housing Strategy which called for an increase in the supply of social housing employing private sector finance and community housing organisations as significant players in its delivery (NHS, 1992). Recently, considerable momentum has been provided by the formation of the Affordable Housing: National Research Consortium comprising a number of national industry peak bodies from the private and community sectors and the release of their report calling for the implementation of a new affordable housing growth strategy utilising funds raised through a government bond and delivered through a non-government vehicle[1] .

Governmental interest in the issue is reflected in the Commonwealth State Housing Agreement (2003) which includes a requirement on State governments to "promote innovative approaches to leverage additional resources into social housing through community, private sector and other partnerships" (CSHA, p4). This has been taken up in a collaborative way by the Housing Ministers Advisory Council (HMAC) which has, in turn, given its Policy and Research Working Group (PRWG) a term of reference relating to strategies to enhance delivery arrangements for affordable housing. As part of its work the PRWG commissioned the National Community Housing Forum (NCHF) to examine the implications for governance and risk management in community housing organisations of significant growth in affordable housing.

The NCHF is a national peak body which brings together key stakeholders in the development of the community housing sector including the Commonwealth government, State and Territory governments, local government, community housing providers and tenant organisations. The NCHF has defined community housing as a viable, secure, long term and affordable housing option for people on low to moderate incomes that is diverse, responds to local community needs, promotes tenant participation, and contributes to strengthening local networks and communities (NCHF, 2004).

The NCHF has a significant interest in the nature of the transition from a traditional social housing system, where the primary role of community housing providers has been the provision of tenancy management for government owned social housing. Specifically, the NCHF is interested in the implications of the transition for existing community housing providers if they are to play a meaningful role in a more diversified affordable housing sector. The opportunity to undertake this work was therefore taken up enthusiastically and has resulted in two reports. The first was published by NCHF in June 2003 and was entitled *Corporate Governance in Community Housing* and focused on the governance issues faced by larger scale community housing providers (GAPP Consulting, 2004). This report, the second of the series, is concerned with the risk management.

1.2 The focus of the report

The focus of this report is on the risk management implications for community housing providers as the scale and the complexity of their business increases. As will become evident throughout the report our primary concern is those few organisations within the community housing sector who will make the transition to the new affordable housing paradigm referred to above and described in detail within this report. This is not to infer that there will not be a continuing role for the traditional small scale, locally based community housing organisation. It is presumed that they will continue to play a unique though limited role (as is currently the case).

That having been said, the critical question addressed by this report is what changes might be required of an existing community housing provider if it is to play a significant role in the provision of

[1] Appendix 1 provides more detail on both the history of the reports calling for this change and the more immediate drivers in the housing market.

the new affordable housing paradigm and successfully manage the risks presented by the new approach.

The AHURI study referred to earlier reports on the first systematic research into newly emerging forms of affordable housing delivery in Australia[2] . The study distinguishes between two types of delivery vehicle both of which, we will refer to in this report, as ‘growth’ housing providers.

The first are specific purpose housing companies set up and controlled by State or Territory governments (e.g. City West Housing, Canberra Community Housing, Brisbane Housing Company). These agencies have been established with a view to implementing an agreed development program with specified targets over a certain period on the basis of an initial capital commitment by the respective State government (and local government in the case of BHC) and some additional income derived from developer contributions (in the case of CWH). These agencies have been separately incorporated, are governed by an independent board of directors and have been given a mandate to actively participate in the market to achieve agreed affordable housing outcomes. However, they are constrained by objects and powers as specified in their government determined constitutions and accountability requirements (annual report to parliament).

The second type of delivery vehicle is the independently formed not-for-profit community housing organisation which has expanded into development activity (e.g. City Housing Perth, Community Housing Ltd) or has been specifically formed for such purpose (Port Phillip Housing Association, Melbourne Affordable Housing). For these organisations, the initiative has been taken by community interests (local government, churches and community service agencies). They are also separately incorporated, governed by independent boards of directors and are constrained by their objects and powers as specified in their Constitution. However, in their case each constitution has been determined by their community of interest behind and there is no constitutional accountability to government. These organisations have been established with minimal capitalisation and no ongoing funding stream. Consequently, they are reliant on one-off project grants from specific community housing programs managed by their respective State housing authority.

Both organisational types have been established for the specific purpose of developing affordable housing. The fundamental difference between them is where the initiative and, consequently, motivation for their establishment has come from.

Governments have taken the initiative for the first group and great care has been taken to ensure they are sufficiently arms length to meet the strict criteria established by the Australian Tax Office for relevant tax benefits (such as GST free supply). Equal care has been taken to ensure they are structured (through their constitutions and reporting requirements) in such a way as to secure government investment and guarantee competent governance. By direct involvement in these vehicles governments have maximised their capacity to manage the risks inherent in their public investment. Through their “ownership” of the process governments have provided the comfort necessary to commit and release funds in accordance with a long term development program.

By definition governments do not have this level of control over the second group of organisations, which have been established quite independently of government initiative. They do not have the ability to constrain objects, limit powers, ensure transparency, secure investments and influence governance through the organisation’s constitution. Consequently, governments have little capacity to manage the risks associated with programmatic investment. They are entirely reliant on the risk management capabilities of the individual non-government organisations. They have therefore found it necessary to restrict any investment to specifically approved projects (subject to specific security arrangements which protect the public interest in that project).

If some community housing organisations are to play a significant role in the newly emerging affordable housing system (i.e. become ‘growth’ housing providers) both government and non-government sector will have to address this issue of risk management. How do you create a system in which government and non-government organisations work in a coordinated and collaborative way to manage all risks at all levels in the implementation of an affordable housing growth strategy? This report is squarely focused on that question and, without preempting our conclusions there are at least three dimensions to the answer, all of which have received considerable attention over recent years.

First, there is the structure of a 'growth' housing provider. What is the appropriate level of constitu-

[2] The following description of the two types of organisation is drawn from the Executive Summary of Milligan et al, 2004.

tional constraints upon objects and powers? What is necessary to achieve optimal tax status? What form of ownership best protects the interests of investors? How do you ensure the most appropriate mix of directors for good governance?

The very establishment of City West Housing and Brisbane Housing Company has provided at least two State governments with an intense learning experience regarding the structural requirements for 'growth' housing providers. More recently, the AHURI report (referred to above) has documented, compared and drawn out the common threads regarding structure from both the government and non-government initiated vehicles (Milligan et al, 2004) while the Community Housing Federation of Australia (CHFA) has investigated the implications of tax law for affordable housing providers generally.

Second, there are accountability issues for 'growth' housing providers to consider. How can governments be assured that non-government organisations not only have the required capacity and expertise but are also exercising it to the fullest? Governments need a system of accountability which provides evidence that organisations in which they are investing significant public funds are capable of managing all the risks which pose a threat to the security and purpose of those funds. In the absence of a robust regulatory framework it is unlikely that governments will use independent not-for-profit community housing providers as the basis of any substantial growth in affordable housing provision.

The NCHF has long recognised the need for proper accountability to government for all functions performed by community housing organisations. Over the last 6 years the NCHF has promoted, sponsored and auspiced the development of intellectual property for a national regulatory framework for community housing in Australia including the development and publication of a National Community Housing Standards Manual (NCHF, 2003). This document has been recognised by most States and Territories as providing a sound basis for their evolving regulatory system. Regulation has been introduced, or is currently under consideration, in several States (South Australia, Queensland, Victoria, New South Wales).

Third, there is the capacity and expertise of the 'growth' housing provider. What must be done to ensure these vehicles demonstrate the necessary leadership, decision making processes and professional skills to perform their new roles? They will have to show that they can manage the risks associated with commercial housing development and management where optimum leverage is facilitated. At the same time, the end product must be suited to and used for its intended long term social purpose (Milligan et al, 2004, piii).

Over the last two years, the NCHF has focused considerable attention on these issues commencing with a workshop conducted by the Policy Advisory Committee in September 2002 where both governance and risk management were recognised as significant issues presented by the challenge of significant growth for community housing providers (NCHF, 2002). As noted above the opportunity to work collaboratively with the PRWG on these same issues was welcomed and two major research projects have been undertaken during 2004.

The results of the first are reported in *Corporate Governance in Community Housing* (GAPP Consulting, 2004). The report considers the implications of periods of intense change, growth and development for boards responsible for the governance of community housing providers. The report is designed to offer guidance to management and boards as their organisations grow and take on more complex business.

This second report presents an analysis of the functions required of 'growth' housing providers in a more diversified affordable housing system. Our purpose is to identify the risks inherent in both the growth and complexity of their business and examine the links between scale and risk management capacity. This is the primary focus of the report.

However, as is evident from the discussion above, risk management is a "system" issue. In an affordable housing strategy which involves public, private and community organisations, it is not simply a matter of identifying and allocating each risk and then leaving each partner to manage the risks they are allocated. Political and commercial realities demand that each partner take an interest in the allocation and management of all risks to minimise the potential of failure. Inevitably, therefore, we have addressed the role played by others parties, particularly the public sector, in the management of risk in the emerging affordable housing system.

1.3 Structure of the report

Following this introduction we describe the scope and extent of change that has occurred throughout the development of the community housing sector over the last twenty-five years in Australia (Chapter 2). In doing so we can assess the capacity of community housing organisations (CHOs) to respond to continuous change and consider their readiness to take on more functions and larger operations. We also consider the relationship between the sector's evolving role and structure and its community development function.

We then turn our attention to reforms to social housing systems internationally, noting that reforms have been widespread throughout Europe, North America and the United Kingdom over the last 25 years (Chapter 3). While the path and pace of change has varied significantly from country to country we note the growing reliance on non-government delivery agencies and the injection of large tranches of private financing for new social and affordable housing projects. We specifically look at the changes in the Netherlands and the United Kingdom in detail to identify the risks involved, their impacts on not-for-profit providers and the ways that non-government organisations in particular have managed these risks.

In Chapter 4 we survey a number of significant "affordable housing" initiatives or projects that have either been implemented recently or are currently under negotiation in Australia. Our primary purpose is to identify the implications of these projects for the participating affordable housing providers in order to discern the roles that might be expected of 'growth' housing providers. By doing so we are, subsequently, in a position to identify the risks they will be required to manage.

We then turn our attention to the future, painting a broad canvas of how the affordable housing system might evolve in Australia in response to the demand for growth in affordable housing (Chapter 5). In this chapter we not only describe what we believe the new generation of 'growth' housing providers will look like but also the changes that might be required at a governmental level to accommodate the changing role of the non-government sector and the involvement of the private sector in financing growth.

In Chapter 6 we return to a specific focus on 'growth' housing providers, exploring in more detail the core functions they are likely to be required of them and identifying the risks associated with these functions. This leads us to develop a generic risk management matrix for 'growth' housing providers and an assessment of the scale necessary to ensure that the organisation can employ the appropriately skilled staff to manage the identified risks.

In our conclusion (Chapter 7) we draw together the implications of the report for both Commonwealth and State governments as well as the community housing sector.

2. Overview of the development of the community housing sector

In this chapter we describe the scope and extent of change that has impacted on community housing organisations (CHOs) throughout the development of the community housing sector in Australia over the last twenty-five years. From that review, we assess the capacity of CHOs to respond to continuous change and consider their readiness to take on more functions and larger operations. We also consider the relationship between the sector's evolving role and structure and its community development function.

2.1 Progressive development of the community housing sector in Australia

Although the development of the community housing sector has progressed at different rates and to a varying extent across jurisdictions, several common phases of growth and adjustment can be distinguished. In the following analysis we identify four previous phases in the evolution of community housing that we consider mark the key shifts that have occurred in the sector's identity and development nationally. We also suggest that the sector is now entering a fifth embryonic phase that is linked to the unfolding development of an Australian affordable housing sector. Table 1 provides a summary of these phases of development and change.

Phase 1 (up to 1984)

The community housing sector[3] in Australia had its beginnings in the mid-1970s when a few grass roots organisations, mainly cooperatives, were formed in several cities to provide low cost housing to their members. From these beginnings, the sector has grown and diversified, while retaining an underlying philosophical commitment to tenant participation and community development.

Estimates of the current size of the sector vary depending on the data source used and which organisations are included. A recent estimate is that there are more than 1,200 mainstream community housing organisations managing over 29,000 CSHA-funded dwellings, representing nearly eight per cent of all CSHA-funded housing (SCRCSSP, 2004)[4].

In the first phase which marked the emergence of a sector and which lasted until about 1984, State governments in NSW, Victoria and South Australia granted funding and leased housing to not-for-profit organisations to provide crisis, medium and long term housing to applicants for public housing. This phase was distinguished by a rapid formation of newly incorporated housing organisations in those States where new programs were introduced.

Phase 2 (1984 to 1991/92)

The second phase of development began in 1984 when the Commonwealth government introduced two national programs under the CSHA: the Local Government and Community Housing Program (LGACHP) and the Crisis Accommodation Program (CAP). These programs were structured to encourage the acquisition of housing for management by non-government providers on a long term and short-term basis, respectively. However, specific operating details were left to each State or Territory (hereafter State) to determine and, accordingly, differences across Australia were perpetuated. In Queensland, Victoria and South Australia, for example, community organisations acquired ownership and, hence, responsibility for many more properties than in NSW where the State housing authority remained the owner and long term property manager (except in projects where an equity joint venture partnership was formed).

A defining characteristic of the second phase of development was the materialisation of a national community housing sector, facilitated largely by the formation of community housing peak organisations in all States and Territories. As a result of geographical expansion of the sector, both within and across

[3] In this chapter references to the community housing sector refer to not-for-profit, non-government organisations that provide housing assistance services under the CSHA, other than organisations in the indigenous sector, unless otherwise indicated.

[4] The SCRCSSP report identifies at least a further 15,000 dwellings, not CSHA-funded, that are managed by community based organisations, mainly in the aged and disability sectors. In addition, there are estimated to be over 20,000 indigenous community-housing dwellings and around 4000 units of crisis accommodation (personal communication, Australian Institute Health and Welfare). Thus, in total up to 70,000 dwellings may be managed by not-for-profit non-government providers. This share represents around four per cent of the total rental sector in Australia.

States, the number of community housing organisations continued to grow over this period[5]. The core housing models in the sector also became more established during this phase.

By the early 1990s most, if not all, jurisdictions had long term rental housing programs, cooperative housing schemes, joint venture projects and crisis accommodation services operating in their community housing sector. The relationship between housing models and organisational forms also became more ordered. In most States, but not necessarily in all areas, support service agencies generally became responsible for crisis and transitional accommodation services, while long term housing products were more likely to be provided by housing cooperatives, church organisations and community rental organisations (or housing associations), with the latter group generally having the largest agencies in each jurisdiction.

While this phase is associated with continuous expansion, community housing was nevertheless described during this period as fragmented, operating under a patchwork of uncoordinated program and funding arrangements, with a poorly developed policy, procedural and regulatory framework and demonstrating limited professional expertise (Randolph cited in Industry Commission, 1993).

Phase 3 (1992/93 to1995/96)

The third phase of development of the sector was triggered by the National Housing Strategy (1991/1992), which gave a strong endorsement to community housing as a housing tenure option for low income and special needs households. It also recommended that additional funds be provided by the Commonwealth government for property acquisition and, importantly, in light of the assessment of prevailing practice in the sector, the development of legal, technical and management infrastructure to support and strengthen organisational capacity and professional development.

An injection of Commonwealth funds for community housing followed in 1992/93 and 10 per cent of all those funds were earmarked for sector development[6]. Other government activities of the time also lent their support, directly or indirectly, to the growth of community housing as a tenure choice for low income households[7]. It was also in this expansionary phase that a small number of providers participated in trials of innovative housing models, under initiatives such as the Better Cities program and the Social Housing Subsidy program[8] (see Chapter 4 for examples).

Overall, the direction of support for community housing in the first half of the 1990s gave the impetus to two trends that distinguish this phase of the sector's development. First, there was consolidation of the sector. Instead of a growth in funds producing an increase in providers, funds were directed so that a number of existing organisations were able to expand their scale of business and, hence, improve their viability[9]. Second, the identity and capacity of the sector was strengthened through the emergence of peak bodies[10], secondary organisations[11] that provided specific services to the sector, and through the initiation of the first significant program of research and development designed to support the sector's functions, practice and capacity building[12].

By the mid-1990s the vision for a cohesive national community housing system in Australia was well established. This vision emerged from the first and second National Community Housing Conferences, which were held in 1990 and 1994. The first conference also led to the foundation of the National Community Housing Forum (NCHF), an innovative forum of government and community based stakeholders, including community housing organisations, tenants, government program managers and

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5 Data on the community housing sector was not collected systematically until the late 1990s, so it is not possible to quantify the characteristics of the sector at this time. However, the Industry Commission found that there had been 2200 recipients of LGACHP funding. These data would include multiple projects for some individual agencies plus an unknown number of local government agencies.

6 Although it was not a requirement under the CSHA, most jurisdictions increased the flow of State housing funds to community housing during this period also.

7 See, for example, the Industry Commission Inquiry into Public Housing, 1993; The Commission of Inquiry into the NSW Department of Housing, 1992; National Competition Policy, Council of Australian Governments (COAG), 1995.

8 Berry (2000) and Milligan *et al* (2004) have more details.

9 In three years (1995/96 to 1997/98) the number of dwellings under management in the sector is estimated from available data to have increased by 35 per cent, from 18,821 to 28,172 dwellings (including CAP properties) (NCHF, Annual Report, 1997/98).

10 For example, the NSW Federation of Housing Associations was founded in 1993 in the State with the largest community housing sector and the Community Housing Federation of Australia (CHFA) was established early in 1996.

11 For example: Ecumenical Housing Incorporated (Victoria) added project development services to its existing research, consultancy and advocacy services for churches and other CHOs (1985 – 2002) and COMHOUSE (1996-) provided property management services to CHOs in South Australia.

12 For example, studies on the viability and cost effectiveness of the sector were undertaken in several jurisdictions and work on the national accreditation framework and national training strategy began at this time (see NCHF, 1996).

local government that provided leadership and guidance for the sector's development. The forum released the first national strategic framework for the sector in 1996 and has continued to play a lead role in the sector's forward planning.

Phase 4 (1996/97 to 2002/03)

The year 1996/97 marked a turning point in national housing assistance policy in Australia in both the public and community housing sectors. Growth funds for housing were increasingly restricted and emphasis was placed on improving the efficiency and performance of existing services. The community housing sector became an active participant in the drive for improved efficiency and accountability and led the public housing sector in the introduction of some major reforms, notably the establishment of a national service standards and accreditation framework. Related activities in the sector that characterised this period included the introduction of performance monitoring, studies on cost structures and benchmarking, enhanced education and training, a focus on strengthening governance and risk management and the development of a proposal for improving the regulatory framework for the sector[13].

It has also been in this phase that State housing authorities have increasingly recognised that the strong participatory philosophy and well developed local service networks of community housing organisations makes them natural partners in neighbourhood renewal and community building schemes. Consequently, CHOs started to become involved in managing housing and community development initiatives in public housing estates.

In response to reductions in growth funds for housing and an interest by several leading providers in the independent expansion of their business, the NCHF facilitated or participated in extensive work on private investment options for growing the supply of social and affordable housing from the second half of the 1990s[14]. This resulted in the NCHF advocating a more robust regulatory framework in order to instil in government and private investors greater confidence in the capacity of CHOs to develop a larger and more complex business involving project development, new financing models and long term asset control.

Overall, under the guidance of the NCHF and the national and State peak bodies, increased professionalism and improved governance and accountability in the sector became the hallmarks of phase four. In parallel with these developments, State governments pushed for consolidation of the sector through targeting growth and stock transfers to larger organisations and by negotiating the amalgamation of providers[15]. Finally, the sector itself took some exploratory steps to help prepare for any opportunity to take up new financing models on larger scale.

Phase 5 (2003/04 on)

A new phase in the development of the community housing sector in Australia is incipient at present[16]. Signposts of the emerging phase, which form part of what we have referred to previously as a transition to a more diversified affordable housing system (Milligan *et al.*, 2004), focused on non-government housing delivery models ('growth' housing providers) include:

- the announcement of new State government investment programs for affordable housing to be developed and owned by not-for-profit providers - Queensland (2002), Tasmania (2003), ACT (2003) and Victoria (2003);
- the foundation of not-for-profit arms length housing companies to develop affordable housing by governments in NSW, Queensland and the ACT;
- the invitation to existing CHOs in some jurisdictions to meet government requirements to become recognised providers for new affordable housing schemes - Victoria, Western Australia;
- an emerging trend to using a tiered approach to regulation of community housing that either recognises organisations operating at different scales and complexity within the sector either implicitly through tiered regulations (Queensland, 2003) or explicitly through different classes of organisation (Victoria, legislation pending); and
- mixed tenure projects and estate redevelopment projects that offer CHOs the potential to diversify their businesses and increase their role in community building, for example, by partnering in urban renewal projects or moving into long term facilities management.

[13] Key reports on these issues included SGS (1998), Kennedy (2001), NCHF (2002), NSWFHA (2003)

[14] See, for example, Larkin and Lawson (1998), ANHRC (2001), Elton (2002) and McNelis *et al*., 2002.

[15] For example, the establishment of the Transitional Housing Management Program in Victoria in 1997 saw the restructure of housing management in the homelessness sector whereby 15 community based housing specific organisations, selected through an open tender process, replaced over 200 small agencies in the management of approximately 1500 transitional housing properties (KPMG, 2000).

[16] A summary of the factors driving this change are to be found in Appendix 1.

This latest phase in the development of community housing in Australia has the potential to provide the opportunity for some CHOs to elect to make the transition to a more independent housing business underpinned by greater revenue and an expanding portfolio of housing assets, i.e. to become a 'growth' housing provider. As it develops, this model may generate its own capacity for new initiatives in keeping with the broad social charter of CHOs. Therefore, among other options, such a shift has the potential to increase the sector's capacity for pursuing its community development goals.

Table 1: Overview of phases in the development of the community housing sector in Australia

General period	Description	Characteristics	Key developments in risk management
1: Late 1970s to 1984	State led community housing initiatives in several jurisdictions	Foundation of principles of community housing. Formation of significant numbers of new housing organisations.	Incorporation of not-for-profit service providers. High level of central government direction.
2: 1984 to 1991/92	Development of programs nationwide	National expansion, leading to further growth in new housing organisations. A diversity of services established and more variety of target groups assisted by community housing providers.	Program guidelines and funding agreements.
3: 1992/93 to 1995/96	Injection of funding into growth and sector development	Rapid growth in community housing services. Some consolidation of services in existing organisations. Emergence of a long-term vision and strategic framework for the sector. Establishment of support infrastructure.	Foundation of sector infrastructure and support institutions.
4: 1996/97 to 2002/03	Capacity building and performance orientation	Significant advancement of sector capacity and skills. Search for alternative financing. Increased targeting of growth to larger providers. Small scale community led innovations.	Enhanced regulation and accountability frameworks. Roll out of a national standards and accreditation system. Directing growth to providers on the basis of business plans. Entry of new government founded housing companies with professional boards and business plans.
5: 2003/04 on	Transition to new housing affordable models	State based affordable housing initiatives. Promotion of public private partnerships. Prospective introduction of new functions (private financing, project development, long term asset management, facilities management).	New legislative powers in some jurisdictions (investigatory and intervention powers, sanctions, etc).

2.2 Current scale and structure of the sector

The first national mapping of the sector was not conducted until 1999 (AIHW & NCHF, 1999) and comprehensive data on the size and structure of CHOs in Australia remains limited. To give some indication of the overall structure of the sector, Table 2 presents the latest published national data. The table highlights the large number of organisations in most jurisdictions and suggests that housing portfolios are still very small on average (national average of 22 dwellings under management). However, such average figures are fairly meaningless because they do not reflect the underlying structure and complexity of the sector. Factors shaping that structure include:

- the preferred scale of operation of different types of providers – for example, housing cooperatives and local church organisations tend to be smaller, while housing associations and diversified service agencies tend to be larger;
- the settlement patterns of different States – for example, Queensland and Western Australia have a more dispersed population which has resulted in a larger number of local providers;
- State policies that have encouraged the growth of larger providers but, at the same time, have allowed smaller providers to continue their existing services, especially in discrete areas.

Where it is available, disaggregated data gives a better indication of organisational mix and structure. For example, Table 3 shows that of 42 housing associations surveyed recently in NSW, four agencies were managing over 700 properties and another five between 491 and 700 while the average portfolio size of those 42 agencies is 257 dwellings[17]. The data in Table 3 shows that, while small organisations are more numerous in NSW, larger 'growth' oriented providers are responsible for an increasing share of the housing services in that State. An examination of the location of providers shows that the larger providers operate in the metropolitan area and in major regional towns, while smaller providers tend to be located in rural and regional areas. It is likely that these patterns also occur in other jurisdictions.

Table 2: Community housing organisations and dwellings by State, 2002, 2003

State	Providers June 2003		Dwellings under management June 2002		Average dwellings per org.
	No	%	No	%	No
NSW	190	15.5	9180	33.8	48.3
Vic	234	19.0	7710	28.4	32.9
Qld	345	28.1	3967	14.6	11.5
WA	255	20.7	2099	7.7	8.2
SA	126	10.3	3439	12.7	27.3
Tas	48	3.9	227	0.8	4.7
ACT	9	0.7	434	1.6	48.2
NT	22	1.8	122	0.5	5.5
State	**1,229**	**100.0**	**27,178**	**100.0**	**22.1**

Source: FACS Housing Assistance Act, Annual report, 2002: Table D1
AIHW, Commonwealth State Housing Agreement National Data Reports 2002–03, 2003: Table 4.1

17 Data provided by NSW Federation of Housing Associations. Note that these data are not directly comparable with that obtained in the national surveys.

Table 3: Number and size of housing associations, NSW, 2003

Number of dwellings managed	Number of Organisations	Number of Organisations (%)	Cumulative (%)	Dwellings managed (%)	Cumulative (%)
700+	4	9.5	9.5	28.2	28.2
491-699	5	11.9	21.4	24.6	52.8
310-490	7	16.7	38.1	24.3	77.1
151-300	5	11.9	50.0	11.1	88.2
<150	21	50.0	100.0	11.8	100.0
Total	**42**	**100**	**-**	**100.0**	**-**

Source: NSWFDA, unpublished data provided to the authors.

2.3 Distinguishing characteristics of the community housing sector

Community housing providers became established in Australia either to complement or to supplement the role of large scale public housing authorities. For instance, the establishment of crisis and shorter-term accommodation services arose to fill a gap not being met by public housing authorities. However, longer-term community housing models were distinguished not so much by the housing product being offered but by the emphasis that was given to a set of broader and closely connected goals that were not being addressed adequately in public housing. Generally referred to as 'community development', these goals included:

- tenant involvement in management;
- a commitment to fostering community development through housing services;
- flexible housing services that are responsive to diverse needs;
- linking housing and other services to tenants;
- harnessing additional non-government resources;
- encouraging innovation in meeting housing needs; and
- community 'ownership'.

To achieve these goals, CHOs have tended to choose organisational models that were:

- locally focused and community based;
- participatory with democratic governance and organisational structures; and
- responsive to both the shelter and non-shelter needs of their clients including taking an advocacy role when appropriate.

As the size and complexity of their business has begun to increase, the core challenge faced by the directors, staff and members of these agencies has been how to achieve the necessary skills, professionalism and business systems to manage a more comprehensive housing organisation, to respond to new business opportunities and to mitigate the additional business risks that are arising, while at the same time protecting and nurturing their community development ethos and practice.

We return to this issue in Chapters four and five. However, it is appropriate at this point to note that, although comprehensive evidence is not available, there are a number of indicators of how the sector has maintained its focus on core tenant and community development goals. For example:

- community housing achieves higher tenant satisfaction ratings than public housing;
- community housing has pioneered intensive tenancy management models that have subsequently been adopted by State housing authorities;
- interventions by community housing organisations have turned around failing public housing neighbourhoods; and
- CHOs have assisted a relatively high proportion of clients with complex needs.

2.4 Readiness of the community housing sector to develop affordable housing

In 2003, the CHFA commissioned research to identify and promote the role of community housing organisations in the future delivery of affordable housing. The Federation drew on existing research and the views of both community housing organisations and prospective funders and developers of affordable housing, to asses the potential for parts of the existing sector to participate in emerging affordable housing programs. The study found that:

> *Conceptually and practically, and in terms of spatial and community structures, a number of community housing organisations are already well placed to provide creative and flexible solutions to developing and managing affordable housing which serves both individual and community needs.* (CHFA, 2003, p. 29)

CHFA's position paper on this issue goes on to argue that:

> *Community housing is well placed to play a central role in the development of housing that is well connected to the community and is managed in a way that supports tenants and strengthens their links into the community. But participation in a new affordable housing industry means working with more complex funding arrangements involving private finance and potentially operating at a very large scale.* (CHFA, 2003, p. 30)

According to CHFA,

> *The community housing sector will need to present a coherent and committed face to other stakeholders, and demonstrate that it understands fully and already demonstrates the requirements of being a part of a new affordable housing environment. It will need to be operating in a regulatory environment that supports the development of organisations and new models of affordable housing without being overly burdensome. It is important that the control of assets is resolved in a way that recognises that community housing organisations can best develop their role and new housing opportunities with access to the flexible use of the housing assets currently controlled by governments. Finally community housing in Australia will need to further develop strategies to build the sector's capacity to succeed in this new environment.* (ibid)

The potential of community housing organisations to manage more complex housing projects has also been demonstrated in the recent national review of innovative housing providers across Australia, referred to earlier (Milligan *et al*., 2004). Despite operating within an undeveloped policy framework and in a constrained funding environment, the researchers found that a few existing CHOs had successfully undertaken the development of high quality social or affordable housing projects.

Of particular relevance to the themes of this study, that research also identified a number of benefits to community development goals that can arise from having local control of the housing development process. These include the potential to give tenants a say in the design of the project from the start; creating employment and training opportunities for tenants in the development process and the adoption of community building processes at an early stage in the project. Examples of some successful projects involving CHOs are discussed in the Examples in Chapter 4.

The national review also showed that, despite having successful flagship projects, the scale of operation and small asset base of existing CHOs in Australia would be a major barrier to the expansion of their housing development role until they have access to a reliable stream of funding that can sustain that function at a sufficient scale. The well-established options for improving the funding model include organising private debt or equity finance, upfront investment of larger tranches of public capital and creating larger revenue streams. Adoption of any combination of these strategies will increase the financial risks faced by agencies and their funders. In this context, setting prudential requirements and enhancing financial monitoring will need to become priority enhancements to the existing risk management framework.

2.5 Conclusion

Tracing the development path of the community housing sector in Australia has revealed a continuous process of change and adjustment that has been driven, especially in the early stages, by regular changes in government policy and funding regimes. More recently, the directions taken by the sector have also been strongly influenced by a long term vision and strategic framework that was laid down in the 1990s.

Through all the phases of its development, the sector has shown itself to be durable and resilient in the face of changes in the external environment and responsive to opportunities for growth and innovation. In structural terms, the sector has gradually become less fragmented and more cohesive, although a diverse range and mix of organisations of different scales still operate.

While small organisations are more numerous, larger growth oriented providers are responsible for a growing share of the total sector's housing services. Some in the latter group have already undertaken a few innovative affordable housing projects. It is these well established, more cost effective and larger providers that have the best potential in the near future to systematically take on the requirements and risks of a more diversified affordable housing business. However, this shift cannot occur without a financing strategy and appropriate prudential and regulatory regime for affordable housing being established by government. At the same time, agencies themselves will want to ensure they have the governance models and appropriate skills and capacity to upscale and take on financial, property development and portfolio management roles, while retaining their community development focus.

The next chapter considers how the challenges of growing scale and complexity have been addressed and the lessons learnt in not-for-profit housing sectors elsewhere.

3. Changes to the role of non-government housing providers – lessons from the Netherlands and the United Kingdom

Fundamental and large scale reforms to social housing systems have been widespread throughout Europe, North America and the United Kingdom over the last 25 years. While the path and pace of change has varied significantly from country to country, common trends are apparent. Two of the most significant developments relevant to this study are:

- the growing reliance being placed on non-government delivery agencies, whether government created organisations (such as arms length management companies with professional boards), more traditional voluntary agencies (such as housing associations and cooperatives), special purpose vehicles (such as regeneration companies) or regulated private providers; and
- the injection of large tranches of private financing for new social and affordable housing projects and neighbourhood renewal schemes.

This chapter looks at the changes in two countries - the Netherlands and the United Kingdom - in more detail to identify the risks involved, their impacts on not-for-profit providers and the ways that non-government organisations in particular have managed these risks.

3.1 Netherlands

Policy changes and context

The Netherlands has the largest social housing sector in Western Europe, comprising 2.5 million dwellings in 2002, about 35 per cent of all dwellings. Housing associations (housing associations) date from the mid-19th century and were first recognised in statute in 1901. Their first periods of major growth occurred after each of the world wars in the context of severe housing shortages. Developments in those initial periods of growth were heavily subsidised and controlled by government. Consequently housing associations did not have much autonomy. From the 1970s, the sector's role has been strengthened gradually and its independence from government increased (Milligan, 2003).

Key policy shifts have included:

- government preference for housing associations over municipalities as providers. This began with the redirection of subsidies for new dwellings from municipalities to housing associations from the 1970s and later resulted in the transfer of municipal owned housing to housing associations. By the turn of the century, municipal providers had all but disappeared;
- a shift to private financing of social housing from the 1980s and the withdrawal of all government capital subsidies for social housing after 1995; and
- a massive loan subsidy swap negotiated between the government and the housing associations in 1995 whereby, in a paper transaction, all outstanding government loans were paid back by the associations (and their housing was refinanced on the capital market) and, simultaneously, the government paid the associations for the net present value of all future capital subsidies due to them for their existing stock of rental housing[18]. This move gave the sector financial independence and control of vast social housing assets but it also shifted financial risks to them (i.e., future subsidies could not be re-negotiated to cover interest rate and rent revenue risks). Significantly, the situation of individual housing associations after the changeover varied considerably – leaving some with greater equity and 'surplus' subsidies, while others had greater debt and a subsidy deficit.

Today, however, the financial position of the sector and of most individual agencies is very healthy and, on most scenarios, is forecast to improve. The solvency ratio of housing associations has risen steadily, reaching 10.8 per cent in 2002[19]. In the same year the sector had liquid reserves of Euro14.2 billion and the total market value of dwellings was estimated at Euro184 billion. Annual surpluses per dwelling were Euro240 (Priemus, 2003).

Governance and structure

Most not-for-profit housing organisations in the Netherlands were constituted originally as either associations or foundations. The former had an independent board of directors and the latter were

[18] Previously, housing associations received annual operating subsidies to meet the difference between their costs (including loan repayments) and their rent revenue.

[19] The solvency ratio is calculated as equity over book value in the Netherlands.

member based. Generally, a voluntary board and a professional administration ran the organisations. The growing financial and administrative independence of housing associations and government supervisory requirements has led to significant adjustments in the governance of the sector over the last two decades. As a result most foundations have been reconstituted as associations and professional boards have been established across the sector. Supervisory boards are also used to provide internal advice on strategic matters to directors and to drive performance improvements.

Mergers between housing associations have been widespread, resulting in a sharp decline in the number of agencies from 824 in 1990, to 724 in 1999 and 552 in 2002. In the main, the associations themselves have initiated mergers as a means of achieving greater scale and financial security. In the 1990s, many associations found they were not well placed financially or with the 'right' assets to achieve the objectives expected of them as independent agencies. Often this was the result of factors beyond their control including their stock profile, the impact of past policies, the state of regional housing markets and changing client profiles. This situation prompted mergers between more and less prosperous associations and/or between neighbouring associations to build their regional base, spread their risks and realign their portfolio.

In keeping with the size of the social housing sector in the Netherlands, there are a number of very large housing associations (up to 70,000 dwellings). However, the majority own less than 500 dwellings. The average portfolio is around 3000. Many associations are still geographically concentrated (for example, operating in one municipality) but regional and national providers have increased significantly[20]. Among larger merged associations, a head office and branch structure generally applies. Strategic and financial functions are driven from the head office and housing management functions are locally controlled.

A strong principle that has also underpinned the not-for-profit housing sector in the Netherlands has been one of solidarity and mutuality between associations. Accordingly, individual housing associations are required to make decisions that are in the interests of the overall sector (as well as their own agency). This principle may extend, for instance, to activities such as the provision of financial loans from 'rich' associations to 'poor' or 'needy' ones. However, the use of a revolving fund to distribute wealth across associations in different financial positions has long been mooted but not implemented.

Charter and scope of activities

Dutch housing associations are characterised by their non-profit character and a charter to achieve a 'social housing function'. The definition of social housing function is multifaceted and dynamic. In the major reforms of the early 1990s, it was defined to involve providing housing for low and moderate income groups (including those with special needs and vulnerable households) and to improve the social, environmental and economic sustainability of residential neighbourhoods. The latter allows for many activities including stock reconfiguration, development of market housing (for cross subsidy purposes[21] and to achieve social mix in neighbourhoods), providing home ownership options, investment in community facilities and influencing market outcomes. Recently, providing housing and care for the elderly and improving the quality of neighbourhoods have been added as functions.

Because of their large asset base and healthy surpluses, housing associations can, and do, undertake a wide range of activities. Their recent history suggests that many are becoming more entrepreneurial entering into new fields such as the development of shared equity products, providing household services for their tenants and diversifying into neighbourhood improvement initiatives.

As housing associations have become more entrepreneurial, moves have been made to redefine their non-profit status. For example, tax exemptions for their market operations have been removed to establish a level playing field with private agencies and they are now expected to separate their profitable and non-profitable activities for accountability purposes. However they remain essentially social organisations – all their trading activities must be related to their social housing function and they are required to reinvest their reserves in that function.

Investment planning and asset management

In the past, the investment activities of housing associations were oriented to the development of new dwellings under policies that were heavily

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20 In 2002, 63 per cent of associations had regional or national accreditation.

21 Entering into market housing to cross subsidy social activities has become contentious and more restricted, recently.

influenced by the prevailing public subsidy regime (for example, government specified quality and price limits). Since the removal of public subsidies in the 1990s, housing associations have had to make their own investment decisions. These are concerned not only with investment in new dwellings but increasingly encompass portfolio reconfiguration, neighbourhood restructuring and tenure mix, sales to tenants, and asset life cycles and disinvestment. In the context of globalisation and European harmonisation, the more volatile situation of regional housing markets also has to be factored into the planning.

To inform their strategic planning decisions, housing associations employ property professionals and undertake extensive financial and market risk analyses, using both in-house staff and consultants. Financial decision-making is based on achieving a four per cent return on capital over the projected life of the asset (50 years). In a context of rising land and house prices, no new government capital subsidies and the commitment to keep rents affordable, this financial driver has meant that housing associations have had to invest more of their own resources (from reserves and asset sales) in both neighbourhood renewal and new supply.

Revenue

Rent policy for social housing in the Netherlands is based on complex administrative formulae and is highly regulated, although less so than in the past. Rents struck by housing associations are low in comparison to market rents[22] and affordability of rents is underpinned by a generous housing allowance system, which ensures that a wide range of housing in the social and commercial rental sectors is affordable to lower income households. However, in recent years housing associations have faced rapid increases in housing costs (driven by quality improvements, stock upgrades and market prices). This has increased political and fiscal concerns with the growing and unconstrained state of the government's housing allowance expenditure.

Recently, the sector has engaged in a very robust and controversial discussion with government about whether, in return for greater discretion in setting rents, housing associations will contribute to the housing allowance budget from their large reserves to help protect the affordability of lower income and vulnerable households. This is a good example of the potential span of influence of the sector over housing policy directions today. Other recent examples have been their successful resistance to an erosion of security of tenure, opposing the introduction of tenants 'right to buy'[23] and the protection of income mix in social housing.

Performance monitoring and regulation[24]

The regulation of financial performance is organised separately from the regulation of housing performance in the Netherlands.

Financial risk management

The move into private finance for social housing in the Netherlands occurred in the first half of the 1980s (in an era of financial market deregulation) when housing associations realised they could raise loans from capital markets more cheaply than government loans. To manage the increased risk associated with private finance, and to improve their profile, housing associations established their own Social House-Building Guarantee Fund (Dutch acronym: WSW). Founded as a private agency in 1983, the guarantee fund was used to help associations obtain private finance primarily from institutional investors at home and abroad. Each member contributes to the guarantee fund for each guarantee granted.

The success of the housing associations' move into private finance contributed to a government decision to abolish government loans for social housing in 1988. The decision was accompanied by a one-off injection of capital to the fund from the government to enhance its guarantee capacity and to manage risk to the State.

By 2002, the fund had guaranteed a total of Euro51.4 billion which covered about 90 per cent of the long-term loans in the sector (Wolters, 2004)[25]. The fund held around three per cent of the value of the total loan portfolio that it guarantees. The fund has received the highest rating for the security it offers from the two major international ratings agencies, Standard and Poors and Moodys and has never had to meet a claim. The strength of the structure has meant that loan rates are reduced by an estimated average of one per cent on market rates

22 The size of the social sector itself has impacted on the level at which commercial rents can be set and, consequently, the private rental sector is relatively small and has been in long-term decline.

23 Sales to tenants of association stock increased significantly in the 1990s in accord with government requirements but not on the basis of 'a right to buy'. Sales have now slowed because of house price increases and the reluctance of associations to discount their stock.

24 The material in this section is drawn from a report prepared by the author and included in Kennedy, 2001 (section 3.2).

25 Coverage has risen steadily from about 45 per cent in 1992.

and funds for housing have been plentiful. Associations are subject to stringent annual creditworthiness checks by the fund and, where their equity or their performance is not sufficient for securing a loan, they are referred to a restructure fund, known as the Central Housing Fund (Dutch acronym: CFV).

The Central Housing Fund is the second key element of the risk management arrangements for the private financing of social housing in the Netherlands. It complements the WSW by assessing the risk profile of housing associations and providing advice (a restructure plan) and, if necessary, monetary support for up to three years to housing associations in a financially weak position that do not qualify for WSW credentialing. Its criteria for financial sustainability are closely aligned with those of the WSW. CFV develops its risk profile by examining all risks associated with operations, loans and investments, project development, housing stock, housing market and the organisation.

CFV, unlike WSW, is a public corporation, which was set up by the government in 1988 as an independent agency to replace a central government function. It is funded principally through an annual per dwelling levy on housing associations. Between 1988 and 2000, 15 housing associations (a very low proportion) were supported financially by the CFV at a cost of Euro460 million.

Overall, the Dutch guarantee system for financing social housing operates as an interlocking three-tier model. The first tier is the financial soundness of the housing associations themselves and the security provided by the sector through their participation in the CFV. The second tier is the capital held in the guarantee fund by the WSW. The third tier is the safety net of the central government and the local authorities, which provide their ultimate backing to the financial model.

Regulating housing performance

The Ministry of Housing is responsible for monitoring the housing performance of housing associations, although there was a period in the 1990s when devolution of this function to local government was tried and, subsequently, as a result of large differences in the quality and scope of regulation, re-centralised.

Following the move to greater independence of housing associations, a new instrument of regulation, the Social Rental Sector Management Decree (Dutch acronym: BBSH) was introduced in 1993. The decree covers all functions of housing associations including procurement, management, allocation and letting, asset management, sales and demolition, service delivery and other activities 'in the interest of housing'.

Under the decree, housing associations are now accountable for their performance in six broad fields:

- providing housing for people who are unable or insufficiently able to provide themselves with a suitable home of their own (including people on below modal incomes[26], people with special needs and refugees)[27];
- ensuring quality housing is provided and maintained;
- involving tenants in policy and management;
- managing the finances of the corporation to achieve long term viability of the agency and the overall sector;
- investing in the quality of neighbourhoods and residential environments; and
- providing joint housing and care services.

In keeping with the principle of autonomy, most activities are overseen retrospectively. However the prior agreement of municipalities must be obtained before taking action in certain areas known as 'weighty decisions'. These include acquisitions, mortgaging, sales, demolitions and organisational mergers or takeovers. Municipalities and housing associations can agree to limit the need for prior approval of these matters using criteria related to the extent of risk or to the likelihood of adverse impacts for social housing. Recently, a new tool called the housing covenant has been introduced. The covenant sets out the agreement between the municipality and the housing association on a range of issues. However, it is too early yet to assess its effectiveness (Wolters, 2004).

It is difficult to assess the comparative performance of the Dutch housing association sector because of the impact of local policies and market conditions and because measurements and benchmarks are not standardised internationally. Comparing the performance within the Netherlands is also hindered by a lack of detailed information, particularly in English. However, Dutch researchers seem to consider that housing associations are generally effective in meeting their goals. Of particular importance in a more independent system is the fact that vulnerable and homeless households are being assisted on a timely basis.

[26] Modal income is the most frequently occurring income; that is, the peak of the income distribution curve

[27] The broad target group for social housing assistance is households now in the lowest 38 per cent of the income distribution. Households outside this group may be assisted but members of the target group receive priority.

From a consumer perspective, it might be expected that the mix of tenants in the sector would drive strong consumer influence over housing association decisions, especially as the housing market in the Netherlands has developed and more housing choice has become available (particularly for higher income households). However, the performance of Dutch housing associations on tenant participation and community involvement is not clear. The role of tenants can be formally recognised in a contract binding tenants and the board. As a minimum the requirements include tenant representation on the board, tenant advisory structures for both broad policy and particular communities, support for tenant committees and complaints mechanisms. Some housing associations also use advisory bodies to capture stakeholder interests.

Concluding comments

The preservation of a viable and broadly based social housing sector in the Netherlands in neo-liberal times is often attributed, in part at least, to the political and practical influence of the Dutch housing associations.

Housing associations hold a unique and powerful place in Dutch society 'between State and market'. The 'hybrid' nature of Dutch housing associations has resulted from their:

- long established role as not-for-profit social agencies;
- numerous policies and procedures that derive from a long period of close government involvement and control dating back to the mid-20th century; and
- growing "social entrepreneurialism" that is coming to the fore under the more independent regime of the 1990s.

Housing associations in the Netherlands have been subject to continuous, increasingly rapid and significant change over the last two decades. Some of the drivers of change have been generated internally, through housing associations themselves and their national and regional peak bodies[28] seeking to improve their businesses and extend their influence, while others have been generated externally, by changes in government policy and market forces, and big shifts in household preferences[29]. In recent years, there have been major debates about the future of the sector with options ranging from narrowing the role of associations to full commercialisation being contemplated. For the next decade, however, the government has decided it would prefer associations to continue as hybrid organisations, referring to their pursuit of market activities for a social purpose and their status as private organisations that are publicly accountable (Priemus, 2003).

Of course, the scale of operation of the housing associations sector in the Netherlands is vastly different to that likely to arise for non-government housing providers in Australia in the foreseeable future. Nevertheless, the functional span and complexity of issues to be addressed are potentially similar. Overall, the risks and challenges faced in Australia are likely to be more modest and to unfold more gradually. The Dutch experience provides important insights into how to build and maintain a cohesive, more independent social housing sector that achieves financial sustainability, strong social outcomes and a robust division of private responsibility and public accountability.

3.2 United Kingdom

Policy changes and context

Historically, housing associations in the United Kingdom were minor providers of social housing alongside the main players, local authorities. However, since 1974 they have grown rapidly and, since 1988, have been promoted as the preferred providers of social housing. It is also important to note that the era of housing association growth has occurred in the context of an overall decline in social housing. Thus, while, housing associations' share of all housing rose from 3 per cent to 7 per cent, and their share of the social sector rose from 13 per cent to 35 per cent in the decade to 2002, the sector itself decreased from 23 per cent to 20 per cent.

Growth of housing associations has been achieved through two main strategies:

- targeting them for new housing development (mainly for long term renting); and
- large scale voluntary transfers of housing from local authorities.

[28] Historically, two federated bodies represented the sector. These were amalgamated into one organisation, Aedes, in 1998. Regional federations operate in the major cities.

[29] The mass provision of social housing in the Netherlands over the period from 1945 to the 1990s produced a relatively undifferentiated and modest quality stock of housing and limited the provision of alternative market housing for purchase. Under conditions of rising affluence and changing household preferences, many tenants now seek better quality housing. Housing associations need to be responsive to these changes in demand to maintain their clients and protect their revenue.

Table 4: Housing associations by stock size in England, 2003

Stock	No housing associations	% housing associations	Total stock owned '000s	% stock owned
0-5	143	7.4	30	0
6-1000	1370	71.2	140	8
Over 1000	412	21.4	1,622	92
Total	**1925**	**100.0**	**1,762**	**100**

Source: Housing Associations in England, Key Facts, 2003. www.housingcorp.gov.uk

Recently, housing associations have also been responsible for developing a range of new housing products, including home buy, shared equity, shared home ownership and key worker housing schemes. Overall, however, these schemes are very small.

The information and data presented in this section is based largely on the situation in England, although similar kinds of trends are found in Scotland and Wales.

Governance and structure

Housing associations are voluntary not-for-profit organisations including charitable trusts, industrial and provident societies, cooperatives, trusts and companies (Oxley and Dunmore, 2004). The 1974 Housing Act was the trigger for housing associations (or registered social landlords) to become more involved in developing social housing.

In England, in 2003, 1,925 housing associations owned around 1.76 million dwellings and managed over 1.9 million. The structure of the sector is very asymmetrical with some features similar to those of the Australian sector. Just over one fifth of housing associations own 92 per cent of the total stock in the sector, with the largest 10 associations owning 13.5 per cent of all stock. It follows therefore that most associations are relatively small (see Table 3.1).

There are three main service models among housing associations - mainstream social housing landlords, specialist (population group) agencies and stock transfer associations. Over 120 of the latter type have been formed from scratch over the last decade in response to the local authority stock transfer program. This trend is expected to continue as more local authorities seek to transfer their stock.

Another trend over the last decade has been for a growth in large organisations and increasing concentration of ownership. This has come about through a combination of growth targeted to the sector, stock transfers[30] and organisational restructuring, particularly the development of group structures.

A significant factor contributing to the rapid concentration of ownership in the association sector since 1995 has been the rise in organisations operating as part of a group structure. In 2002, more than 200 associations had joined a group and many more were contemplating it. A group structure is defined as a number of organisations working together through formal agreements without a separate legal identity. However, to meet the requirements of the Housing Corporation, each group has to have a parent body, which must be a registered social landlord. Other organisational members of the group are known as subsidiaries and may or may not be registered social landlords. Accordingly, many groups comprise landlord and non-landlord agencies with the latter typically involved in corporate services, care and support or commercial services. Two main types of group are found: groups with parent bodies that operate as a holding company owning no housing and groups with parent bodies owning housing and controlling subsidiaries with housing and/or non-housing functions (CVS Consultants, 2002).

Group structures in the UK can be seen as a response to many influential factors in a rapidly changing external environment. However, the most significant driver seems to have been the need to enhance financial viability. Groups aim to enhance financial viability through economies of scale, business diversification and associated revenue building strategies and by spreading risk. Group structures have become a popular means by which housing associations preserve their identity and local base (in preference, for instance, to mergers), while at the same time satisfying the requirements for optimal viability that underpin the regulatory and financing regime for social housing in the UK.

30 However, note that an upper limit of 12,000 transferred dwellings applies to any one stock transfer association.

Many group structures have failed. Reasons given by one commentator (Mullens and Marshall, 2004) for problems and failures include:

- the pursuit of a strategic fit (to achieve growth) at the expense of an organisational (cultural) fit;
- poor execution such as when blending different business or IT systems; and
- ambiguity and complexity in the operation of the model. (A group structure often has several dozen directors and directors in different agencies of the group may have different and conflicting views of their roles and responsibilities. Thus, defining roles and managing relationships across the group is critical to success.)

According to a Housing Association CEO interviewed for this study, the core dilemma faced by group structures in the UK is meeting the expectations of funders (public and private) and regulators (about scale, capacity, skill and viability/ sustainability of the organisation), while retaining community links and democratic principles.

A key question seems to be whether group structures are federated structures (preferred by housing associations) or whether the parent has control (preferred by financiers and regulators). On this question, Mullens and Marshall (2004) claim that the negotiated goals and their underlying rationale set out at the formation phase of a group often diverge under the pressure of subsequent developments. This tendency can be seen in the trend for some groups to simplify their governance over time by, for example, abolishing subsidiaries or rejecting new ones, or by reducing representation on the group board. Thus, in several cases, the formation of the group has been the first stage in a shift away from smaller, more localised housing associations to an integrated, more geographically and functionally diverse, larger scale organisation.

The response of group structures in England to the tension cited above seems to be in considerable flux with new strategies emerging to clarify roles and simplify operations and more effort being directed to fostering a return to more local involvement. One strategy is for the parent not to unnecessarily restrict operational autonomy of the subsidiaries, another is to target information to tenants about the group and how it works.

Overall, the jury is still out in the UK on the effectiveness of group structures to meet requirements for scale and viability on the one hand and accountability to tenants and local communities on the other. In a recent presentation in Australia on the UK sector, another housing association's CEO questioned the wisdom of pursuing such a complex and challenging governance and business model for social housing unless a very strong rationale is in place (Newey, 2004).

Charter and scope of activities

The traditional role of housing associations in the United Kingdom has been to provide below market priced housing for those unable to afford their own housing in an open market. Since 1995, housing associations have been encouraged by the Housing Corporation to broaden their role in local communities, particularly to tackle poverty and social exclusion.

Both housing associations themselves and the UK government believe that housing associations are well placed to counteract problems caused by social exclusion processes. housing associations have a long established philanthropic interest in community engagement and strengthening communities and well developed links in their local area. The government has given high priority to place based renewal across 88 local authority areas that are significantly disadvantaged on deprivation indicators. In many of these areas, housing associations are a major landlord and need to develop strategies with their tenants for the renewal of their assets. As well, housing associations can provide local leadership in the regeneration process and offer training and employment programs linked to their regeneration activities. housing associations also benefit when communities become more sustainable through improvements such as increased demand, reduced arrears, fewer turnovers, and less damage and vandalism. Finally, the broadening of the role of housing associations has had positive effects on staff motivation and skills development.

Activities falling under the broader role of housing associations in the UK are known as "Housing Plus". Pursuing these activities must be justified in terms of the sustainability of social housing and be based on local partnerships between service providers and residents that can drive the achievement of this goal at the community level.

In addition to traditional social housing activities and other housing programs, the regulatory framework for social landlords (see below) now recognises a range of other activities including, for example:

- community regeneration initiatives;
- refurbishment or property management companies, primarily for social housing;
- residential care, domiciliary and social care (for their own tenants and for other local residents); and
- contracted accommodation for asylum seekers.

The Housing Corporation's requirement is that the majority of the business activity (51 per cent of capital or turnover) of a housing association is social housing. About one fifth of registered housing associations are estimated to be involved in 'non-housing' activities. The type of activities varies with the type of housing association but there are three main patterns:

- parent associations providing corporate services and development services to subsidiaries within their group;
- associations providing domiciliary care and support services to their own tenants and other residents in their communities; and
- long term stock transfer associations involved in 'non-asset' neighborhood renewal activities.

Revenue from non-housing activities is becoming more important, especially for larger housing associations and more agencies are becoming involved especially through the stimulus of neighbourhood regeneration (Harris, 2004).

Overall, the government's endorsement and promotion of the 'housing plus' concept has helped to legitimate housing associations and reinvigorate their original ethos and community values. In addition, broadening the philosophy of social housing and increasing the range of activities undertaken by housing associations has contributed to a renewed emphasis on local processes of planning, participation and accountability (although tensions still remain with the group structures' governance model, as discussed above).

Investment planning and asset management

Government policy remains the main driver of investment by housing associations in the UK. The national government has established a long-term strategic vision and target for the social housing sector which, among other things, aims to bring all social housing up to a decent standard by 2010 and introduces measures to deliver affordable housing in line with local needs (DETR, 2000).

The key strategies to achieve these objectives are a program of new housing supply in areas of economic and demographic growth and large scale investment in neighbourhood renewal. Over £1.24 billion was allocated in 2003/04 for these purposes while more than £25 billion has been invested since the Corporation was set up in 1964. The funds are allocated on the basis of relative need or on the basis of relative stock condition across the country, depending on their application[31] .

Within the national framework, increasing emphasis is being given to regional investment strategies, which are developed by the Housing Corporation's regional offices. housing associations bid for funding of schemes or projects that meet national, regional and local priorities. Criteria used to determine the final allocation of funds include value for money, rent levels, sustainability, regional needs for new supply and/or regeneration and the performance of the housing association.

The sector has officially operated on a 'mixed funding model' since 1988. Under the model, capital grants from the Housing Corporation are used to leverage private finance, predominantly in the form of standard mortgage loans. Associations are expected to borrow between 38 per cent and 62 per cent of the capital required for new housing, depending on the cost of housing in the local market. The gearing rate and its counterpart, the capital subsidy rate, have been calculated to ensure that the providers can charge affordable rents (see below) after taking into account the cost of finance, standardised operating costs and variations in land and construction costs[32] .

Borrowing across the sector is substantial and highly successful. A total of £34 billion has now been raised. The scale of borrowing by large associations in expensive areas could be as high as £50 million per year, while a medium sized association in a lower cost area may raise £2 million (Berry *et al.*, forthcoming). Loans are secured over the total stock of the housing association and, as indicated in Table 3.2 below, a housing association must hold at least 150 per cent of the loan value in unencumbered assets and reserves. While loan funding takes precedence over grant funding in the event of insolvency, this situation has never arisen.

[31] In addition, £189 million for the additional management costs in supported housing was provided in 2003/04.

[32] Indicative costs for different types and sizes of properties and different procurement methods in five general cost groups are established and reviewed annually by the Housing Corporation. These are compiled as a Total Cost Indicator (TCI). The TCI includes an allowance for adaptable housing or other specific purposes. Schemes costing up to 110 per cent of the TCI for the property type and location can be accepted (Oxley and Dunmore, 2004).

The Housing Corporation now has a policy to have fewer “developing associations”. In 2003/04, 71 associations with turnover of over £10 million received 80 per cent of the government budget allocation for social housing (social housing grant). Rising house prices have also reinforced this trend because housing associations can only draw down a level of borrowings that is sustainable from their revenue and, therefore, they need to put in more of their own reserves to cover the full cost of new projects. This situation favours larger housing associations making bigger surpluses. In a highly controversial development, the UK government has also announced that “for profit” companies will have access to a share of the annual social housing grant budget from next year “to improve competition and efficiency in the sector”. The Housing Corporation is charged with determining how this will operate – in particular how public accountability will be secured.

Revenue

Rent setting in the housing association sector has changed over time. Traditionally, rents in the social and private sectors were regulated in accord with a “fair rents” policy. However, in the first main growth phase of housing associations (1988 – 1997), rents in the social sector were effectively deregulated and housing associations were encouraged to set higher rents to help maximise their level of borrowings. In this period, housing benefit paid to low income tenants “took the strain” of rising rents, covering 100 per cent of the rent for tenants on basic income support and being withdrawn gradually for those eligible above the statutory minimum level. The average weekly rent level in the sector is currently £59.90 (Newey, 2004).

A fundamental restructure of rent policy in social housing is taking place in England. This reform has arisen in response to:

- government concerns with work disincentives arising from the existing system;
- the rising cost of housing benefit;
- the rising level of housing association rents; and
- anomalies in rents charged across providers (typically local authorities rents are now lower than housing association rents) and projects (new stock has higher rents than older stock).

The new approach, which is being introduced over ten years, will see rents in the social housing sector set more consistently to reflect both the cost base for housing development (of different values and sizes) and the average income of regions. (For more details see McNelis, forthcoming). This move is designed to be revenue neutral overall – the practical effect will be that rents will increase in high labour value areas such as the South East and decrease in lower value areas such as the North. It seems that housing associations will have less control over their rental revenue than in the past, making property investment more risky. This policy is one factor contributing to the drive for business diversification and new revenue streams mentioned above.

Performance monitoring and regulation[33]

The Housing Corporation has been responsible for regulating housing associations since its establishment in 1964. Larkin has characterised the evolution of the regulatory arrangements in the following phases:

- a period of fairly loose regulation, focusing mainly on the application of public funding to its intended use, in the period up to 1989;
- increasing regulation of financial viability and governance, associated with the introduction of loan finance from 1989 onwards, with a view to reassuring private funders as to the viability of particular associations and of the sector as a whole;
- the introduction of fairly prescriptive “Performance Standards” in 1997, with housing associations required to report against a lengthy checklist of standards, and incorporating statutory performance guidelines;
- the introduction of the requirement for risk management plans for larger housing associations in 1998;
- the replacement of “Performance Standards” by the Regulatory Code and Regulatory Guidance in 2002 (see below);
- the introduction of regulatory guidance – “Regulating a diverse sector” for housing associations involved in a variety of housing and related activities (see below);
- the introduction of inspection of housing association service delivery, initially by the Housing Corporation, and (since April 2003) by the Audit Commission (see below).

Larger housing associations each have a lead regulator from the Housing Corporation, responsible for monitoring their compliance with the Regulatory Code. The emphasis has been to move away from prescriptive regulation, to a greater degree of self-

[33] Most of the information in this section has been provided by Andrew Larkin in internal reports for the Victorian Office of Housing (2002) and for the research project reported in Milligan *et al*., 2004

assessment and the achievement of outcomes. The regulatory process involves an annual compliance statement, assessment of compliance based on risk factors and the development of an agreed regulatory plan to address any shortcomings. The outcomes sought are financial viability, good governance and effective management.

Since 2003, the Housing Corporation has started to publish on its website assessment reports on all housing associations with more than 250 properties. This uses a "traffic light" assessment system with red, amber and green categories for four areas: financial viability, properly governed, properly managed, and delivery of the development program.

There are 3 levels of response to unsatisfactory performance:

- continuing regulation: for minor matters, where an agreed action plan is carefully monitored;
- intervention status: for serious concerns where a plan for correction and improvement is agreed with the agency and closely supervised. In these cases access to new funding is generally suspended;
- enforcement status: for serious concerns where the agency is unwilling or unable to deal with them. In these cases new funding is suspended and a statutory inquiry may be held. This can lead to de-registration and the transfer of assets to another association.

As housing associations have diversified their business (see above), the Housing Corporation has had to adjust its regulatory framework. The Corporation's main concerns have been twofold:

- to ensure financial transparency and, in particular, that public funds provided for social rented housing were properly applied; and
- to ensure that housing associations were able to demonstrate they had properly assessed the financial and operational risks of the broader range of schemes and activities.

The development of the guidance "Regulating a diverse sector" exposed considerable tensions between Government's concerns and the entrepreneurial drive of housing associations – with a resulting compromise broadly acceptable to both sides. The regulation of diverse activities by associations involves the following components:

- the requirement for robust and long-term business planning and market analysis covering the range of current and proposed activities.
- housing associations are required to demonstrate that their activities outside social housing do not put their social housing assets and income stream at risk;
- housing associations are required to demonstrate that their boards and staff have the appropriate skill to develop and manage their range of activities, and to assess risks;
- prior notification and consultation with the Housing Corporation of major new business directions and/or schemes outside social housing.

Housing Associations have recently joined local authority housing departments in having their service delivery inspected and assessed by the Audit Commission. Inspections focus on the following areas:

- tenancy management, including dealing with anti-social behaviour
- customer service
- repairs and asset management
- tenant participation
- lettings
- equality and diversity

Effective governance has been another key focus of the regulatory framework of housing associations and the National Housing Federation. As reported in Milligan *et al.* (2004, p.94), recent directions have been:

- *To ensure that associations have a comprehensive set of skills at board level, encompassing housing, social policy, regeneration and commercial disciplines. Associations undertake periodic skills audits, to identify strengths and weaknesses. Where gaps are identified, associations will seek to recruit new board members, through external advertising, contacting trade associations or personal contact.*
- *The introduction of regular appraisal schemes to monitor and provide feedback on the performance of individual board members, linked to regular and open reviews of board membership. Under performing members know that they will forfeit their position on the board.*
- *Regular reviews of the overall performance and cohesiveness of the board, through self-assessments and observation by Lead Regulators. The Housing Corporation has produced a Self-assessment framework for board performance (www.housingcorp.gov.uk).*

There has been considerable change over the years in relation to community representation and accountability of housing associations. In the early days when the focus was on inner city regeneration, the leading players tended to be local activists, with strong community roots. As the sector has grown and diversified, there has been a weakening of community links, particularly for the larger national and regional housing associations. Larkin argues that current government strategies are inconsistent in this regard. On the one hand, as already discussed, there is a tendency to concentrate new development activity in the hands of a smaller number of larger associations, to secure economies of scale. This is particularly the case in the growth areas of London and the South East. On the other hand, Government is concerned with the viability of deprived neighbourhoods in the North and the Midlands, often inner city areas of older terraced housing, where associations have a substantial housing stock. Recently, the National Housing Federation embarked on a re-branding exercise for the housing associations sector, focusing on delivering benefits at the neighbourhood level. This resulted in the new slogan for the sector "in business for neighbourhoods".

Some strategies that had been adopted by the individual CEO interviewed for this study to strengthen community accountability included:

- ensuring his organisation continues to recognise and celebrate its culture and community values as well as its business performance;
- retaining and developing the skills of "non commercial" staff;
- taking a risk if necessary with specific programs that support community engagement – e.g. youth employment schemes; and
- sharing their innovations and good stories.

Financial regulation of housing associations is based around five yearly financial forecasts and quarterly financial performance returns. In recent years, the

Table 5: Selected financial performance tests for housing associations, England

Ratio	Definition	Hurdle
Quick ratio	Liquid current asset Current liabilities	>1.1
Funds from operations	(Net cash flow from operations + Interest received +/- Working capital movement - tax paid)/Interest paid	>1.1
Operating surplus	(Operating surplus + Interest receivable – Net tax)/ Interest paid	>1.1
Loan gearing	**Loans** Social housing grant + reserves	<150%
Reserves	Total long and short term debt Loans + Social housing grant + Reserves	<40%
Refinancing risk	Total to be repaid in year Total outstanding debt	<25%
Rent losses	Voids and bad debts Rents and service charges	<4%
Rent arrears	Net rent debts Rent + Service charges x 365	<18 days
Major repairs	-	Fail if no stock condition survey or if backlog in immediate disrepair increases more than 13% on previous year

Source: Andrew Larkin

Corporation has redesigned its financial regulation to reflect degrees of risk. Consequently, most attention is now focused on larger housing associations with diverse portfolios and activities. Because of the skill of these larger housing associations the focus is on high-level indicators of performance rather than day-to-day financial management and adherence to guidelines. Some of the key financial tests used to assess the performance of housing associations are set out in Table 5.

The latest development in the Housing Corporation risk management framework has been the move to a more advanced risk profile model, which uses a scoring system to assess the probability and impact of significant risks in the sector. The calibrated model is then used to segment housing associations according to level of risk which, in turn, is linked to different levels of regulation, producing what is hoped will be a more targeted and cost effective approach. This approach was developed following an independent review of how the principles of risk management could be used to determine the planning and delivery of regulatory engagement with housing associations (Housing Corporation, 2004).

Concluding comments

Like the Netherlands, the English housing associations form a mature sector, which has emerged over 30 years and now comprises a large number of very successful large and smaller players.

The sector has a mixed public, private and community-based ethos. It has large capital investments and turnover, raises substantial loans from the private sector and includes progressively more diverse businesses and group structures. Because of these commercial activities and its continuing reliance on public subsidy, the sector is heavily regulated and subject to considerable political and policy influence and risk. However, housing associations remain not-for-profit agencies that are independently governed generally by voluntary boards. There is a strong emphasis among housing associations and in the regulatory regime on tenant involvement. There is also a well developed and politically accepted broad view of the functions of housing associations. The housing plus approach and the increasing focus on community enterprises reflect that view.

Throughout the period of dramatic growth of the sector there has been ongoing tension between political imperatives and policy objectives on the one hand and the desire of housing associations to operate independently and flexibly, offering an increasing range of housing and related products, on the other. The degree of political influence, policy shifts (for example in rent setting) and rapid external changes (for example developments in the financial sector) mean that risk in the sector is changing constantly. Undoubtedly, centralisation tendencies and the development of financial and business expertise have come to the fore in recent years but the desire to maintain community links and the recognition that participation requires other skills and strategies are also apparent.

For this study, perhaps the most important lessons from the trajectory of growth in the housing association sector in the UK may be that the protection of community links and the empowerment of tenants must be explicit and appropriately resourced parts of the development plan for individual organisations, and for the sector as a whole, from the outset of any growth strategy.

4. Rationale for having 'growth' housing providers in the Australian market

In this chapter we survey a number of significant "affordable housing" initiatives or projects that have either been implemented recently or are currently under negotiation in Australia. These initiatives are likely to reflect the type of projects that 'growth' housing providers will be expected to undertake. Our primary purpose is to identify the implications of these projects for the participating affordable housing providers, to discern what roles might be expected of 'growth' housing providers and, subsequently, the risks they will be required to manage. However, in the process we will inevitably identify implications for State administrators of affordable housing programs.

4.1 Initiatives emerging from traditional community housing projects

Some community housing organisations, such as City Housing Perth (Example 1), Jubilee Housing (Example 2) and Port Phillip Housing Association (Example 3), are already involved in raising private sector finance for projects of moderate scale. This is made possible by the fact that these organisations have contributed equity to the project and have retained title. Government funding has generally been provided by means of a "joint venture funding agreement" with the public investment secured through a mortgage over the property. Government however has been required to either relinquish the right to a first mortgage, giving first priority to the bank, or provide a guarantee to the repayment of the loan. Because the projects are charging income related rents the level of borrowings is calculated on conservative estimates of rental income and hence the loan to valuation ratio tends to be very low – generally in the vicinity of 10-20%.

These Examples demonstrate that existing community housing providers can, and do, raise debt finance from the private (and public) sector. To do so however they must undertake a number of roles in addition to the traditional tenancy management role:

- Property owner: the organisation must not only hold title to the property but also be prepared to use the title as security against which to borrow funds.
- Property development: as owner the organisation is ultimately responsible for the design and construction of projects and, most importantly, raising all the funds required to complete the project.
- Funds borrower: the organisation is required to enter a loan agreement with a financial institution and accept the responsibility for the repayment of that loan generally over an extended period of time (20-25 years). This includes offering the property as security in the event that if they fail to meet their obligation to repay the loan the lender will exercise their right to sell the property to recoup outstanding debt.
- Property management: as owner of the property the organisation is ultimately responsible for the condition of the property. This requires an understanding of the life cycle costing of buildings and the development of a long term asset management strategy. In particular it demands a capacity to plan for the continuous maintenance and upgrading of the property and to understand the impact this will have on the capacity to service debt.
- Tenancy management: the importance of the tenancy management role is significantly increased as the consequences of failing to collect adequate rental income results not just in the loss of a management contract but potentially the loss of the organisation's own property.

The risks inherent in these new roles are substantial. At risk is the housing of many disadvantaged households and millions of dollars worth of property. Property development is recognised as one of the riskiest ventures in business. Numerous developers and builders fail annually. If community housing providers are to move into this area they must embrace highly sophisticated risk management practices. The examples reveal that some choose to build that capacity in-house while others recognise their limitations and secure assistance from specialist development agencies.

The stakes are also high in the property management arena where risk management requires strategic planning to balance the immediacy of short term affordable housing demand against long term asset management requirements. All of these organisations have taken full responsibility for property management in-house but have sought assistance in developing their life cycle maintenance plans.

These Examples also provide insight into the important role played by government agencies in supporting an expanded role for community housing organisations. Their support includes:

- Land acquisition and/or development: identifying sites which are suitable for affordable housing development is very difficult. By establishing a relationship with either the State government land development agency or a local government authority each of the organisations were assisted in either acquiring the site or developing an identified site to generate a suitable lot for affordable housing.
- Capital subsidy: in all cases the projects were not viable without significant government funding provided under a housing assistance program.
- Risk sharing: the breakthrough issue is not the provision of grant funding but the preparedness of the State housing authority to accept the private lender as ranking ahead of the government in terms of security over the land for the funds provided.
- Intervention: while the banks did not require a repayment guarantee they were significantly comforted by the various agreements with the respective State housing authorities which provided an alternative to foreclosure in the case of default.

Example 1: City Housing Perth

City Housing is the largest independent community housing provider in Western Australia managing 290 units of crisis, transitional and long term housing. Over the last eight years it has contributed $2.0M equity to five joint venture projects with the WA Department of Housing and Works. Of the equity contributed $1.2M has been raised through bank loans with the balance drawn from cash reserves.

The largest project is Haig Park in East Perth comprising 20 apartments. City Housing purchased a site valued at $700,000 from the East Perth Development Authority for the sum of $300,000 (the discount representing the Development Authority's contribution to affordable housing). As owner of the site City Housing was required to fulfill the role of developer including managing the design and construction and raising all project finance. A grant of $1.1M was provided by the Department of Housing and Works with $0.5M raised through a loan from Bank West.

The loan is to be amortised over 20 years with the interest rate fixed for the first five. The loan is secured by a first mortgage in favour of the bank. Additional comfort is provided by a "put option" detailed in a tripartite agreement between City Housing, the Department and the bank which provides the Department with an option to take over the loan should City Housing be in default. A key factor in the arrangement is a commitment that the size of the loan is limited to that which can be serviced from the net cash flow on that project alone. The bank's primary concern therefore was the demonstrated capacity of City Housing to collect rental income and the relevant skills of the board of directors to ensure proper oversight of financial performance[34] .

Example 2: Jubilee Housing

Jubilee Housing is a relatively small church auspiced community housing provider based in the outer eastern suburbs of Melbourne. Up until March 2004 it owned and managed two 10 unit medium density developments developed under joint venture funding arrangements with the Victorian Office of Housing. Recently it opened a third multi unit development, this time comprising 19 units so that it now has a total portfolio of 39 units in three properties.

The latter development involved the transfer under a Trust arrangement of a 3 hectare site from a church agency, Emmaus Christian Community, to Jubilee Housing who subsequently engaged VicUrban (the Victorian government land development authority) to project manage the development and subdivision of the land. When land development was completed VicUrban managed the sale of 20 lots to owner builders and the transfer of one lot back to the church agency for a community centre along with the net proceeds of the sale of the private lots after deducting the costs incurred by VicUrban and a share of the profits. This left Jubilee Housing with a serviced lot with a planning permit for medium density development at no cost. The lot was valued at approximately $600,000 (more than the original site before the services were added) .

Being a small agency Jubilee Housing did not have the in-house skills to manage the design and construction process or raise the finance for the project. Consequently it engaged Ecumenical Community Housing (before the merger with Inner City Social Housing Company which formed Melbourne Affordable Housing) to assist in this process. Emmaus and Jubilee Housing each contributed $100,000 in cash to the project. The Office of Housing subsequently granted $2.4M toward the construction of the dwellings and Jubilee Housing took out a bank loan for $400,000 (a loan to valuation ratio of approximately 11%).

34 Information on City Housing was provided in a telephone interview with Hans Gerritsen, the CEO of the organisation.

The loan from the National Australia Bank is a standard variable rate loan set at the prevailing home loan interest rate and amortised over 20 years. It is secured by a first mortgage with the Office of Housing holding a second mortgage. This necessitated the negotiation of a Priority Deed between the bank and the OOH to harmonise the mortgagees' requirements of the borrower and to clarify the respective priorities of the two parties. In assessing the loan request the bank took the view that while they would insist on a mortgage the loan was "secured" against the net income stream from rentals. The priority deed therefore provides a mechanism by the mortgagees can intervene to replace Jubilee Housing as manager in the event of Jubilee defaulting on loan repayments. The banks primary interest in assessing the loan request was Jubilee's demonstrated performance in collecting rent[35] .

Example 3: Port Phillip Housing Association

Port Phillip Housing Association (PPHA) was established 20 years ago by the City of Port Phillip as an arms length management organisation for community housing produced under the municipality's affordable housing program and owned by Council. Over the two decades 389 units have been built or acquired through 17 joint venture projects with the Office of Housing. Over the last six years PPHA has generated a significant surplus and has recently invested $3.2M from cash reserves into two joint venture projects undertaken directly with the Office of Housing. In the new role as owner PPHA was required to develop a capacity for project development. Previously this role had been undertaken by Council.

The tender process on one of these projects, a 36 unit rooming house known as Chelmsford, occurred during a period of rapid escalation in building costs in Victoria and tenders subsequently came in well above approved funding. With the threat of costs continuing to escalate if PPHA went through the lengthy process of applying for variations to OOH funding, PPHA decided to secure a loan to cover the increase in costs and any additional contingencies. After discussions with the bank the best deal was secured from the Office of Housing with a loan of $320,000 at 5.4% (1.5% below fixed rate loans on offer from the bank at the time) to be repaid over 3 years. The OOH secured the grant funds ($3.6M) through a first mortgage which will be amortised over 40 years. The loan however was unsecured, a step the OOH was prepared to take based on the small loan to valuation ratio, the projected net income stream from the project and PPHA's proven track record as a housing manager[36] .

4.2 Opportunities emerging from strategic growth initiatives implemented by State governments

The preceding discussion indicates that some community housing organisations are engaging with the private sector and raising debt finance for affordable housing. They are limited however to one off projects of a relatively small scale (20-40 units). Each project begins from scratch - when completed there is no guarantee of another. The one-off nature of the projects makes it difficult to plan for the future and build capacity in-house.

The challenge for the sector and government, if it is to capitalise on the opportunity to raise private sector finance for investment in affordable housing, is to move from one-off projects to a forward budgeting system that enables organisations to develop a business plan for growth over a 5-10 year period. Two different approaches have been adopted by State governments in response to this challenge.

In Queensland, following considerable research into the growing affordable housing problems in Brisbane, the Queensland Department of Housing and the City of Brisbane jointly established and capatalised the Brisbane Housing Company (BHC) with a charter to develop affordable housing for low income households in the inner areas of Brisbane (Example 4).

An alternative approach has been taken by the Victorian government which has chosen to go through a Registration of Intent (ROI) process to select a limited number of Affordable Housing Associations from among existing community housing organisations. A budget allocation of $70M has been set aside to implement affordable housing growth strategies through these AHAs and other mechanisms. In return for becoming registered under changes to the Housing Act these AHAs will be advanced a bucket of capital funds based on an

[35] Information on Jubilee Housing has been provided by the principal author of the report who serves as the voluntary treasurer of the organisation.

[36] Information on Port Phillip Housing Association was provided in a telephone interview with Karen Barnett, the CEO of the organisation.

approved business plan involving the implementation of multiple community housing projects.

An announcement was made recently that six organisations have been chosen as prospective “registered housing associations” on the basis of submissions which outlined a strategic and comprehensive financial plan for the expansion of their current business base and leveraging current and future assets. The submission lodged by Port Phillip Housing Association in partnership with the Port Phillip Council was one such proposal (Example 5). At the same time the Minister released an exposure draft of the proposed amendments to the Housing Act which enables the creation of the position of Registrar of housing agencies and outlines the requirements of those agencies.

These Examples indicate that strategic affordable housing growth initiatives by State governments require the availability of independently incorporated organisations with the capacity to undertake a broad range of housing development and management functions. They also require business planning and financial management skills at both a board and management level irrespective of whether the initiative is taken by government to establish a new vehicle or they are chosen from existing community housing providers.

Such initiatives are also dependent on the commitment of sufficient funds to achieve worthwhile targets and a policy commitment to expend those funds in a way which builds capacity in the provider organisations. Developing a skill base within an organisation will only occur when there is sufficient confidence in the continuity of business going forward to be able to attract staff with the skills and experience to join the organisation.

Strategic growth also demands a strategic approach to risk management for the government agency responsible for implementation. The two examples clearly illustrate the two alternative approaches. Government can manage the risks associated with the investment of large scale public funds in non-government organisations by retaining effective control over the organisation (ordinary shareholding). Alternatively, government can affirm the independence of the organisation and introduce a regulatory regime which requires a high level of accountability. Irrespective of the approach, risk management is the key consideration.

Example 4: Brisbane Housing Company

The Brisbane Housing Company is independently incorporated and governed by an independent board of directors. The two founders are the shareholders of the company and retain the right to appoint a minority of directors. All directors however, have been appointed on the basis of the skills and experience in governance and relevant business enterprises.

BHC is a specialist development organisation which is expected to work in partnership with existing community housing providers who will provide tenancy management services for its affordable housing stock (Milligan, 2004, p56).

Once established, BHC signed funding agreements with both the Queensland Department of Housing and the Brisbane City Council for grants totaling $60M over four years, a significant proportion of which will be provided in the form of land (BHC, 2003, p15). In addition the company intends to leverage the asset base with debt finance. At this stage however, it has only established a lending facility of up to $5M for short term cash flow purposes (Milligan, 2004, p56). More extensive borrowings, initially estimated at up to 20%, will only be considered when grant funds have been exhausted. The current goal is to develop 400 homes through current funding commitments over the next 4 years. By mid-2004 BHC had completed 3 projects providing 101 affordable housing units with an additional 5 projects expected to yield a further 157 units in process[37] .

Example 5: Port Phillip Housing Program

The City of Port Phillip and the Port Phillip Housing Association (PPHA) jointly submitted a ROI under the Victorian OOH initiative to establish Affordable Housing Associations. They proposed the establishment of a Port Phillip Housing Trust by the Council, the appointment of PPHA as the Trustee and the subsequent transfer of all community housing stock developed under the Port Phillip Housing Program over the last 19 years, and valued at $84M, from the balance sheet of Council to the Trust. As most of this stock was developed through joint venture arrangements with the Office of Housing the transfer would require their agreement and cooperation.

Following the transfer of stock, the existing portfolio would be geared against loan funds raised from the private sector. In addition Council provided an in-

[37] The information on BHC has been taken from Milligan (2004), the BHC Business Plan (2003) and a telephone interview with David Cant, the CEO of BHC.

principle commitment to continue funding the program at current levels ($400,000pa) for 10 years and approving the use of those funds as operating revenue rather than capital funds thus allowing much greater leverage. The National Australia Bank had reviewed the proposal and offered in-principle support for lending to PPHA subject to adequate securitisation arrangements. Based on forward projections it was estimated that approximately $20M could be borrowed. The submission to OOH argued that this should be matched on a 1:3 basis by OOH thus providing a development program of $80M over the next 5 years. This approach was recognised as a quantum shift in responsibility for PPHA and as a consequence it was proposed to undertake a review of the board to ensure the right skills were available and to create a new senior management position responsible for financial management and control[38] .

Prior to lodging this submission Council had undertaken a 12 month review of the structure of the Port Phillip Housing Program and considered all the options for restructure. Recognising the potential of the proposed approach they agreed to the transfer of their assets but not before they were convinced that the new structure would protect the interests of the ratepayers of Port Phillip and would provide a very high level of management of the risks to which those assets would be exposed. The terms of their agreement therefore included such things as:

- a requirement for the Housing Association to be reconstituted as a company limited by guarantee rather than an incorporated association;
- a review of the board to ensure the skills and experience to provide good governance were present;
- a commitment to recruit an experienced financial manager to support the CEO;
- a gradual process for transferring the housing development function from Council to the Housing Association; and
- extensive financial modeling of the future viability of the Association including an independent assessment of the modeling.

The level of risk assessment undertaken by Council was of course no less than would be undertaken by the OOH during their assessment of the submission as was made evident from the Registration of Intent documents.

The opportunity for this level of innovation has only come about by the preparedness of the Victorian government to commit to a growth strategy through a limited number of highly skilled community housing organisations. The Victorian government would not have been prepared to take this step without concurrently introducing a new regulatory regime to ensure adequate accountability to government.

4.3 Opportunities emerging from the redevelopment of large public housing estates

Most State housing authorities have among their highest priorities the renewal of their large high rise or broad acre public housing estates. Increased targeting and declining funds have contributed to a range of social, economic and environmental problems on these estates. Declining funds for maintenance and upgrade of public housing has resulted in a deteriorating amenity and greater reluctance for applicants with choice to accept an offer of accommodation.

When combined with an increase in the number of allocations to priority applicants, i.e. those with the greatest need and least choice, then these estates very quickly become areas of concentration of disadvantage. In this scenario, the income of households in the estate falls, as does the rent paid by tenants. This in turn results in a further drop in funds available for maintenance and a decline in the spending power of the community which leads to a decline in access to local shops, trades and services. Communities with little money, lots of time and high needs can soon develop signs of social dysfunction – crime, vandalism, anti-social behaviour – which in turn have a significant negative effect on the local housing market. Some of today's public housing estates, which were specifically built as an alternative to the slums of the mid-20th century, have become the slums of the early twenty-first century.

State housing authorities are recognising that the solutions to these problems may need to be as radical as the solutions to the urban slums of the 1930s. However, rather than the solutions being public sector led, there is a growing belief that the best outcomes may be generated by partnerships between the public, private and community sectors. The redevelopment of the broadacre Westwood

[38] The information on the Port Phillip AHA proposal has been gleaned from the consultants report to Council on the restructure of the Port Phillip Housing Program which recommended the approach (Bisset, 2004).

estate in Adelaide (Example 6), the Kensington high rise estate in Melbourne (Example 7) and the neighbourhood renewal project in the Claymore estate in Sydney (Example 8) demonstrate that there is an opportunity for non-government housing providers to play a very important role in the community renewal programs now being introduced in most states across Australia.

However, while the capacity of community housing organisations to provide a locally based, responsive tenancy management service is viewed positively it is not their main attraction. Public housing management teams can be restructured to achieve this end through such initiatives as the intensive management teams in NSW (NSW Department of Housing, p23). The real value adding of community housing providers is their potential to provide a comprehensive approach to community development – managing the housing and the environment with the aim of creating a better place to live, enhancing well being and improving social and economic conditions.

The potential community development role of a community housing organisation goes well beyond the capacity to facilitate tenant involvement in the management of their housing and maintaining good referral links to support agencies. It includes a commitment to place management and may require providing such services as body corporate management. It also embraces supporting and implementing economic development strategies which create jobs and improve income levels within the community, starting with harnessing the opportunities created by their own housing management business.

Example 6: Westwood redevelopment

The Westwood estate is a six square kilometre suburb in the north of Adelaide which, in 1996, contained 5,100 dwellings, 59% owned by the South Australian Housing Trust. Most of the stock was aging, the population declining and there was evidence of growing social disadvantage. The unemployment rate was 33%, three times the rate for Adelaide as a whole, and 60% of households had incomes under $25,000 per annum. Crime rates were high, school retention rates low and health indicators poor but, because of the 30% decline in population over the prior decade, services were being withdrawn and businesses failing. In addition the public housing was performing poorly with operational costs exceeding income and values declining rapidly – vacancy rates were as high as 20% and the maintenance liability had grown 69% in five years.

After considerable planning the South Australian Housing Trust entered a partnership with the private development company Urban Pacific with the aim of undertaking a commercially successful project. The project was based on a long term strategy to improve the residential amenity and quality of the existing environment. This, in turn would support a broader socio-economic population, become a positive force for local and economic development, increase the quality, variety and density of housing and provide opportunities for a range affordable housing options.

After considering the options, the partners embarked on a strategy for change which commenced in an area of high visibility. They undertook substantial redevelopment of public housing to generate new public and private housing and subsequently worked their way out gradually from their starting point. The initial stage was of sufficient scale to attract a range of quality builders, demonstrate the scale of change to the urban landscape, renovate community facilities and generate opportunities for attracting social capital into the management of community assets such as community centres, public open space and child care.

The assets being redeveloped are owned by the SAHT and the social housing retained after redevelopment is still under their ownership and management as public housing. The Trust upgraded its office in the Westwood area and employed a community development worker whose task it is to contribute to the integration of public tenants into the community and improve their access to support services. However, it is the developer which has taken the primary responsibility for community development, negotiating with State and local government departments to provide required services, and seed funding a range of research, pilot and demonstration projects.

Five years into the project a number of the key objectives have clearly been met – average house prices have increased 200%, there is greater diversity in the housing form and in the population mix. Employment levels have increased, new services have been provided and small business is returning. However, some frustrations have been expressed by the developer. The effort required to coordinate various government departments in relation to the broader economic and social development is considered by Urban Pacific to be immense. Attempts to build effective local democratic structures from scratch have been very difficult due to lack of community structures with an understanding of the links between economic and social development, and their relationship to the housing market. In addition, the project has not come up with any alternative models of affordable housing and this is now becoming problematic; the success of the overall development is pushing house prices up in the area, to the point where affordable home purchase options for low income households have disappeared.

Community housing organisations or non-government providers have played no part in the redevelopment at Westwood. If they were to be considered for a role in a development like Westwood it would not be on the basis of their tenancy management capacity alone. Their involvement would have to add value in other ways, such as providing a mature, commercially oriented, financially robust and community driven development vehicle which could provide the infrastructure necessary to drive a range of community and economic development initiatives beyond their primary housing business. This might include employment programs, child care and youth activities and/or providing alternative affordable housing models which are financially sustainable and which fill the hole emerging between the public housing and home ownership products[39] .

Example 7: Kensington redevelopment

The Kensington public housing estate originally comprised three high rise towers and numerous four storey walk up blocks of flats. In all there were 694 units of housing spread across the six hectare site. The future of the estate had been under discussion for over a decade because of the poor condition of the walk up flats, in particular, and increasing social problems such as graffiti, crime and vandalism. In 1999 the Liberal government demolished one of the high rise towers and established the Kensington Estate Redevelopment Advisory Committee. After considerable research and consultation the Committee approved a Redevelopment Strategy which involved the demolition of all the walk up flats, retention and upgrading of the remaining high rise towers, construction of new public housing suited to the needs of applicants (i.e. more 1 and 2 bedroom units), the inclusion of private housing into the estate and the integration of public and private housing.

In 2000 the newly elected Labor government called for registrations of interest from developers interested in developing the site on the basis that master planning approval had been given for the construction of up to 650 new dwellings of which 195 would be acquired for public housing in addition to the remaining 241 public housing apartments in the two towers. The developer could sell the balance of the new housing into the private market.

Following a select tender process the Director of Housing entered into a Development Agreement with the Becton Corporation. The agreement included a commitment to develop a "place management" strategy at the insistence of the developer. The rationale for this approach was the view of the developer that one of their biggest risks to the sale of the private housing was the potential negative perception in the market of public housing. This perception would be aggravated by failure to provide an intensive management structure which ensured a high and consistent property management service across public and private housing and responsive tenancy management for both public and private tenants.

A subsequent Strategies Management Agreement was signed between the Director of Housing and a not-for-profit subsidiary of Becton called the Kensington Management Company (KMC). While KMC is a wholly owned subsidiary of Becton it takes direction from an advisory committee comprised of an equal number of representatives of the OOH and Becton, an independent Chair and an observer from the continuing Kensington Redevelopment Community Liaison Committee.

The role of KMC is to provide:

- Facilities management for both public and private housing: this involves contracts with the Director of Housing and all bodies corporate on the estate to maintain grounds, the external fabric of the building, internal common areas, buildings services and security services.
- Tenancy management support for the public housing: this involves providing on site office space and organisational support for the OOH Housing Service Officers who work solely with the tenants of the estate. KMC is also developing a rental management service for private investors on the estate.
- Body corporate management for all bodies corporate created as a result of the development: this involves fulfilling the obligations of relevant legislation on behalf of the body corporate, arranging insurance for the building and securing facilities management contracts.

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[39] The information on Westwood has been derived from a presentation by Sue Crafter, Development Director, Urban Pacific given to the National Housing Summit held in Canberra on 27-29 June 2004 (www.housingsummit.org.au/media/SueCrafterPresentation) and a telephone interview with Sue.

- Community building involving a broad community development role aimed at facilitating a cohesive and sustainable community: this role is directed to the wider Kensington community and seeks to assist the process of social integration of new residents into the old Kensington community and establish good neighbourly relations between all residents, public and private.

KMC was formed in early 2003 and has been built from scratch. The developer had originally proposed that the management company be established as an independent community organisation for two reasons. First, if registered as an income tax exempt charity it would attract tax benefits which would result in the developer being able to generate a higher financial return for the land. Second, the increased rental income payable by tenants eligible for Rent Assistance would enable some leverage of private sector finance. Therefore, it would reduce the capital subsidy for the new social housing and ensure that the management company would have sufficient income to maintain the buildings at an acceptable standard over the long term without the need to bid for funds from a global maintenance budget. Third, a community based organisation was considered likely to be most effective in implementing the community building strategy which the developer considered to be essential to the success of the project.

The option of a community based organisation for the ownership and management of the new social housing was not taken up by the OOH. However, the KMC structure has been molded by both parties to incorporate many of the proposed benefits, particularly the on-site comprehensive management service responsible for all contracts pertaining to the estate and a proactive community building strategy crossing public and private housing. It was also recognised that if the parties were to go down this path there were no existing community housing organisations that could bring the skills and experience in facilities management of high density multi level buildings or body corporate management in the private sector.

The future of KMC remains uncertain. Becton have given a commitment to maintain the organisation for as long as they are developing and selling housing on the site. However, once that has concluded they will withdraw. Depending on the success of KMC, i.e. whether both the OOH and the bodies corporate choose to retain their contractual arrangements with the organisation, there will be an opportunity for an existing community housing organisation to take over the operations of KMC. Given the current policy of OOH to develop and grow Affordable Housing Associations it could make good sense to involve one of those selected. However, that organisation will need to demonstrate the capacity to oversee these additional functions and secure the skills of the current staff of KMC[40].

Example 8: Claymore community renewal

The NSW Department of Housing introduced the Community Renewal Program in the mid-1990s in response to high levels of disadvantage experienced by many people in high concentrations of public housing. The program is designed to reverse the process of social exclusion which occurs when people and communities experience a combination of interrelated problems such as high levels of unemployment, low levels of formal education and skills, low incomes, dependence on welfare, poor health, physical isolation, lack of transport, anti-social and criminal activity, and poor personal and family supports (NSW Department of Housing, p3-4). Social exclusion also leads to significant housing management problems such as high turnover, refusals of offers of housing, rent arrears, high vacancy rates and high levels of complaints of anti-social behaviour.

The community renewal process includes a number of interconnected strategies:

- improving houses and public spaces
- preventing crime and anti-social behaviour
- developing opportunities for employment and training
- better and more responsive housing management
- reducing concentrations and diversifying social mix
- increasing tenant involvement and participation
- improving access to and coordination of services
- building community capacity and social networks.

Among the strategies for improving the responsiveness of housing management is the engagement of community housing providers to take on the management of parts of the estate. The NSW Federation of Housing Associations has surveyed the role of community housing providers nationally in community renewal projects and their conclusion is that community housing providers can potentially play a much more significant role if they are locally based,

[40] Information on the Kensington redevelopment has been taken from Hulse et al, 2004, the KMC Business Plan 2003-2008 and the knowledge of the principal consultant who has worked as a social policy consultant for Becton on the project from the original tender through to the current time.

have established extensive networks in the community and have developed an intentional approach to engaging with the community. Based on this approach their report argues community housing providers are well placed to drive community development, community capacity building and strengthening communities strategies to improve the overall social and economic condition of the area (NSW Federation of Housing Associations, 2001).

The role of Argyle Community Housing in the Claymore estate in the western suburbs of Sydney is a good example. Argyle was initially asked by the Department of Housing to take over the management of 20 houses in one cul de sac which had been vandalised and become impossible to let because of anti-social and criminal activity. The organisation set up office in the street and began by consulting informally with the neighbouring residents. By using a grass roots community development approach Argyle was able to transform the street into a highly functional community with much improved amenity, radically reduced maintenance liabilities, fully occupied dwellings and minimal arrears. Today Argyle is managing more than 300 public housing dwellings in the estate and is working in partnership with the Department to develop good management practices in both parties[41] .

4.4 Opportunities emerging from large scale urban development projects

State and local government planning policies are increasingly recognising the importance of intervening in the market to ensure that new developments, particularly larger ones, include a proportion of "affordable housing". This has primarily occurred in relation to inner urban redevelopment sites with significant impetus provided by the Commonwealth government's Better Cities Program in the early 1990s (Milligan, 2004, p10). The establishment of City West Housing to develop affordable housing in the inner Sydney City West redevelopment is a good example (Example 9).

As a result of the declining stock of affordable housing in the inner city (such as rooming houses and walk up flats) government agencies which play a role in land consolidation are beginning to impose a requirement on developers to provide a proportion of affordable housing as a condition of development. In Victoria the new metropolitan strategy for greater Melbourne, Melbourne 2030, provides a basis for introducing legislation to mandate this requirement (Victorian Department of Infrastructure, 2002).

In NSW the State government has already amended the Environment and Planning Assessment Act (1979) to include a new objective for "the provision and maintenance of affordable housing" and the power to provide for environmental planning instruments to make provision for "providing, maintaining and retaining, and regulating any matter relating to affordable housing"[42] . While the NSW government has not yet introduced the foreshadowed State planning policy which would mandate local planning policies to include affordable housing provisions for the Act to be effective (Milligan, 2004, p18), it has nevertheless, used the Act to impose affordable housing requirements on some large scale land releases that it has recently approved such as the Australian Defense Industry site at St Marys in the west of Sydney (Example 11).

Some private developers, particularly those large corporations undertaking large scale developments, are increasingly defining their role as "builders of communities" rather than housing developers. Their interest is the master planned community which demonstrates a relatively self-contained social and economic system. Consequently, they pay considerable attention to attracting employment opportunities. Recognising that any business will generate jobs across a range of salaries, this in turn requires them to plan for the inclusion of affordable housing for those workers who are required to take up the lower paid jobs. Consequently, these developers are beginning to develop and implement affordable housing strategies voluntarily. The affordable housing proposal developed by the Lend Lease Corporation for the Docklands development is a good example (Example 10).

Unfortunately, the capacity of State housing authorities to take up these opportunities is limited by the funding constraints of the Commonwealth-State Housing Agreement. However, private developers generally express reservations about the inclusion of public housing in new developments because of its increasing stigma as "welfare housing". They are much more open to an affordable housing model targeting "low to moderate income earners" and provided by non-government agencies.

41 The information on the involvement of Argyle Community Housing in the Claymore estate has been derived from NSW Federation of Housing Associations (2001) and personal communication with Brian Murnane, CEO of Argyle Community Housing.

42 See Environment Planning and Assessment Amendment (Affordable Housing) Act, 2000, s.5(a) (viii) and s.26 (1)(d).

The opportunities for affordable housing providers emerging from a range of large scale development projects around the country are real and exciting. Without exception however, they present challenges to the traditional community housing business model. The differences can be summarised as:

- the scale of the initiative is much larger, often involving projects of 50 plus units at a time;
- the timeframe is much longer, with implementation involving a program of roll-outs over 5-10 years;
- the finance is complex, generally involving contributions from four or more parties and normally including a relatively high level of gearing;
- the legal structures are complex, generally including multiple legal agreements to ensure clarity of risk and responsibility amongst all "investors";
- ownership is generally with the affordable housing provider to capture tax benefits and leverage options and, consequently the development risk is ultimately with the provider;
- management responsibilities are broader and more complex, often involving the provision of services to both affordable housing and private housing in the context of body corporate structures;
- affordable housing products are more diverse, including market related rent models and affordable home purchase products.

The risk management challenges created by these differences for both boards and management are very significant. It would be naïve to think that any organisation which has a tenancy management business, no matter how large, could make the transition to a development agency and multi function property management business without considerable investment in capacity building and organisational change[43] .

Example 9: Ultimo Pyrmont

In the mid-1990s, the NSW government facilitated the redevelopment of the Ultimo/Pyrmont precinct in Sydney's inner west. As the redevelopment received considerable support through the Better Cities Program it was required to deliver an affordable housing outcome. City West Housing was established by the NSW government as an "arms length" organisation to deliver on that requirement. It was incorporated as a company limited by shares with the NSW Treasurer and the NSW Minister for Housing being the two ordinary shareholders. A number of inner city based local government, community agencies and private companies with an interest in housing in the area were identified as preferential shareholders. Their role included the selection and appointment of directors to the City West board. Directors were required to be selected on the basis of being highly skilled and experienced across designated skill areas. City West, while "owned" by the NSW government, nevertheless operates on a day to day basis as an independent not-for-profit company.

City West was expected to construct or purchase 600 properties over a thirty year period in the development precinct for rent to very low, low and moderate income households. In order to achieve its objective City West received $50M in seed capital from the Commonwealth government plus a commitment from the NSW government to provide the equivalent to 4% of the proceeds of the sale of government owned land in the area. In addition developers have been required, under the local planning instrument, to contribute funds from all non-exempted development in the area. While City West receives significant capital income there is no provision for any ongoing operating subsidies - it is expected to meet all operating expenses (which it currently does), including all maintenance requirements, from its rental income.

Rental income is based on income related rents collected from a cross section of very low, low and moderate income clients. The company therefore has limited capacity to use rent setting as a risk management tool. As such it must carefully manage the designated mix of tenants across the three income groups to ensure future income will meet recurrent costs and future maintenance costs. Currently:

- 25% of accommodation is allocated to very low income households (less than $27,000pa) who pay 25% of their income on rent;
- 45% is allocated to low income households ($27,000 to $44,000pa) who pay 27.5% of their income on rent;
- 30% is allocated to moderate income households ($44,000 to $67,000pa) who pay 30% of their income on rent.

As at June 2004, City West had produced 365 units, mostly through the acquisition of land and the subsequent construction of apartment buildings. They have been required to manage all the risks associated with the development of these properties including those associated with site contamination, planning approval and building contracts. At this stage City West has not secured any loan finance -

[43] The same tensions emerge in the private sector. For example the Lend Lease Group of companies has separate business entities for development, construction and asset management. The culture of these roles is recognised as so fundamentally different that they are best separated organisationally and required to "do business" with each other.

not because it is unable to do so but because the capital income stream has been sufficient to meet the approved development program. It is envisaged that loan finance may be raised in the not too distant future, to complete its largest project to date, which would otherwise be built as a staged development as funds become available.

City West is thus a fully "commercialised" affordable housing provider. Apart from a relatively sure flow of capital income it is responsible for ensuring its operations are financially viable over the long term, taking account of depreciation of the buildings and ultimate replacement. Consequently, the staff of City West are not typical of the normal community housing provider where the majority of the business is tenancy management of government owned stock. The CEO has a background in the private finance industry, the development manager came with many years experience with a large private development company, the accountant has both private and public sector experience and the housing and tenancy staff have both private real estate and public housing backgrounds. The board took the view that these management skills were an essential component of their overall risk management strategy to ensure the outcomes projected for the Company are achieved[44].

Example 10: Victoria Harbour

Over the last decade the Victorian government has been driving the redevelopment of the Melbourne Docklands through a government business enterprise, the Docklands Authority (recently merged with the Urban and Regional Land Corporation to become VicUrban). From the outset it was agreed that the development would be driven by the private sector with Government playing a facilitating role by investing in key physical and social infrastructure that, to a large degree, would be recouped from the private sector through payment for land and development rights. Affordable housing, however, was not included as part of the social infrastructure.

Lend Lease Development won the right to develop the Victoria Harbour precinct. This precinct will form the retail, commercial and residential hub of the whole Docklands development and Lend Lease are aiming to create a vibrant and diverse urban form, rich in art and culture as well as shopping and entertainment. To achieve this vision they have decided that steps must be taken to ensure the community is inclusive – a place where those reliant on low incomes can also live as well as work.

However, because of its inner city location and the high cost of embedded infrastructure, the market price for residential property is very high. As a consequence the many low to moderate income workers employed at Docklands (over 60% of the labour market) would not be able to afford to live there without intervention. Lend Lease believes this would diminish the diversity of the residential population and undermine the goal of a vibrant and sustainable community. Ultimately, it would decrease the efficiency of the local economy as the vast majority of the workforce will have to travel long distances from the outer suburbs to work at Docklands.

In response Lend Lease has made a commercial decision that 10% of all residential property at Victoria Harbour will be affordable housing provided they can develop a model that is financially viable. The proviso means that Lend Lease will require the support of the Victorian government. As a start they have put together a proposal for a demonstration project involving 55 affordable rental apartments in a mixed use building that includes retail and commercial space as well as 40 private apartments.

The proposed funding model for the affordable housing is based on a number of contributions including:

- planning concessions granted by VicUrban, the value of which is directed to the affordable housing;
- a developer contribution to the affordable housing;
- a grant from the Office of Housing under their Affordable Housing Strategy through an approved Affordable Housing Association;
- a small social equity contribution from the AHA;
- a loan from the National Australia Bank.

The proposal involves the establishment of a Docklands Affordable Housing Trust under the Trusteeship of an Office of Housing approved Affordable Housing Association. If the project gains the approval of both the OOH and VicUrban the AHA will be required to hold title to the 55 apartments (in trust), be fully responsible for the tenancy, property and asset management of the units and preferably act as the body corporate manager of the building, thus accepting responsibility for engaging

[44] Information on City West Housing has been derived from their 2003/04-2005/06 Business Plan and in a telephone interview with Richard Perkins, the CEO of City West.

all of the contractors necessary to properly manage the facility. The combination of affordable housing management and body corporate management achieves the economy of scale to have a full time on-site manager and ensures coordination of all contractors working in the building. It also provides an attractive management option for private investors who can choose to use the affordable housing manager as their rental manager.

In this proposal the affordable housing will be targeted to low to moderate income households who have links to the Docklands labour market. As part of the proposal the AHA will be expected to establish strong links with the newly established labour market agency, Docklands Skilling and Employment. This makes it possible for the proposal to make a commitment to ensure 33 of the units are allocated to households on the public housing waiting list (by providing them with a package of job training and placement as well as affordable housing). However, tenants will not be offered an income related rent – they will be required to pay a market related rent set at 60 or 75 per cent of market rent depending on their income level.

One of the reasons for the market related rent is that the AHA will be required to raise nearly 60% of the purchase price through a loan from the National Australia Bank. The loan will be repaid through a combination of net income and the sale of approximately 11 of the affordable housing apartments after three years. If this proposal gets up the AHA will not only be taking on the risk of managing debt finance but also the challenge of managing the repayment of the loan through a combination of net rental income plus sales[45].

Clearly this project will demand much more of the AHA than is currently required of any community housing provider in Australia. Further, while the level of risk to be managed through the development process is not the same as for the two government-backed affordable housing companies (City West and Brisbane Housing Company) the management risk is significantly higher because of the scale of the building (eleven floors including two commercial floors) and the complexity of management responsibilities (including body corporate management and private rental management). The financial risk is also significantly higher because the project anticipates a relatively high level of leverage of private debt.

Example 11: St Marys

When the Commonwealth government decided to dispose of the Australian Defense Industries site at St Marys in the west of Sydney the NSW government imposed a development requirement that 3% of all serviced residential lots created by the development must be returned to government for no consideration for the purpose of providing affordable housing. The approval did not define affordable housing nor did it specify a particular model to be implemented.

Delfin Lend Lease was the successful bidder and is currently negotiating an affordable housing strategy for the site with the Centre for Affordable Housing within the NSW Department of Housing. The affordable housing strategy will sit alongside and be expected to complement and reinforce both the economic development strategy and the community development strategy.

While the parties are still in the early days of negotiations they are both attracted to a strategy which combines a shared equity product for low income home purchasers with an affordable rental model. The two pronged strategy is favoured partly because the serviced lots is probably the only government equity available for the project. Also, a shared equity scheme has the potential to generate some cash which can be put towards the shortfall between construction costs and borrowing capacity of the net rental income.

A key question for the parties is what is the most appropriate delivery vehicle. It is acknowledged that the greatest leverage will be obtained through a non-government income tax exempt charity (ITEC). However, it is undecided at this stage whether it is more appropriate to engage an existing community housing provider working in the western suburbs or to establish a new organisation. A critical issue is which option is most likely to guarantee effective risk management of a business engaged in many activities including:

- design and construction;
- raising debt finance;
- marketing and sale of house and land packages to low income households; administration of a shared equity scheme; and
- working in partnership with a private developer.

These roles are in addition to the traditional tenancy and property management role of community housing organisations[46].

[45] Information on the proposed affordable housing project for Victoria Harbour has been provided by the principal author who is acting as consultant to Lend Lease on the proposal.

[46] Information on the proposed affordable housing project for St Marys has been provided by the principal author who is acting as consultant to the Centre for Affordable Housing on the project.

4.5 Opportunities emerging from the investment industry

In the introduction we noted the growing call for increased private investment in affordable housing in Australia. One of the major reasons for the call has been the declining role of the public sector in providing capital funding for affordable housing and the growing strength of the private finance industry, particularly as Commonwealth government policy has increasingly encouraged household savings through superannuation.

A decade ago institutional investors largely ignored the residential property market. Today, however, there are signs that the sector has awoken from its slumber and is not only willing but keen to invest. The National Australia Bank is one of the major financial institutions which are now actively exploring the development of a loan product specifically designed for the community housing sector (Example 12).

Other investors, particularly equity investors such as C Bus Superannuation Fund (Example 13) and the Macquarie Bank (Example 14), argue however, that there is a lack of industry infrastructure in which to make a substantive investment and have reasonable comfort with the security of that investment.

The opportunities beginning to emerge as a result of the private investment industry seeking to diversify their portfolio to include the residential property market highlight three important conditions that must be met by the non-government sector.

i) Risk management capabilities of the providers will be paramount. What systems do they have in place to collect the rent, maintain their properties and maintain financial control? However, the greatest investment potential will be realised when the investment industry does not have to undertake a due diligence process on every provider for every project in the absence of good industry information but can refer to a recognised independent agency responsible for monitoring the performance of the providers against accepted industry benchmarks.

ii) The private sector wants assurance of the capabilities of the organisations which will be managing the affordable housing. The establishment of a formal system of accreditation of approved providers and the subsequent monitoring of their performance will facilitate greater confidence and readiness to invest.

iii) The government must have regulatory powers which include the right to intervene in the case of failure to perform. Such powers will significantly reduce the risk to investors, increase their confidence in investing and reduce the return expected of their investment.

Example 12: National Australia Bank

The National Australia Bank has invested significant time and effort over the last four years in developing a loan product suited to the non-government affordable housing sector. The lead has been taken by their Global Property and Investment Group. One of the reasons why the National has been prepared to pursue this initiative, despite the minimal loans they have currently negotiated (less the $1M across several projects) is that they have a great deal of familiarity with the Housing Association sector in the UK through their UK owned banks.

The National is in the top ten lenders to an industry which is borrowing at the rate of approximately £2Billion per annum. They recognise the potential for a much greater role for the non-government sector in affordable housing in Australia and are prepared to invest in the development of intellectual property which will assist in the realisation of that potential – and create a new market for themselves.

The loans that they have provided so far (some of which are referred to in the preceding examples) are relatively straightforward and rely on simple principles:

- The size of the loan must be determined by the capacity of the income stream to service the principal and interest payments after allowing for all other outgoings.
- The rental risk is very low given the shortage of affordable housing compared to the large number of low income households in the private rental market in housing stress.
- The critical issue is therefore the capability of the management organisation to (i) maintain access to a supply of tenants and collect rent from them and (ii) maintain the property to a standard where they will always be in demand and the value is retained.
- While the bank will always insist on a first mortgage, they recognise that in practice the key risk mitigation factor is to secure a mechanism by which the manager can be replaced if they are failing in these fundamental responsibilities.
- The involvement of the government in the project is therefore welcome as the State housing authority can provide the role of regulator, monitoring

the performance of the manager and retaining steps to intervene in the case of poor performance.
- The critical legal protection of the bank's interest is a "priority deed" between the bank and the State housing authority which not only spells out the subordination of the governments interest to the banks but also harmonises the conditions of the respective interests and clearly outlines the steps which would be taken in the case of the manager defaulting on the loan repayments. Specifically, it allows for government intervention to replace the manager rather than foreclosure.
- In order to assist the management organisation with their cash flow requirements the National has based the loan facility on the typical home loan with redraw option. This enables the manager to minimise interest payments by committing all surplus funds to debt servicing without losing the capacity to meet large maintenance bills when they come due.

After extensive investigation the National has assessed the risk similarly to a standard home loan and have set the interest rate accordingly. However, they have indicated that significant improvements can be made on this interest rate if the following conditions are in place:
- The size of the loans is greater, reducing the establishment costs.
- The number of loans that are written is increased, reducing the cost of administration.
- The size of the industry is increased so that there is room for several financial institutions, thus spreading the risk.
- Standards exist for the industry, particularly regarding governance and management in business planning and risk management.
- A system of accrediting and monitoring the performance of managers against industry recognised benchmarks is in place.
- Government has the powers of intervention in the case of default, either financial or service quality.
- Government has an articulated long term strategy for the development of the industry and there is a relatively consistent approach to the industry across major political parties.
- Subsidy streams are transparent with sufficient forward commitment to justify the maintenance of a specialised "team" within the bank.

Interestingly, from the perspective of the bank, risk management is as much an issue of institutional structures as it is about the performance of the individual provider organisation. More cost effective finance will come about when there is a comprehensive "systems" approach to risk management[47] .

Example 13: C Bus Superannuation Fund

Over the last few years there have been numerous industry superannuation funds seeking out investment opportunities in the residential housing market. This has been driven partly by the promotional work of the Affordable Housing: National Research Consortium and partly by recognition of the need to diversify their portfolio to include some longer term property based investments. One of the most energetic of these has been C Bus, the building industry superannuation fund for obvious reasons. However, despite several years of discussions with State governments, developers and non-government organisations there has not been any investment in affordable housing by C Bus or any institutional investors.

Berry (2002) has researched this area exhaustively and concludes that the principal reason for the lack of institutional investor interest is the gap between actual financial returns under current policy arrangements and the expectations of the investor based on comparable returns in other sectors. They argue that there is already a 2-3% difference in the returns from private rental property (in which yields are 5-6%) by comparison to the share market and this needs to be made up by a government subsidy. However, despite the fact that rental yields are historically low (currently about 3.5-4.5% in inner city locations), a subsidy in the order of 1.5-2.5% is already required to make private rental housing affordable to the households of interest to government. In other words, unless institutional investors change their approach to this asset class they require a subsidy in the order of 3.5-5.5% which, on a $300,000 dwelling, is in the range $10,500 to $16,500 per annum ($202-317pw).

Superannuation funds are therefore not even at the stage of assessing the risk management capacity of the affordable housing providers. Until such time as the policy and subsidy framework is developed to the point where reasonable rates of return are possible there will be little consideration given to the marginal gains that can be made through improvements to the governance and management capacity of the management industry. Should those hurdles be overcome then it could be expected that superannuation funds will be seeking vehicles with much the

[47] Information on the National Australia Bank's approach is taken from the presentation given by Neil Youren, Global Head of Property Finance and Investment at the National Housing Summit, June 2004, and through personal communications with Neil.

same profile as required by the banks before they will provide loan finance – only larger. Most superannuation funds are looking for investments in the range $50M plus.

Example 14: The Macquarie Bank Private Rental Investment Vehicle for the Community Housing Sector

Recognising the constraints on institutional private investment in affordable housing the Swinburne Institute for Social Research and Ecumenical Housing (under the auspices of the Australian Housing and Urban Research Institute) worked collaboratively with the Macquarie Bank to explore what mechanisms might be possible to capture some of the already considerable retail investment in rental housing and direct it to meeting the needs of low income households. In their report (McNelis et al, 2002) the researchers concluded that the most cost-effective schemes for attracting private sector investment are likely to be those which most closely approximate the existing private rental market with an additional incentive such as a tax exemption on a proportion of rental income (e.g. 20 per cent) on the condition the property is leased to an accredited community housing organisation for a minimum period (e.g. 5 years) for the purpose of providing affordable housing to low income tenants (McNelis, 2002, p2).

However, the report noted that private investors will require community housing organisations to place greater emphasis on prudential standards, financial controls, risk management and formal accountability. They will be required to build up expertise in the private rental market as well as housing finance and housing economics. They suggest that formal accreditation will be necessary to provide assurance to private investors and to provide public accountability (McNelis, 2002, p4).

4.6 Future directions for affordable housing delivery

We began with the observation that State housing authorities have identified two basic strategies for implementing a growth strategy for affordable housing in the non-government sector:

- grow or consolidate existing community housing providers; or
- develop new non-government vehicles which are effectively government owned agencies.

Throughout this chapter we have noted that the critical issue in relation to delivery structures is risk management. However, we have also identified that it is not simply the risk management capacity of the individual affordable housing provider which is of concern. In every "deal" there are various parties involved, including government and private investors, all of which are concerned to properly identify the inherent risks in the project and ensure that their exposure to any risks is adequately managed. Given the interrelated nature of the risks, the critical issue is how the risks are allocated across the parties, seeking always to find the most cost effective way of mitigating the risk.

Risk management is therefore a systems issue. By system we mean all of the interconnecting components or players which are involved in the development of an affordable housing strategy be they responsible for policy, finance, development, ownership, management and regulation for some or all of the implementation process. The system might include the elements of a single project if developed in isolation or, in the case of a national or statewide growth strategy, the system will encompass government agencies, private developers, financiers, builders and contractors as well as the non-government agencies responsible for ownership and/or management.

Currently in Australia there are numerous "affordable housing initiatives" either being implemented or under consideration. Immense time, energy and resources are being invested in them for the simple reason that there is no coherent and consistent system which sets the parameters for individual projects and provides the basis of an industry. Consequently, every initiative is painstakingly working through the same issues and reinventing the wheel at great cost to all stakeholders.

A systematic approach to risk management is the most strategic and cost effective way to implement an affordable housing growth strategy. A key issue is the quantum of growth and the rate of implementation. What is very obvious from the review of current initiatives is that governance and management skills and experience are fundamental to good risk management. Scale is therefore important not only for the marginal improvements that might be gleaned from more cost effective use of office infrastructure but, more significantly, because it will provide sufficient income to engage the right professionals with the capacity to manage the risks associated with the diversity and complexity of the projects and products that will form part of the new "affordable housing" agenda.

Once we have an idea of the scale of growth implicit in a growth strategy, the costs and benefits of the various options before government will become clearer. If the scale of growth is limited, then it is far more likely to be cost effective for government to establish its own non-government vehicle for the purposes of development and ownership of affordable housing. On the other hand, if government is committed to more significant growth over a longer time scale, then it is more likely to be cost effective to invest in a regulatory framework and allow some existing community housing providers to develop their business into development and ownership.

In the next two chapters we first paint a picture of what the future might look like and, second, analyse each of the functions that the new breed of 'growth' housing providers might engage in.

5. Vision for a future affordable housing system

In this chapter we take the liberty of assuming that all State governments have embraced the need for a significant expansion of affordable housing and are in the process of implementing an affordable housing growth strategy. Based on the experience of more mature affordable housing systems in other countries (summarised in Chapter 3) and the very practical issues emerging from current affordable housing initiatives in Australia (summarised in Chapter 4), we present a vision for an affordable housing system which has evolved out of the existing diverse array of community housing providers and State government initiatives. Our vision is based on the assumption that a small number of 'growth' housing providers, differentiated from the traditional community housing provider in Australia by role, scale and complexity of business, will emerge[48] .

Our focus in this chapter is not so much on how these 'growth' housing providers manage risk per se but on the way in which responsibilities are allocated between these providers and various levels of government and how they knit together in an overall system. We reiterate our fundamental assumption that risk management is a systems issue. Without knowledge of the structure of the system, the respective roles and responsibilities of the various players within the system and the nature of the relationship between them it is impossible to talk sensibly about how any one of those players should approach risk management. In the subsequent chapter we will return specifically to the risks that are to be managed by the 'growth' housing providers given the structure of the system.

Our vision includes six elements:

- a nationally consistent and coherent affordable housing policy framework;
- development of an integrated affordable housing system within various State jurisdictions;
- a uniform understanding of the characteristics of 'growth' housing providers;
- recognition of community development as a way of doing business;
- acceptance of diverse structures for 'growth' housing providers; and
- provision of diverse products for lower income households.

5.1 Nationally consistent and coherent affordable housing delivery system

The first element of our vision is an agreement between the Commonwealth and State governments on a nationally consistent and coherent set of arrangements that provides the basis for an affordable housing industry. Such an agreement will address the respective roles of the Commonwealth and State governments and the role of the non-government sector. In essence the specification of the roles of the two levels of government and their explicit commitment to those roles provides the first layer of systemic risk mitigation – providing stability to the policy context in which the affordable housing strategy is being implemented.

At the Commonwealth level the agreement will provide a degree of certainty regarding the following.

- Rent assistance for low income tenants: the tension between viability and affordability of affordable housing schemes (utilising private finance) can only be balanced if there is certainty in the level and continuity of direct assistance to low income tenants.
- Tax policy relating to affordable housing projects and providers: tax policy would address the tax treatment of private investment in affordable housing, clearly defining the rights and responsibilities for any concessions made available to boost affordable housing supply. It would also clarify and confirm the tax status of affordable housing providers and particularly 'growth' housing providers providing guidelines for recognition as Income Tax Exempt Charities, Deductible Gift Recipients, Public Benevolent Institutions and as providers of a GST free supply.
- Facilitating national consistency through investment in infrastructure development: the national agreement would provide an agreed mechanism whereby the states and the Commonwealth can collaboratively undertake research and develop-

[48] The contents of this chapter represent the views of the authors based on their experience and assessment of the implications of the research undertaken for this project. In particular it projects forward a view of the future which is informed by both the developments in affordable housing structures (see Chapter 2) and opportunities for affordable housing projects in the market place (see Chapter 4) and informed by what has developed in countries with a very mature affordable housing system (see Chapter 3). The presentation here is new but it draws on the earlier work of the authors notably Bisset, 2000 and Milligan, 2004.

ment necessary to grow and enhance the affordable housing industry and, where appropriate, jointly invest in national infrastructure.
- Capital subsidies: the national agreement would specify what capital subsidies would be made available for affordable housing through the states and under what terms and conditions.
- Planning framework: the national agreement would also provide a consistent framework to guide the development of affordable housing strategies within each State jurisdiction.

While the Commonwealth government does not have the direct responsibility for housing policy in Australia this vision allows it to play a critical role in the development of a nationally consistent industry. By taking this role the Commonwealth will demonstrate its long term commitment to the growth of affordable housing and foster confidence within the private sector to become involved in its financing and development. Consequently, the Commonwealth will make a substantial contribution to achieving its stated goal of attracting private investment in affordable housing and promoting partnerships with private developers.

5.2 Development of an integrated affordable housing system within various State jurisdictions

Flowing from the national agreement each State will need to develop an integrated system (industry infrastructure) which is relevant to the particular needs of the jurisdiction. This will include an administrative framework for the funding and regulation of affordable housing providers. The essential elements of the system would include the following.

- Affordable Housing Strategy Plan: a clearly articulated strategy that provides a medium term (3-4 year) view of how the industry is to grow and develop based on a longer term vision for the industry. The plan would also specify how each of the major functions that are integral to the provision of affordable housing will be arranged, i.e. what organisations will be responsible for procurement, development, financing, ownership and management.
- Affordable Housing Funding Program: a budget for the affordable housing industry with forward projections for at least 3 years, including planned expenditure on both capital and capacity building. The program will be based on partnerships with recognised 'growth' housing providers and the budget will provide a foundation on which they can develop their business plans.
- Mechanism for securing land for affordable housing: this might include requirements under planning instruments to provide a proportion of all newly developed land (greenfield and brownfield sites) for affordable housing and/or a charter for the State government land development agency to work collaboratively with 'growth' housing providers to secure land for affordable housing development.
- Accreditation and performance monitoring system: an agency with a charter to continuously assess the performance of 'growth' housing providers based on recognised benchmarks of good practice which will evolve over time. The agency could also assess other community housing providers but in a manner which is relevant to their role and the risks they are exposed to.
- An independent regulatory body: an agency which has the statutory powers of intervention in 'growth' housing providers in the case of non-performance. This might include the right to place an administrator within the organisation or negotiate a merger with a strongly performing provider rather than using rights granted under securitsation arrangements to claw back properties.
- Strategy for building the capacity of 'growth' housing providers: a budget would be allocated to research and development, training and the purchase of specialist professional support during periods of transition. This would include support for governance and management and address all functions for which the organisation is responsible.

The development of an integrated affordable housing system within each State jurisdiction provides the framework for risk management. The framework defines the risks, allocates them to respective parties, recognises agreed mechanisms for monitoring the risk management performance of those parties and specifies the system wide strategies for mitigating risks. It sets the context for the development of risk management strategies for each 'growth' housing provider. Private corporations, be they lenders or developers, will view this framework as a key factor in assessing their risk exposure and price their services accordingly.

5.3 A uniform understanding of the characteristics of 'growth' housing providers

'growth' housing providers will have a common set of characteristics which say less about the functions that they are responsible for and more about the culture of the organisation. In particular, they will include the following.

- Incorporation under Company Law: 'growth' housing providers will be incorporated under company law as either a company limited by guarantee or by shares and they will operate on a not-for-profit basis. As such, their first level of public accountability will be through the regulatory powers of the Australian Securities and Investments Commission.
- Registration as an Income Tax Exempt Charity: as an ITEC, 'growth' housing providers will be eligible for GST free supply for those properties they provide at less than 75% of ATO defined market rent. In addition they may be recognised as a Deductible Gift Recipient in the category of Public Benevolent Institution. This latter status will allow them to attract donations from philanthropic sources and to attract a range of other Commonwealth and State benefits such as partial fringe benefits tax exemption, stamp duty exemption and land tax exemption.
- Clearly defined mission: 'growth' housing providers will have a clearly articulated mission which relates to the provision of affordable housing for an identified community of interest. That community of interest may have a geographical focus (such as the western suburbs of Sydney) or a target group focus (such as people with a disability irrespective of where they live in the State). The mission may also give an indication of the particular interest of the organisation, for example neighbourhood renewal in areas marked by social exclusion.
- Viable business model: 'growth' housing providers will have developed a business model specifically designed to meet the housing needs of its defined sub-market and have demonstrated it to be financially viable over the long term.
- Highly developed planning capacity: 'growth' housing providers will have board skills that enable them to determine appropriate strategic directions and management skills to develop and implement viable business plans for achieving those directions. Financial modeling with projections over a time span comparable with the life cycle of their assets will be a key component of their planning.
- Strong governance: 'growth' housing providers will have boards of directors with the blend of skills and experience that enables them to adequately plan strategically for the achievement of its mission while at the same time manage all relevant risks.
- Professional management: 'growth' housing providers will employ professional staff with the range of skills to implement its business plan. In addition to competent business managers the typical team will include property development specialists, accountants, project managers, property managers, social policy analysts, rental managers and community development workers. The specific range of skills will depend on the activities of the organisation.
- Financial capacity: 'growth' housing providers will have a balance sheet which will enable them to respond to opportunities in the market in accordance with their strategic directions and business plan. This implies that they will be adequately capatalised at the outset and retain sufficient cash flow to act entrepreneurially when opportunities consistent with their business plan arise. It also includes their capacity to raise private finance, both debt and equity, for investment in their housing portfolio.
- Highly developed risk management strategy: 'growth' housing providers will pay rigorous attention to the identification of all risks inherent in their business model and have developed and implemented strategies for managing those risks. This will include active participation in the regulatory process and capacity building opportunities provided by the State government.
- Participant in industry development: 'growth' housing providers will recognise that while they are independent non-government organisations they are an integral component of a system of interrelated components and will, therefore, participate in the development of the industry through industry associations and both formal and informal interaction with other components of the system.

While 'growth' housing providers will be culturally similar they may well demonstrate a diversity of functional arrangements. Each will be clear about their functional responsibilities based on their business model and these may differ depending on the structure of the State based system. In some cases, it may be that the system is based on a separation of development and management functions with ownership sitting with one or the other of these functions. In other cases, these functions may be combined in the one organisation[49] .

5.4 Community development as a way of doing business

While our vision for the affordable housing system involves the development of a small number of 'growth' housing providers with significantly different functionality to traditional community housing providers, it is essential that these organisations do not lose what has been recognised as the distinctive contribution of the community housing sector – a commitment to community development principles and practice. One of the major fears articulated by the community housing sector is the potential to lose this focus under the pressure of commercial disciplines.

In our vision the opposite is the case. The capacity for community building is one of the major attractions of the non-government sector regardless of whether it arises from a private developer’s desire to implement a place management approach in an inner city redevelopment or a public housing agency’s need for grass roots community development in a large public housing estate. 'growth' housing providers, as a result of the organisational capacity and financial strength developed through their housing business, will have the potential to move beyond the classic community development goals of tenant participation and linkages to other support services to address some of the causal factors of social exclusion.

By elevating community building to a core value rather than an additional activity 'growth' housing providers will have the opportunity to employ their organisational infrastructure as both a magnet for social capital in their local community and a resource for a range of innovative social and economic development activities designed to respond to community needs. They will have both the opportunity and the capacity to continuously assess new “business” opportunities designed to enhance the well being of the community and all its residents.

5.5 Broader range of activities

'growth' housing providers will be engaged in a broader range of activities than the traditional tenancy and property management role exercised by community housing providers. Based on the examples reviewed in Chapter 4 a growth provider could be involved in any or all of the following.

- Procurement of property: acquiring land for development of affordable housing.
- Housing development: managing the feasibility testing, town planning, design and construction of affordable housing.
- Asset management: holding title to the property and planning for its future upgrading, redevelopment or sale.
- Property management: providing a responsive maintenance service and implementing a planned maintenance program.
- Tenancy management: maintaining waiting lists, making allocations, administering tenancy agreements, collecting rents, operating within the parameters of the relevant residential tenancies legislation.
- Body corporate management: providing a service to private owners in buildings covered by a body corporate structure for insurance, administration of service contracts and maintenance of common areas.
- Private rental management: providing a service to private landlords who have invested in units in a mixed affordable/private building.
- Community building: implementing strategies to develop a sense of neighbourliness within properties and the surrounding community and facilitating the growth of social capital.
- Economic development: developing ways to harvest the opportunities for creating employment within the local community for residents of the local community.
- Administration of affordable home purchase schemes: working as agents of the public or private sectors in the administration of affordable home purchase schemes such as shared equity arrangements.

49 This is explored further in section 5 of this Chapter.

5.6 Diverse structures for 'growth' housing providers

'Growth' housing providers will be designed to fulfil particular roles within State base affordable housing systems. The structure of organisations will therefore differ depending on the specific configuration of functions in the system in which it is placed. Factors such as scale of growth, geographical concentration or dispersion of sub-markets, cultural readiness of existing community housing providers to make the transition to a larger and more complex business and judgments about the compatibility of particular functions will influence the design of the system in each jurisdiction and hence the range of provider types. There are three critical functions which tend to determine the role of the organisation.

- Housing procurement and development: this involves the purchase of land and/or property and its development or redevelopment including the design and construction of new buildings. This role also involves packaging the finance for the property and facilitating the development of the legal agreements which codify roles, responsibilities and risks;
- Asset management: this entails ownership of the property, maintaining the value of the asset and ensuring the property is used for the purpose for which it was funded. The asset manager will be required to make the strategic decision about major improvements, replacement or sale. It will also be responsible for ensuring proper management of the asset;
- Property/tenancy management: this involves responsibility for the day to day management of the property including the negotiation and administration of tenancy agreements and the planning and management of all maintenance on the properties.

These three functions can be packaged in a number of ways: all together such as with City West Housing; development and asset management as with Community Housing Canberra; asset management and property/tenancy management as with Common Equity Rental Cooperatives[50] ; or all separate as is common in public housing agencies where the functions are generally in separate divisions. The following provide some examples of what might be developed.

- Housing Development Agency: specialists in the development of affordable housing projects which work on a fee for service basis for local organisations which are the ultimate owners and manager of property; undertake feasibility studies, arrange finance and project manage the town planning, design and construction stages; hand over property to owner at the completion of construction. A Housing Development Agency might be established in a jurisdiction where the level of new development is limited and the most cost effective way of securing the skills to develop property across a wide geographic area is to create a special purpose agency focusing just on the development function.
- Asset Management Agency: special purpose vehicle established to collectively hold title to a range of properties where the ongoing property and tenancy management is undertaken by a range of smaller, locally based organisations. This might be appropriate in a situation where government decides to transfer a geographically dispersed portfolio of properties which are to be managed by a number of locally based groups.
- Housing Association: organisation established by a range of interest groups which recognise a common need to access a specific skill set but do not have the capacity to employ those skills in-house. By working together they create the scale required to engage the relevant professionals. A Housing Association might undertake all three functions where the interest groups are focused on the support needs of the clients or it might focus on development and asset management where the interest groups are small tenancy managers scattered across a particular geographic area.
- Housing Trust Company: the company is set up principally as a development agency but also provides a legal mechanism whereby it can act as owner and hence principal of all contracts entered into while still protecting the beneficial ownership of the party which has provided the social equity.
- Affordable Housing Company: combines all three functions – development, ownership and management. These may be formed by State governments where they decide that none of the existing community housing providers has the potential to make the transformation to development vehicle or by the transformation of an existing community organisation.

The decision about how to configure these functions in a particular State system will be based on the most appropriate way to manage the risks associated with the function. This is picked up again in Chapter 6.

50 Strictly speaking Common Equity Ltd, the umbrella procurement company, holds the title and is therefore the legal owner however the individual have effective beneficial ownership and hence take primary responsibility for asset management.

5.7 Diverse products for lower income households

'Growth' housing providers in our future affordable housing system will also be the providers of a wider range of products than the standard social housing model. It is likely that they will be differentiated in three ways.

- Targeting: 'growth' housing providers will target a wider range of customers than public housing and traditional community housing under the highly targeted CSHA. While they will continue to provide specialised responses to disadvantaged groups they will develop a significant focus on those who are eligible for public housing but are missing out, i.e. those reliant on low incomes but do not have any special needs which makes them a priority for public housing. It is evident that there will also be an increasing link between affordable housing and low wage labour market opportunities.
- Market rents: in addition to managing income related rent projects for the most disadvantaged customers, 'growth' housing providers will implement market related rent models for those who are assessed as having greater capacity to manage income fluctuations, specifically those who are participating in the labour market.
- Home purchase: 'growth' housing providers are also likely to be called on to assist in delivering the next generation of affordable home purchase products. With the declining accessibility of first home purchase governments are investigating ways to either directly provide or support the private sector to provide new home purchase products. Identifying, assessing and supporting these households are roles that 'growth' housing providers could take on.

'Growth' housing providers will be called upon to provide a more diverse range of housing assistance products. Because of their commitment to community development principles and practice they will also find themselves engaged in a diverse array of local activities designed to enhance the well being of their community of interest.

6. A risk management framework for 'growth' housing providers

The purpose of Chapter 5 was to emphasise that risk management is a system issue. 'growth' housing providers will not be managing risk in a vacuum but within a complex and interrelated system. The approach to risk assessment by investors will be determined as much by an assessment of the external environment and the maturity of the industry as by the actual performance of the entity in which the investment will be made. We now turn our attention to the specific internal requirements for risk management in the new breed of 'growth' housing provider.

6.1 Assumptions underpinning the approach

We have argued that 'growth' housing providers will be substantially different organisations than the traditional community housing provider. They will be:

- larger – by virtue of the need for private investors to provide private finance cost effectively;
- responsible for more housing functions – by virtue of the need to become owners and developers, thereby capturing tax benefits and leveraging assets;
- involved in more complex deals – as a result of the multi partner nature of financing arrangements and the likelihood of being involved in mixed affordable-private developments; and
- undertaking a wider range of activities – by virtue of the role they will be called upon to play in place management and their commitment to be leaders in community building.

The risks that 'growth' housing providers will be required to manage will be commensurately more numerous, more diverse, more complex and of a greater magnitude. Detailed risk analysis will be the first step in developing a comprehensive risk management strategy. Our purpose in this chapter is twofold.

First we will review the Australian/New Zealand Standard for Risk Management to provide a framework for developing a comprehensive risk management approach in 'growth' housing providers.

Second, we begin to analyse the specific functions that a 'growth' housing provider will be responsible for and then begin to identify the scale of activity necessary for the organisation to manage their inherent risks cost effectively. The assumption behind this approach is that one of the most important risk management strategies for any organisation is the employment of people with the requisite skills, competence and experience to manage the task. Therefore, a critical question for any organisation is what level of activity is necessary to provide sufficient work for a person meeting these criteria to be employed full time without placing them under the pressure of overwork. We are also assuming that employing professional staff full time is a necessary part of the strategy to ensure staff are available when required and are able to devote sufficient time to their tasks.

6.2 The Australian/New Zealand Standard for Risk Management[51]

It will be argued below (Chapter 6) that the minimum scale for cost effective risk management requires a management portfolio of 500 units and the development of 25 new units per annum. If the average rental income is $150 per week and the average value of an affordable housing unit is $250,000 then a 'growth' housing provider, at a minimum, will have an annual turnover of approximately $10M and assets of $125M. Potential liabilities, if the assets have been leveraged, could be in the order of $25M. These are not small sums. The scale of business in financial terms places 'growth' housing providers in a category that demands a responsible approach to risk management.

Governance issues have been addressed generally in the companion report undertaken by NCHF entitled *Corporate Governance in Community Housing* (Gapp Consulting, 2004). It notes that good governance in 'growth' housing providers of this scale would be based on accepted Australian or international standards.

[51] AS/NZS 4360:1999

In the preface to the Australian/ New Zealand Standard, risk management is defined as:

> *…an iterative process consisting of well-defined steps, which, taken in sequence, support better decision making by contributing greater insight into risks and their impacts. The risk management process can be applied to any situation where an undesired or unexpected outcome could be significant or where opportunities are identified……*
>
> *Risk management is recognised as an integral part of good management practice. To be most effective risk management should become part of an organisation's culture. It should be integrated into the philosophies, practices and business plans rather than be viewed or practiced as a separate program. When this is achieved, risk management becomes the business of everyone in the organisation.* (AS/NZS 4360:1999, piii)

The Standard requires that an organisation's executive should define and document its policy for risk management which should be relevant to the organisations strategic context and its goals, objectives and the nature of its business (ibid, p5). It argues that the risk management process involves the following steps:

- *Establish the strategic, organisational and risk management context in which the rest of the process will take place. Criteria against which risk will be evaluated should be established and the structure of the analysis defined.*
- *Identify what, why and how things can arise as the basis for further analysis.*
- *Determine the existing controls and analyse risks in terms of consequence and likelihood in the context of those controls.*
- *Compare estimated levels of risk against the pre-established criteria. This enables risks to be ranked so as to identify management priorities.*
- *Treat risks. Accept and monitor low-priority risks. Develop and implement a specific management plan for all other risks.*
- *Monitor and review the performance of the risk management system and changes which might affect it.*
- *Communicate and consult with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole* (ibid pp7-8).

The Australian/New Zealand Standard provides a useful basis for risk management in 'growth' housing providers. It sets out an approach to identifying, assessing and mitigating risk that could be adopted as an appropriate performance standard. The next step is to begin the process of analysing the functions in order to determine the inherent risks in core activities.

6.3 Identifying the functions of 'growth' housing providers

Previously in this report[52] we listed the functions for which 'growth' housing providers may be responsible. These can be broken down into core housing functions and ancillary activities which support or contribute to the overall mission of the organisation. This breakdown is presented in Table 6 (next page).

52 Section 5 of Chapter 5.

Table 6: Functions of a 'growth' housing provider

Function	Description
Core functions	
Procurement of properties	Acquiring land for development of affordable housing.
Housing development	Managing the feasibility testing, town planning, design and construction of affordable housing.
Asset management	Holding title to the property and planning for its future upgrading, redevelopment or sale.
Property management	Providing a responsive maintenance service and implementing a planned maintenance program.
Tenancy management	Maintaining waiting lists, making allocations, administering tenancy agreements, collecting rents, operating within the parameters of the relevant residential tenancies legislation.
Community building	Implementing strategies to develop a sense of neighbourliness within properties and the surrounding community and facilitating the growth of social capital.
Ancillary activities	
Body corporate management	Providing a service to private owners in buildings covered by a body corporate structure for insurance, administration of service contracts and maintenance of common areas.
Private rental management	Providing a service to private landlords who have invested in units in a mixed affordable/ private building.
Economic development initiatives	Developing ways to harvest the opportunities for creating employment within the local community for residents of the local community.

We have also described community development as a way of doing business – not an add-on activity[53]. Working from a community development perspective involves consultative processes, long term engagement with the community of interest, fostering constructive networks involving people from public, private and community sectors who share the goals and values of the organisation, and working collaboratively to identify community goals and implement agreed strategies to achieve those goals.

Community development builds social capital and social capital is an important risk management strategy in itself. Social capital represents the understanding, goals, commitment and trust shared by people across the community that generates the interest and power to influence the outcomes of particular projects. Building social capital may:

- reduce community opposition for an application for a planning permit;
- facilitate a decision by the local government authority to grant planning concessions;
- lead to the identification of a suitable site before it comes on the market;
- avoid litigation when disputes arise with contractors;
- result in the donation of the funds needed to bridge the gap between a viable and non-viable project;
- encourage staff to voluntarily work over and above requirements in a time of crisis;
- attract strong tenant commitment to the goals of the organisation leading to lower vacancies and arrears; and
- result in connections that provide opportunity for innovation and synergy.

However, we have also identified community building as a core activity to ensure it remains central to a 'growth' housing provider's modus operandi. In addition, its activities must be recognised and resourced when establishing a 'growth' housing provider. Ultimately community building will lead to the identification of opportunities to harvest the local economy, incubate small business which employ local people and increase the overall social and economic well-being of the community. The 'growth' housing provider, because of its robust organisational capacity, may be the community organisation best positioned to provide the incubator for such initiatives. This is therefore a potential ancillary activity, with each initiative needing to demonstrate a sound business case before proceeding to implementation.

[53] Section 3 of Chapter 5.

6.4 Risk analysis

In the following tables we have taken each of the core functions and identified the tasks associated with carrying out each function, assessed the inherent risks and suggested some appropriate generic strategies for managing those risks. This will provide the basis for assessing the required scale of an organisation with the capacity to adequately manage the risks associated with each function. It should be noted that the risk management strategies that follow are in addition to those that arise out of the implementation of good governance practice. As these have been dealt with in the previous NCHF project they are not included here[54] .

It should also be noted that these tables collectively are relevant to larger scale 'growth' housing providers who undertake all the core functions referred to in Table 6. They will not apply in total to the traditional smaller community housing providers. However, all community housing providers could make use of those tables that deal with the functions they are responsible for. For example, an organisation which only provides tenancy management services to the State housing authority could employ Table 11 as the basis of developing its risk management strategy.

Table 7: Risk management strategy for land procurement

Activities	Risks	Risk management strategy
Land procurement involves: • identification of sites for affordable housing develop-ment; • evaluation of the site to assess its poten-tial; • determining a fair value for the site; • establishing sources of finance for the purchase of the site and the development of housing on the site; • initial assessment of the operational viability of the site; • purchasing the site in a timely way.	Inability to identify suitable sites in a timely way.	• Maintain effective contacts with the local real estate and development industries.
	Failure to identify contamination requiring remediation prior to development.	• Research history of the use of the site. • Carry out soil testing if research reveals any potentially contaminating uses.
	Failure to identify the constraints of existing buildings and service infra-structure on the site.	• Engage structural engineers to inspect buildings and provide structural report and estimate of demolition costs. • Engage architects to assess the cost of renovation.
	Failure to identify constraints imposed by covenants over the title.	• Engage legal consultants to undertake title search and report on findings and their implications.
	Pay too much for the site.	• Engage a valuer to provide a sworn valuation of on the site.
	Failure to recognise the limits to development imposed by planning constraints.	• Engage a planning consultant to investigate and report on the planning requirements on the site.
	Failure to secure sufficient funds to undertake a development of the project.	• Undertake an initial financial feasibility of the proposed project; • Negotiate a forward commitment of capital funding from the State government which provides foundation for growth targets 3 years ahead. • Establish a relationship with a bank through which loan finance can be secured provided the project meets known benchmarks.
	Inability to purchase because of insufficient cash flow.	• Ensure organisation has sufficient working capital/cash flow to acquire land as required.
	Failure to furnish the board with accurate information upon which to make informed decisions.	• Ensure the board includes at least one person with appropriate experience in property procurement. • Ensure the employment of skilled and experi-enced project development manager.

54 See Gapp Consulting, 2004, Corporate Governance in Community Housing, NCHF.

Table 8: Risk management strategy for housing development

Activities	Risks	Risk management strategy
Housing development involves: • determining the best use of the site; • estimating the cost of construction; • securing funding commitments; • demonstrating the financial feasibility of the project; • gaining planning approval; • designing the development; • documenting the design; • undertaking a tender to select a builder; • negotiating a building contract; • supervising construction.	Identifying an inappropriate use for the site.	• Consult widely with State and local government officials, local welfare and employment agencies, and business forums. • Undertaking a detailed financial feasibility of the project including long term financial modeling.
	Failing to secure commitments for sufficient funding.	• Engage a quantity surveyor to estimate the cost of construction based on architect's concept plans. • Do not proceed to planning stage until fund raising has reached an agreed benchmark. • Ensure business plan has allocated budget to project in appropriate time span. • Execute Memorandum of Understanding with project funders at early stage and maintain regular contact with potential funders during development process. • Ensure an agreed exit strategy is in place prior to purchase.
	Delays in gaining planning approval from the planning authority.	• Establish partnership with local governments and advocate for affordable housing objectives in planning schemes. • Engage a qualified architect with experience in the particular planning scheme to design the project. • Consult with planning officers at an early stage of design. • Undertake community consultation to mitigate community opposition to the application for planning permit. • Establish list of precedents for planning concessions and their rationale. • Engage experts to represent the organisation at any planning appeals hearings.
	Cost of construction exceeds project budget.	• Appoint qualified and experienced consultants including architects, engineers, quantity surveyors to design, document and cost the project thus minimising the potential for cost variations. • Assume adequate contingencies in project budgets. • Use conservative assumptions on debt servicing capacity of each project thus providing capacity for additional borrowings if required to complete the project.

Activities	Risks	Risk management strategy
Housing development involves: • determining the best use of the site; • estimating the cost of construction; • securing funding commitments; • demonstrating the financial feasibility of the project; • gaining planning approval; • designing the development; • documenting the design; • undertaking a tender to select a builder; • negotiating a building contract; • supervising construction.	Poor documentation of design leads to cost blow-outs in construction.	• Use architects with proven documentation skills as well as being good designers.
	Difficulties with builder in completing construction on time, within budget and according to specifications.	• Insist on 5% retention or provision of bank guarantee to the value of 5% of the value of the construction contract.
	Builder goes into liquidation during construction program.	• Select builders with proven track record, not necessarily lowest price, employ careful selection criteria to minimise problems including assessment of industrial relations record, credit rating, cash flow capacity, experience in projects of comparable scale and complexity, and demonstrated capacity to work collaboratively with the principal.
	Building is damaged by flood, fire, storm etc during the course of construction.	• Ensure the builder has builders insurance in place.
	Inadequate project management.	• Ensure the board includes at least one person with relevant experience in project development. • Ensure employment of project manager with the skills and experience to undertake typical affordable housing developments. • Take out professional indemnity insurance to cover project development role.

Table 9: Risk management strategy for asset management

Activities	Risks	Risk management strategy
Asset management involves: • knowing accurately the value of the asset; • protecting the value of the asset; • maintaining the value of the asset; • ensuring the proper use of the asset; • ensuring the obligations of any funding agreements are met.	Failing to retain accurate knowledge of all assets and their value.	• Maintain and regularly update an assets register. • Periodically engage a valuer to value the portfolio.
	Buildings damaged or destroyed as a result of fire, flood, storm, vandalism and other accidents.	• Ensuring adequate insurance cover of all properties, increasing cover on an annual basis in line with the increase in construction costs and reviewing coverage each five years after formal valuation of properties.
	Failure to adequately maintain properties such that they lose value and/or are hard to let.	• Engaging an experienced facilities manager or quantity surveyor to review the life costing of all properties and implement a long term (40-50 year) asset management strategy. • Ensure budget forecasts incorporate adequate provision for responsive and planned maintenance and anticipated capital improvements in line with the asset management strategy.
	Failure to observe the requirements of any Trust Deeds under which properties are held.	• Ensure adequate reporting to Trustees and the provision of an annual report against the objects of the Trust.
	Failure to monitor the organisations' obligations under all legal agreements associated with the development of the property.	• Maintain contracts register, develop a checklist summary of all requirements under each contract and regularly review performance against the checklist.
	Failure to observe the requirements of the government funding body.	• Ensure there is an annual review of the performance of the organisation against the requirements of the regulatory body.
	Failure to adequately coordinate and oversight asset management strategies.	• Ensure the board includes at least one person with expertise in asset management. • Employ appropriately qualified professional to develop asset management strategy and supervise its implementation.

Table 10: Risk management strategy for property management

Activities	Risks	Risk management strategy
Property management involves: • responsive maintenance; • vacancy maintenance; • planned maintenance; • grounds maintenance; • common area maintenance; • services maintenance.	Failure to adequately budget for responsive maintenance.	• Research industry standards for responsive maintenance of similar housing projects and budget accordingly.
	Failure to adequately budget for planned maintenance.	• Engaging an experienced facilities manager or quantity surveyor to review the life costing of all properties and implement a long term (40-50 year) planned management strategy.
	Failure to identify opportunities for undertaking planned maintenance during vacancies.	• Develop and implement policies and procedures which ensure coordination of planned maintenance during vacancy periods where possible.
	Failure to achieve value for money with maintenance expenditure.	• Establish a list of approved contractors prepared to provide services at agreed figures.
	Failure to achieve best value with service contracts.	• Engage a facilities management expert to advise on the tendering process. • Enter rolling contracts with incentives for service improvement and cost efficiencies.
	Failure to maintain continuous supply of essential services.	• Include continuous supply clauses in the contracts with relevant service contractors.
	Injury to contractors or members of the public which occur during the carrying out of maintenance.	• Require relevant insurance of all contractors on site. • Require appropriate Occupational Health and Safety compliance for all contractors on site.
	Failure to adequately coordinate and oversight property management responsibilities.	• Ensure the board includes at least one person with expertise in property management. • Employ appropriately qualified professional to develop property management policies and procedures and supervise their implementation.

Table 11: Risk management strategy for tenancy management

Activities	Risks	Risk management strategy
Tenancy management involves: • maintaining a waiting list; • allocating vacancies; • executing tenancy agreements; • providing adequate information to tenants; • administering tenancies in accordance with relevant tenancies legislation; • collecting rent • coordinating responsive and planned maintenance; • terminating tenancies.	Failure to let vacant properties.	• Implement an advertising strategy to recruit applicants. • Maintain an active waiting list of applicants. • Maintain effective communication and cooperation with the local public housing office. • Ensure high standard of property maintenance.
	Failure to act in accordance with legislative requirements.	• Employ trained and experienced tenancy managers. • Ensure all tenants are aware of their rights and responsibilities. • Employ an approved tenancy agreement for all tenants.
	Failure to collect rent.	• Implementing an active rent collection system which responds to arrears promptly in accordance with the residential tenancy legislation and which includes a commitment to evict tenants who fail to meet their obligation to repay arrears according to an agreed repayment schedule. • Actively promoting Centrepay or direct debit options for rent payment.
	Long vacancy periods.	• Setting an agreed turn around period as the target for vacancies taking account of planned maintenance requirements.
	Inadequate service standards leading to loss of accreditation.	• Ensure the board includes at least one person with experience in tenancy management. • Adopting the National Community Housing Standards as the basis of service delivery and annually reviewing performance against the standards. • Develop a Policies and Procedures Manual and measure staff performance against their application of the manual. • Employ trained and experienced staff and insist on continuing professional development.
	Failure to maintain cooperative relationship with tenants.	• Develop and implement a communication strategy with tenants. • Develop and implement an appropriate tenant participation policy. • Ensure staff are adequately trained in communication skills and dispute resolution strategies.
	Tenant and neighbourhood disputes.	• Provide skills training in dispute resolution to tenants. • Establish referral protocol with mediation service. • Ensure staff are adequately trained in communication skills and dispute resolution strategies. • Develop and communicate policy on "quiet enjoyment".

Table 12: Risk management strategy for community building

Activities	Risks	Risk management strategy
Community building involves: • facilitating tenant participation in decision making; • facilitating linkages between tenants and relevant community services; • facilitating positive relationships between neighbours; • promoting positive community attitudes to affordable housing and affordable housing residents; • contributing to the identification of gaps in community services and infrastructure and strategies to fill those gaps; • consulting with the community in relation to community needs and assisting to develop services which address those needs.	Failure to undertake dedicated community building strategy leads to poor relationship with tenants and the wider community.	• Ensure the board includes at least one person with recognised skills in community development. • Undertake an annual consultation with tenants and the community to identify their needs and aspirations. • Develop an annual community building strategy and promote its goals.
	Failure to adequately resource the community building strategy.	• Establish a core budget for community building for core activities. • Appoint appropriately trained professional to implement the community building strategy. • Actively pursue external funding for all additional activities and only commit to their implementation when funding has been identified.
	Tenants develop unrealistic expectations of their capacity to influence the decisions of the organisation.	• Document clear guidelines on tenant participation and ensure they are communicated to all tenants. • Clearly articulate the feedback required within all consultative exercises and the way in which that feedback will be used.
	Community service organisations fail to provide the services necessary to ensure the sustainability of some tenancies.	• Develop referral protocols with all relevant service agencies in the community and regularly update. • Participate in the conduct of any community service networks within the community.
	Negative community attitudes to affordable housing results in declined access to services and/or poor treatment of tenants.	• Actively participate in the civic life of the community. • Regularly release positive press releases to the local media.
	Community development projects drain resources from core housing functions.	• Establish clear parameters for resourcing all additional activities emerging from community building role. • Ensure any community development initiatives are approved by the board on the basis of a viable business plan.
	Community development ethos not backed up by practice of all staff.	• Ensure all staff are trained in the principles and practice of community development.

6.5 Organisational scale for cost effective risk management

One of the key components of effective risk management is the employment of suitably qualified and experienced professionals. Further, those professionals must be available to perform their duties in a timely manner. This implies the professional should be engaged full time (or the organisation employs the equivalent of 1 EFT position of that profession) to ensure continuity of availability during normal business hours.

Where the function requires the availability of an after hours service then a minimum number of positions will be required to deliver an effective and efficient after hours service. In what follows we present a methodology for developing a first order estimate of the minimum scale of a 'growth' housing provider to be able to undertake each of the six functions identified as core. In doing so, we will make the assumptions outlined in Table 13 in relation to the cost of production of affordable housing and equivalent market returns from housing of this cost.

Table 13: Assumptions in relation to the cost of production of an affordable housing unit

Cost Component	Cost	Comment
Land	$75,000	250 sqm @ $300psm
Construction	$150,000	125 sqm @ $1200psm
Consultants	$15,000	10% of building contract
Project management	$7,500	5% of building contract
Legal costs	$2,500	Contracts and conveyancing
Total cost	**$250,000**	-
Development margin	$50,000	20% of cost price
Market price	**$300,000**	-
Market rent	$265	4.5% gross yield

We also make the assumptions outlined in Table 14 regarding calculating the cost of a position to the organisation.

Table 14: Assumptions relating to the determination of the cost of a position

Salary cost component	% of salary	Comment
Salary	100	Base salary
Salary overheads	20	Includes superannuation, workcover, leave allowances
Office overheads	30	Includes contribution to rent, office supplies, transport, IT etc
Organisational support	15	Includes contribution to cost of CEO, governance and financial management
Total	**165**	-

Property procurement

As noted in Table 7 land procurement involves:

- identification of sites for affordable housing development;
- evaluation of the site to assess its potential;
- determining a fair value for the site;
- establishing sources of finance for the purchase of the site and the development of housing on the site;
- initial assessment of the operational viability of the site; and
- purchasing the site in a timely way.

The effort involved in land procurement depends very much on the availability of capital for acquisition. If the business model is based solely on a forward commitment of grant funds from government plus optimum leverage of debt finance then the process is relatively simple. If, however, there is an expectation that the 'growth' housing provider will secure capital contributions from other sources, particularly land from local government, churches, welfare agencies, or private developers then the process involves considerable relationship building and complex negotiations.

The relevant comparison in the private sector is a component of the development margin – that component which compensates the developer for the time and effort invested. We will assume that 25% of the development margin (5% of the cost of production) is a reasonable figure to add to the cost of production to compensate the organisation for the cost of procurement, i.e. $12,500. This results in an overall cost of production for each unit of $262,500 with the additional $12,500 being retained by the organisation to meet the costs they have incurred through the acquisition stage.

For the sake of this exercise we will assume the minimum staffing requirement for an appropriate property procurement function is 1.0EFT and the salary level for a skilled procurement manager capable of negotiating complex land procurement deals is $65,000pa. Based on these assumptions the total cost of the position is $107,250. To cover the cost of the position the 'growth' housing provider would have to procure and develop land yielding a minimum of 9 units per annum at a total cost of $2,362,500. This defines the minimum scale for viability of the property procurement function.

Another factor that would need to be taken into account in determining the scale of a 'growth' housing provider responsible for project procurement is sufficient cash flow to carry the procurement manager position for 2-3 years before the funds to pay for the position are realised. Alternatively, government may choose to fund the position on the basis that this would reduce the capital cost of the affordable housing units and greater cost effectiveness could be achieved by setting higher performance targets for the position. For example, by setting a target of 15 units per annum the unit cost of procurement would be reduced to $7,150 and the total cost of production to $257,150. However, government would need to recognise that this would demand an increased capital budget of $3,857,250 with commensurate increase in the capital subsidy component.

Housing development

As noted in Table 8 housing development involves:

- determining the best use of the site;
- estimating the cost of construction;
- securing funding commitments;
- demonstrating the financial feasibility of the project;
- gaining planning approval;
- designing the development;
- documenting the design;
- undertaking a tender to select a builder;
- negotiating a building contract;
- supervising construction.

The complexity of the housing development process will depend on the number of parties involved in the financing of the project, the diversity of housing products on the site and the range of responsibilities the 'growth' housing provider will be required to manage in the operational phase. In line with industry standards however we will assume an average project management cost of 5% of the construction contract or $7,500 per unit.

We will assume the minimum staffing requirement for an appropriate project management function is 1.0EFT and the salary level for a skilled project manager capable of supervising complex medium density developments is $85,000pa. Based on these assumptions the total cost of the position is $140,250. To cover the cost of the position the 'growth' housing provider would have to build a minimum of 19 units per annum at a total cost of $4,857,350. This defines the minimum scale for viability of the housing development function.

Another factor that would need to be taken into account is the financial capacity of the organisation, particularly the cash flow capacity to balance the payments to builders with the receipt of contributions of the investors and the capacity to absorb any cost overruns on projects as a result of the additional costs imposed by planning approval conditions, unexpected escalation in building costs and variations to the contract price. The former would require a consistent cash flow capacity of up to $500,000 and the ability to raise $300,000-400,000 per annum in additional funding to meet the potential cost overruns in a capital budget of nearly $5M per annum.

Asset management and property management

As noted in Table 9 asset management involves:

- knowing accurately the value of the asset;
- protecting the value of the asset;
- maintaining the value of the asset;
- ensuring the proper use of the asset;
- ensuring the obligations of any funding agreements are met.

In Table 10 we defined property management as:

- responsive maintenance;
- vacancy maintenance;
- planned maintenance;
- grounds maintenance;
- common area maintenance;
- services maintenance.

These functions are relatively straightforward and can be dealt with together. Alternatively, the component of property management which involves the administration of the maintenance program and the management of the relationship with all contractors can be packaged in the one property management position. While the task is straightforward it can be complicated by a geographically spread and structurally diverse portfolio.

We will assume the appropriate level of expenditure on asset and property management is 2.5% of the value of the improvements of which 10% is dedicated to the management function. This provides an amount of $375 per unit per annum to cover the cost of the asset and property management functions (excluding the relationship with the tenant over maintenance issues).

We will assume the minimum staffing requirement for an appropriate asset and property management function is 1.0EFT and the salary level for a skilled property manager capable of managing a diverse property portfolio is $75,000pa. Based on these assumptions the total cost of the position is $123,750. To cover the cost of the position the 'growth' housing provider would have to manage a portfolio of at least 330 dwellings. The total property management budget would be approximately $1,114,000 per annum. This establishes the minimum scale for viability of the property management function.

Tenancy management

As noted in Table 11 tenancy management involves:

- maintaining a waiting list;
- allocating vacancies;
- executing tenancy agreements;
- providing adequate information to tenants;
- administering tenancies in accordance with relevant tenancies legislation;
- collecting rent
- coordinating responsive and planned maintenance;
- terminating tenancies.

This function can be combined with the component of property management which entails the relationship with the tenant re maintenance requests. The function is relatively straightforward and a number of benchmarks are available for the unit cost of the function. In the private sector the standard is 6-7% of the market rent plus 2 weeks rent as a letting fee. This would equate to a management fee of $885 per annum assuming a vacancy every two years. In the community housing sector in Victoria the figure of $1,000 per unit per annum is typical of the management fee paid by the Office of Housing for management of OOH owned properties. In this exercise we will assume the latter figure of $1,000.

We will also assume the minimum staffing requirement for an appropriate tenancy management function is 3.0EFT recognising the need to have an office presence during normal business hours, to undertake home visits and attend meetings in the community and to provide an after hours service. We assume the salary level for a skilled tenancy manager capable of managing a diverse affordable housing tenancy role is $45,000pa. Based on these assumptions the total cost of the three positions is $222,750. To cover the cost of the positions the 'growth' housing provider would have to manage a portfolio of at least 223 dwellings. This establishes the minimum scale for viability of the tenancy management function.

Community building

As noted in Table 12 community building involves:

- facilitating tenant participation in decision making;
- facilitating linkages between tenants and relevant community services;
- facilitating positive relationships between neighbours;
- promoting positive community attitudes to affordable housing and affordable housing residents;
- contributing to the identification of gaps in community services and infrastructure and strategies to fill those gaps;
- consulting with the community in relation to community needs and assisting to develop services which address those needs.

Community building is a straightforward task, but one which involves particular skills and experience. There are no industry benchmarks for apportioning the cost back to consumers as generally it is funded from grants from government or philanthropic trusts. We will assume that the 'growth' housing provider will budget the sum of $100 per unit per annum to meet the cost of the community building position which would be funded from this source at the equivalent of 0.5EFT. It is assumed that the balance of a full time position would be raised from other fund raising activities. We will also assume the salary of an appropriately skilled community development manager is $55,000pa full time. The total cost of a 0.5 position is thus $45,375. To cover the cost of the position the 'growth' housing provider would need to manage a portfolio of at least 450 units.

6.6 The minimum size of a 'growth' housing provider to undertake all core functions

The results of this first order estimation of the scale of a 'growth' housing provider necessary to employ the relevant skills to ensure proper risk management of all core functions is summarised in Table 15.

Table 15: Summary of the minimum number of units for a 'growth' housing provider to cost effectively manage the risks of core functions

Function	Professional	Minimum EFT	Salary	Cost of function	Income per unit per annum	Units required to cover cost
Property procurement	Development Manager	1.0	65,000	107,250	12,500	9
Housing development	Project Manager	1.0	85,000	140,250	7,500	19
Asset management Property management	Property Manager	1.0	75,000	123,750	375	330
Tenancy management	Housing Officer	3.0	45,000	227,750	1,000	223
Community building	Community Development	0.5	55,000	43,350	100	450

This suggests that a 'growth' housing provider requires a minimum portfolio of 450 properties under management with an additional 19 being developed each year. The staff required to manage core functions and the cost of those staff based on the assumptions noted above for the cost of each position are summarised in Table 16.

Table 16: Staffing complement of minimum size 'growth' housing provider

Position	Number EFT positions	Cost	Income generated from function
Development Manager	1.0	107,250	237,500
Project Manager	1.0	140,250	142,500
Property Manager	1.3	160,875	168,750
Housing Officer	6.0	445,500	450,000
Community development	0.5	43,375	45,000
Total	**9.8**	**897,250**	**1,043,750**
-	-	15% = 134,137	Surplus = 146,500

Overall risk management, however, will be most effective when the organisation can provide the organisational support to these functions through the executive oversight provided by an appropriately qualified CEO and the financial supervision provided by a qualified financial manager. If we assume the respective EFT salaries for these roles are $95,000 and $75,000 respectively then the combined cost of both positions full time would be $255,000 when office and salary overheads are taken into account. The income generated from the 15% organisational support overhead built into the salaries of the core functional positions is insufficient to cover the cost of these positions full time. However the fact that in this example each of the positions is responsible for a higher number of units than allowed means the organisation is generating a surplus on administration income over and above the costs of direct functional staff which is sufficient to meet the difference between the full cost of CEO and financial manager.

To conclude this chapter we present a final table which summarises the assumptions and conclusions we have arrived at with respect to a minimum sized 'growth' housing provider that can engage the appropriately skilled range and number of housing professionals to ensure a high standard of risk management for all core functions of a growth provider. Because of the importance of the community development function to the role of 'growth' housing providers we have assumed that the organisation has in fact employed a community development manager full time and that it is able to do this on the basis that each of the other functional staff is responsible for a slightly higher number of units than required based on the administrative income derived from the “benchmark” costs for that function. In the example presented in Table 17 we assume the 'growth' housing provider has a portfolio under management of 500 units and is developing at the rate of 25 units per annum.

Table 17: Summary of assumptions re the staff of a minimum size 'growth' housing provider

Position	Salary ($)	Number of EFT positions	Cost of position(s)	Unit cost for service	Number of units	Income generated from service
CEO	95,000	1.0	142,500	0	NA	0
Finance Manager	75,000	1.0	112,500	0	NA	0
Development Manager	65,000	1.0	107,250	12,500	25	312,500
Project Manager	85,000	1.0	140,250	7,500	25	187,500
Property Manager	75,000	1.5	185,625	375	500	187,500
Housing Officer	45,000	6.0	445,500	1,000	500	500,000
Community Development	55,000	1.0	90,750	100	500	50,000
Total	-	**12.5**	**$1,234,375**	-	-	**$1,237,500**

7. Implications for the sector

A significant growth strategy for affordable housing implemented through the non-government sector will require the identification of 'growth' housing providers prepared and enabled to engage in larger and more complex development projects and undertake a more diverse range of management responsibilities.

The community housing sector has demonstrated a capacity to adapt in the face of market and/or policy changes in the past and at least some current providers have demonstrated both their willingness and readiness to meet the new challenges of partnering private developers and raising private finance in the future. The key issue is their capacity to manage the significantly increased risks of these activities.

Overseas experience however, demonstrates that a growth strategy focused on non-government providers must be accompanied by a range of government initiatives which contribute to the overall management of risk in the growth strategy. The private sector always assesses the external as well as internal risks confronting a potential not-for-profit partner and one of the most significant external risks is the public policy framework. The price of private sector participation in the provision of affordable housing will be directly related to the stability of relevant government policy settings (such as rent assistance), the level of public investment in supportive industry infrastructure (such as regulatory mechanisms) and the preparedness of government to carry some of the risk of projects (such as ranking government capital subsidies lower than private debt).

The successful growth of affordable housing will therefore depend on the development of an “affordable housing system” which is imbued with a “risk management culture”. We have sought to identify the contributions of both 'growth' housing providers and governments to this system.

7.1 Implications for the community housing sector

If existing community housing organisations are to provide the foundation for a significant affordable housing growth strategy then changes within the sector must occur. In the first instance it will be necessary for a limited number of organisations to be recognised as 'growth' housing providers with a commitment to and the support of governments to develop a new way of doing business. At a minimum they will be required to take on a broader range of functions including property procurement, housing development, ownership and asset management, property management, tenancy management and community development. They may also be presented with opportunities to get involved in other related roles such as private rental management, body corporate management and employment generation. Rather than reducing the commitment to community development the new way of doing business will in fact be based on a heightened commitment to a more sophisticated approach to community building encompassing place management and economic development.

The success of 'growth' housing providers will however be contingent on their capacity to develop and sustain a culture of risk management – the scale and complexity of their business will demand a comprehensive and continuous process of identifying and assessing the risks they are exposed to and designing and implementing strategies to mitigate those risks. Failure to do so will place their organisations in jeopardy, threaten the homes of their tenants and place scarce public resources at risk.

While the development of a culture of risk management will be the responsibility of each 'growth' housing provider the Australian Standard for Risk Management will provide a useful benchmark and lead to a number of generic strategies including:

- Governance: ensuring the Directors of the organisation have the requisite skills and experience to provide appropriate oversight of all activities and their inherent risks.
- Strategic partnerships: clearly defining the role of the organisation and developing partnerships with other competent organisations that share the broader mission but which provide expertise and skill in complementary areas.
- Human resources: a commitment to employ skilled staff with the qualifications and experience to professionally carry out all the responsibilities of the organisation.
- Financial capacity: developing a viable business model, attracting adequate resources and maintaining a strong balance sheet and positive cash flows.
- Private sector partnerships: developing transparent partnerships with private sector developers and financiers in which all risks of joint projects are clearly defined and allocated according to the capacity of the organisation to manage them.

- Accountability and transparency: implementing the internal policies and procedures necessary to ensure all financial and service delivery decisions are subject to internal checks and balances and external scrutiny.

The ability to undertake these requirements will of course require sufficient scale to ensure the availability of adequate and appropriate staff. We have suggested that at a minimum a 'growth' housing provider will need at least 500 properties under management with another 25 under development each year if it is to be financially sustainable from income derived from activities (based on the benchmark unit costs assumed in Chapter 6).

This leads to another implication for the community housing sector. Not all community housing providers will be able to make the transition to 'growth' housing providers as there are simply not enough growth funds available to generate a large number of organisations of this scale. Equally, not all community housing providers will want to make the transition, preferring to continue with their small scale niche business. The sector should therefore participate in a process to identify those which make the transition and those that do not. That process will be most effective if it includes both self-selection and independent assessment of capacity. Clearly however the future involves a "stratification" of the community housing sector. As in all other countries where there is a strong commitment to growth in affordable housing through the non-government sector there will be a small number of very large 'growth' housing providers and a large number of small community housing managers.

7.2 Implications for State governments

While much is required of community housing organisations seeking to make the transition to 'growth' housing provider little will be achieved without a commitment by the relevant State housing authority to develop and implement a strategic and comprehensive plan for the development and growth of an affordable housing system.

A State Affordable Housing Strategy should include:

- Housing objectives: a clear statement of both the social and economic objectives that the strategy is seeking to achieve.
- Structure and role of community housing sector: clear statement of the role of the community housing sector and the structure of the sector, differentiating the anticipated numbers and functions of the different types of organisations.
- Policy flexibility: guidance on the policy parameters in which 'growth' housing providers must operate which provide them with sufficient flexibility to manage the risks to which they are exposed.
- Targets: definitions of the target groups for assistance under the strategy and the level of growth in the expansion of affordable housing supply.
- Budget horizon and scale of response: medium term (3 plus years) forward commitment of capital funds to enable sufficient certainty in planning and negotiating with partners to implement complex projects.
- Regulatory framework: commitment to develop and implement a regulatory framework with the intent of providing greater assurance to both private investors and taxpayers with respect to the funds invested and to tenants in relation to the quality of services provided.
- Monitoring processes, performance measures and benchmarks: especially for procurement (value for money) and financing (solvency, liquidity) as these are new functions
- Capacity building: a commitment to resource the continuous growth in skills and capabilities of staff and directors within the sector, particularly 'growth' housing providers.

An Affordable Housing Strategy at the State level provides greater certainty and improved capacity for 'growth' housing providers thus directly reducing their risk exposure. It also provides a framework by which the private sector can understand the nature of their involvement in affordable housing, whether it be development or financing, and hence provides increased assurance of the success of their involvement translating into reduced risk premiums on the cost of their services. Together, these flow-on effects reduce the risk exposure of the State government and the subsequent cost of subsidies for the program.

7.3 Implications for the Commonwealth government

While State governments retain the principal role in the development and implementation of an affordable housing growth strategy there are some key contributions the Commonwealth government can make to reducing risk in the sector and enhancing the value for money in relation to public investment. Some of these relate to Commonwealth responsibilities which directly impinge upon the viability of the community housing sector and the efficiency of the 'growth' housing provider. The Commonwealth would make a substantial contribution by providing a summary of advice to the private sector on the following:

- Eligibility of 'growth' housing provider tenants for Commonwealth Rent Assistance: confirming eligibility removes a significant risk to the viability of debt financed projects.
- Tax status of 'growth' housing providers: confirming the Income Tax Exempt Charity and Public Benevolent Institution status of these organisations will enhance their overall cost effectiveness.
- GST free supply status of affordable housing: confirming the rules surrounding the recognition of rental housing as a GST free supply and regularly updating the ATO defined rent benchmarks would provide greater certainty for the sector in its planning and remove the risk of inadvertently breaching the requirements of the ATO.
- Tax policy relating to affordable housing projects and providers: defining all tax concessions that might be applicable to affordable housing and the mechanisms for establishing schemes to take advantage of those concessions.

At a more direct level the Commonwealth could enhance the overall effectiveness of all State based affordable housing strategies by facilitating an environment of consistency across jurisdictions.

The private sector will assess the level of risk in an industry more favorably if there is national consistency. Familiarity leads to efficiency. Three initiatives will be helpful:

- Planning framework: a national agreement which provides the framework for a consistent approach to the development of affordable housing strategies within each State jurisdiction.
- Capital subsidies: the national agreement could specify what capital subsidies would be made available for affordable housing through the states and under what terms and conditions. The agreement could also provide a mechanism for the Commonwealth to contribute to growth.
- Infrastructure development: the national agreement could provide an agreed mechanism whereby the states and the Commonwealth collaboratively undertake research and development necessary to grow and enhance the affordable housing industry.

7.4 Concluding comments

The growth of affordable housing in Australia through a combination of private sector investment and non-government vehicles is now supported by all key stakeholders – Commonwealth and State governments, the private sector and the community sector. The key to implementation is twofold.

First, the availability of public subsidies to meet the gap between rental returns on affordable rents and the reasonable risk related return expected by the private sector.

Second, the implementation of a comprehensive and integrated approach to risk management across the whole affordable housing system, including Commonwealth and State governments as well as the new breed of 'growth' housing providers.

The second of course has a direct effect on the first – the more comprehensive the risk management strategy the lower the assessment of risk by the private sector and the lower the level of subsidies required from the public purse.

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Appendix A: Context for the development of 'growth' housing providers

A. 1 The call for increased private investment in affordable housing supply

For more than a decade there has been a consistent call for an expansion in the supply of affordable housing in Australia. In the early 1990s the incumbent federal Labor government launched a National Housing Strategy (NHS) designed to address the affordability and accessibility of housing for all Australians, particularly those in the lowest 40 per cent of the income distribution[55]. It covered the production, exchange and finance of housing in both the private and public sectors. Included in its recommendations was a call for an increase in the supply of social housing[56] employing private sector finance and community housing organisations as significant players in its delivery (NHS, 1992).

In response to the NHS the Commonwealth government provided a modest increase in CSHA funds (to be directed to community housing providers under the Community Housing Program), additional funds under the new Social Housing Subsidy Program (to facilitate new private finance arrangements) and further funding under the Better Cities Program (to facilitate major urban renewal projects but with a requirement that each project had to include affordable housing outcomes). These initiatives provided the impetus for the growth of community housing in several states, implementation of some pilot private sector financing schemes (mostly in public housing) and the establishment of the first "affordable housing provider" by a State government – City West Housing in NSW (Milligan et al, 2004, p11-12).

By the mid-1990s however, the Labor government had been replaced by a Coalition government resulting in cuts in funding under the CSHA, the termination of the Social Housing Subsidy Scheme and the Better Cities Program and a major review of the roles and responsibilities of the Commonwealth and State governments in housing as part of the overall Coalition of Australian Governments process. This resulted in the development of a Housing Reform Agenda under which it was proposed that the Commonwealth assume responsibility for housing affordability through the income security system while the States become fully responsible for social housing supply under a commercial model[57].

One non-government organisation, Ecumenical Housing, made a significant contribution to the ensuing debate with the publication of a research paper which demonstrated how the supply of social housing could be expanded by more than 80,000 units over ten years with only a modest increase in funding under the CSHA ($200M), indexation of CSHA funds, leveraging private sector borrowings, payment of rent assistance to social housing tenants by the Commonwealth government and a dividend payment by the States to the Commonwealth on its investment (Ecumenical Housing, 1997). The Ecumenical Housing proposal provided support for the separation of roles and responsibilities of the Commonwealth and State governments on the basis of a more transparent financial arrangement which provided the basis of a substantial growth strategy for social housing involving the leverage of private debt (a modest 20% debt to valuation ratio)[58]. While the report was relatively neutral on the issue of preferred provider system it became evident during the debate that the restrictions on public sector borrowing would mitigate against the expansion occurring through the public housing authorities.

The debate proved controversial and in the end the Commonwealth government decided to retain the status quo and negotiate a new CSHA involving a one off cut to the level of funds, the introduction of "efficiency dividends" and greater targeting of social housing to those in greatest need. As a consequence there was minimal growth in social housing over the latter part of the 1990s and, in some States, an overall decline.

The debate was again ignited with the formation of the Affordable Housing: National Research Consortium in 2002 comprising a number of national industry peak bodies from the private and community sectors. Concerned about the declining access to first home ownership and the declining availability of affordable rental housing in the private and public

55 The NHS produced a number of reports and discussion papers which are listed in the final report entitled A National Housing Strategy (NHS, 1992, AGPS).

56 The NHS introduced the generic term social housing (widely used in the European context) for the first time in Australia to encompass the provision of both public and community housing. It was considered controversial at the time as some incorrectly associated it with welfare housing and others with privatisation of public housing.

57 See Ecumenical Housing (1997) for an overview of the policy changes under consideration at this time.

58 The report included a number of scenarios all of which included the results of detailed financial modeling. The models varied with respect to the degree of separation of roles and the level of funds injected with consequent variation in the level of growth generated.

sectors the consortium researched a range of options for generating a large volume of private investment in affordable housing. At the conclusion of their research the consortium advocated the implementation of a direct government subsidy for private (debt) finance in affordable housing, advising that $1 billion of private debt would involve a gross cost to the Commonwealth of $220M and assist 7,450 tenant households[59].

Most recently, the Brotherhood of St. Laurence (BSL) and the Committee for the Economic Development of Australia (CEDA) have released another report highlighting the shortage of affordable housing in Australia and its impact upon low income households (Allen Consulting Group, 2004)[60]. Their report notes that over 400,000 low income households in the private rental market are experiencing housing stress and only a government program of substantial magnitude will be able to address this situation. The report also provides an assessment of three options for stimulating private sector investment in affordable housing supply and concludes that the bond model (as favored by the Affordable Housing: National Research Consortium) is the most efficient. It suggests that a program under which $100M was provided nationally in year one, growing by $100M per annum and stabilising at $1B from year ten would generate approximately $2.67B of private sector investment and assist up to 150,000 households per annum. In this case the proposal would involve a network of affordable housing managers (non-government) that would have responsibility for property management and tenancy issues (Allen Consulting Group, 2004, pp v-x).

These latest reports have generated considerable momentum, at least in the private and community sectors, resulting in a National Housing Summit being held in June 2004 hosted by four national peak industry bodies - the Housing Industry Association, the Australian Council of Social Service, the Australian Council of Trade Unions and the National Housing Alliance, the latter itself a coalition of numerous peak industry bodies. The Summit resulted in a communiqué entitled Improving Housing Affordability: A Call for Action[61].

The communiqué included a call for an increase in Commonwealth government expenditure on affordable housing of $500 million initially and rising over subsequent years, complemented by corresponding increases in State and Territory government expenditure. One of the main items of expenditure proposed was an Affordable Housing Innovations Fund designed to facilitate private sector and local government investment in the provision of affordable housing. The communiqué also talked about cooperation with community housing providers.

Over the last decade there has been a consistent and growing call from both the community and private sector for an increase in the supply of affordable housing and three common themes run through the various proposals:

i) the private sector should provide a significant role in the production and financing of the affordable housing;
ii) the community sector should play a significant role in management; and
iii) Commonwealth and State governments must play an increased role in subsidising the strategy.

A. 2 Overview of the current drivers for change

While the last decade has witnessed a growing call from non-government sources for an increased commitment to affordable housing supply, a number of more recent developments have contributed to the issue receiving greater attention from both Commonwealth and State governments.

First, there have been real reductions in the availability of capital funds under the Commonwealth State Housing Agreement (CSHA) and a move to greater targeting of public housing. These trends have reduced the income and increased the costs of State housing authorities resulting in most moving from operating surpluses to rising structural deficits (Berry and Hall, 2004). This lack of sustainability in the financial situation of most State housing authorities has created urgency within both State and Commonwealth governments to find a financially viable alternative model for low income households[62].

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[59] The work of the consortium is summarised in Affordable Housing in Australia: Pressing Need, Effective Solution, 2001. A number of consultant research reports provide the background to this final report.

[60] The report was co-sponsored by BSL, CEDA, VicUrban and Melbourne Housing and was based on a consultants report prepared by the Allen Consulting Group.

[61] The statement can be located at www.housingsummit.org.au.

[62] The AHURI Research and Policy Bulletin in which these findings are summarised are based on extensive research into the financial situations of all State housing authorities by Berry and Hall (2004).

Second, the lack of supply of affordable housing in the private rental market, and the poor targeting of available stock has been well documented by Yates. It is now recognised that there is a shortage of at least 134,000 affordable and available rental housing dwellings in the private market (Yates et al, 2003). State governments are particularly concerned about this shortage and its impact on State economies. The lack of supply of affordable housing could seriously undermine the availability of labour for growth industries in high land cost areas.

Third, there has been a decline in the accessibility of home purchase to young people and families. The inquiry into first home buyers by the Productivity Commission (2004) revealed a decline in the rate of home purchase among people in the household formation cohorts. In addition to recommending measures to cut the cost of housing production and lower the threshold to home purchase, the Productivity Commission also noted the need for a national inquiry into the supply of affordable rental housing for low income households who are excluded from the home ownership market (Productivity Commission, 2004, p211).

Fourth, most State governments are confronting the emergence of polarised housing markets where housing affordability is lowest in those inner city locations where there are the greatest employment opportunities, particularly for low wage jobs. As part of their overall urban consolidation strategy new metropolitan plans are emphasising the importance of increasing the density of housing in the close proximity of transport nodes and ensuring that a significant proportion of that housing is affordable to lower income households[63] .

Fifth, the community housing sector has itself undergone significant change over the last decade and is now asserting both the need for substantial expansion in the supply of affordable housing and a significant role for the sector in the production and management of that housing. In 2001, CHFA issued a paper calling for the development of a new and detailed policy framework for community housing in Australia as a precursor for significant expansion (CHFA, 2001). In 2003, CHFA released a position paper dealing with the role of community housing sector in the delivery of affordable housing models. The paper concluded that there was a number of existing community housing providers who were willing and able to play a significant role in the implementation of any growth strategy for affordable housing (CHFA, 2003). The paper recognised that this would result in greater diversity of community housing provider organisations with some choosing to remain small and localised while others would grow considerably in both the scale and breadth of their responsibilities. The paper called for the sector to embrace strategies to ensure all provider organisations were both equipped for the tasks they were responsible for and accountable to their tenants, communities and governments (CHFA, 2003, p30).

Finally, the 2003 CSHA includes a requirement on all State governments to attract investment from outside the social housing system including from the private sector and the community sector[64] . The Policy and Research Working Group (PRWG) of the Housing Ministers Advisory Council (HMAC) is currently examining the options for the cooperative development and implementation of this requirement.

This more recent activity by governments indicates that growth in the supply of affordable rental housing is an emerging policy objective. Further, there is widespread agreement that growth will be dependent on private sector investment and, consequently, there is a need for ownership and management vehicles which can accommodate the scale of investment and provide the level of risk management required by the private sector for cost effective initiatives. The existing community housing sector may be the source of these vehicles. However, their capacity to deliver will depend on their ability to transform the way in which they do business to accommodate the requirements of the private sector without losing what has made them a distinctive, and attractive, response to the housing needs of low income people.

63 See for example Melbourne 2030: Planning for Sustainable Growth, the metropolitan strategy for greater Melbourne released by the Victorian government in 2002.

64 The CSHA was executed under the Housing Assistance Act 1996 and was signed on July 15, 2003.