Collaborating for a Better Housing Future

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About this document

PowerHousing Australia have engaged KPMG to support it in compiling this document.

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PowerHousing Australia

PowerHousing Australia is a national network of leading not for profit growth community housing providers who develop and manage social and affordable housing. Collectively, PowerHousing Australia's members provide over 38,000 units of housing worth more than $10 billion and have raised over $385 million to fund the development of affordable housing providing homes for over 80,000 people across all states and territories of Australia.

PowerHousing Australia's vision is for a sustainable system capable of meeting affordable housing need. It aims to achieve this by facilitating peer exchange and collaboration that builds the capacity of its members to respond to housing need.

PowerHousing Australia has engaged KPMG to support it to draft the content for a positioning and options paper to be called 'Collaborating for a Better Housing Future', to provide PowerHousing Australia with a framework for influencing discussions and negotiations with Government regarding social and affordable housing.

This document outlines PowerHousing Australia's vision for a future affordable housing system and the role of PowerHousing Australia's members in meeting the demand for affordable housing supply.

PowerHousing Australia's Members

Glossary

Term	Definition
Social housing	Social housing is a subsidised form of rental accommodation available to people who meet eligibility criteria that typically include having a low or very low income. Social housing is made up of 'public' and 'community' housing.
Community housing	Rental housing provided for low- to moderate-income and/or special needs households, managed by community-based organisations that have received a capital or recurrent subsidy from government. Community housing models vary across jurisdictions, and the housing stock may be owned by a variety of groups including government.[1]
Indigenous community housing	Dwellings owned or leased and managed by Indigenous community housing organisations and community councils in major cities, regional and remote areas. Indigenous community housing models vary across jurisdictions and can also include dwellings funded or registered by government.[2]
Affordable housing	Affordable housing is housing that is priced so that low income households are also able to meet other basic living costs such as food, clothing, transport, medical care and education. Affordable housing is typically developed with some assistance from state/territory and/or Commonwealth Governments, including through planning incentives. It may include a range of housing types and sizes, including single or multi-bedroom units or houses, as well as studio apartments. It is usually managed by not for profit community housing providers.[3]
Public housing	Rental housing provided and managed by state and territory governments.[4]

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[1] Australian Institute for Health and Welfare (AIHW), *Housing Assistance in Australia 2014*.
[2] *Ibid.*
[3] NSW Department of Family and Community Services, Centre for Affordable Housing, 'What is affordable housing?'
http://www.housing.nsw.gov.au/centre-for-affordable-housing/about-affordable-housing
[4] Australian Institute for Health and Welfare (AIHW), *Housing Assistance in Australia 2013*.

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The findings in this report have been formed on the above basis.

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Executive summary

The affordable housing crisis calls for decisive, systemic action. PowerHousing Australia's members can be an integral part of the solution.

This document sets out PowerHousing Australia's vision for an alternative future – one that goes beyond redistribution of resources among existing players, and to the heart of the potential for disruption to bring about an affordable housing system in Australia that is sustainable, innovative and vibrant.

The current housing system struggles to deliver outcomes that citizens are entitled to expect, such as:

- effectively managed subsidised housing targeted at those most in need, within which all vulnerable people have their housing and non-housing needs addressed;

- a 'housing career' approach, with a range of housing options available, appropriate for people at different stages of their lives;

- incentives for tenants to improve their circumstances; and

- a sustainable financial basis within which performance is monitored and rewarded.

Today's problems stem from decades of incremental changes, and in some instances inaction.

Pockets of excess demand over supply for housing, exacerbated by policy settings that incentivise investor interest in residential housing, have caused extreme price increases in some areas, and strong demand for alternative, more affordable options.

Historical factors deriving from how the social housing system was set up – to support low income working families – mean that social housing is not able to respond to the needs of today's clients, many of whom have chronic and complex problems.

Declining levels of capital funding from the Commonwealth and recurrent funding from State and Territory budgets have left public housing stock poorly matched with need, in terms of quality and quantity, with supply primarily large, older houses, while need is typically for smaller properties.[5]

Community housing has a track record in delivering innovative affordable housing options.

The community housing sector represents a valuable complement to services provided by public housing authorities, and one that can influence and partner with government to reshape and redesign the system. The sector:

- Supports greater independence among tenants, by offering a 'bridging product' between social housing and private market options.

- Generates its own financing for growth.

- Delivers good outcomes for tenants that are consistently rated highly by them.

- Delivers a range of services to clients in addition to housing, which support individual and community well-being.

- Builds communities that offer social connection and opportunity to residents.

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[5] E.g. Northern Territory Consultation Draft Housing Strategy, November 2015; *New Directions for Social Housing*. Department for Health and Human Services, Victoria.

Without fundamental change, the problems intrinsic to the system – a lack of transition points, ineffective service provision, in-built disincentives to shift to greater self-reliance and an unsustainable system – will continue.

An affordable housing system that can grow and flourish requires disruptive change to current thinking.

The system as a whole – delivered by public, not-for-profit, and private providers – needs to be reconsidered from 'first principles'.

PowerHousing Australia welcomes the Affordable Housing Working Group's Issues Paper on financing models. While the method of financing is an important aspect of the growth equation, the system within which housing is delivered has a far greater impact on the extent to which growth in supply can occur.

PowerHousing Australia sets out here its vision for the changes that are needed for a future housing system within which growth is intrinsic to the model, focussing on six key areas:

- A whole of system policy framework.

- An aggregated approach to community housing.

- A sustainable, predictable funding model.

- A strong and effective regulatory and governance approach.

- Ensuring quality outcomes for tenants.

- Innovative financing arrangements.

There is no 'magic bullet' or perfect solution to affordable housing. Many developments rely on individual partnerships and individual relationships in a 'place-based' context. This means that there will be a range of possible options and solutions that, paired with appropriate partners and in appropriate contexts, will result in growth. PowerHousing Australia considers that the systemic improvements outlined will enable the sector to continue to negotiate innovative financing to deliver growth in supply.

The lack of affordable housing represents a crisis for not only the affected individuals, but our economy, our society and the generations to come, many of whom will suffer from increased inequality, decreased opportunity, and long-term reliance on Government if fundamental changes are not made. The time to act on this is now.

The time has come to define the housing future we want for our country, and act on those aspirations.

Doing nothing is no longer an option. In the coming 60 years, Australia's population is predicted to double to 46 million.

If we do not act to house these future citizens appropriately, our economy and our society will permanently bear the consequences. Moreover, every year without decisive action leaves us at a worse position from which to try to resolve this crisis.

Right now, we are in a place of opportunity to define the future. The National Affordable Housing Agreement will be renegotiated, offering the opportunity for fundamental review of the roles, responsibilities, regulation and funding for affordable housing.

This is not about doing more of the same. It is about a creative disruption to ensure we maintain economic and social prosperity over the next 60 years, as our population doubles.

We have the opportunity to consider what the future needs to look like – and the implications for all of us if we do not rise to this challenge.

PowerHousing Australia calls for a tri-partite debate that includes the viewpoints and perspective of the Commonwealth Government, State and Territory Governments and the community sector, along with other stakeholders, on how the vision outlined here is to be realised.

1 Background

Australia has a housing affordability crisis. The lack of affordable housing is affecting the livelihoods and well-being of many citizens, and the productivity and liveability of our cities as well as many regional areas.

Australia's affordable housing crisis

Australia's housing market is and has been at a crisis point for several years, in terms of affordability for low income households,[6] with aspirations of home ownership for many people, particularly younger Australians, becoming more difficult to achieve over time.

The Affordable Housing Working Group Issues Paper[7] notes in particular the impacts of "significant increases in real dwelling prices" on the ability of Australians to secure affordable housing through rental or purchase. For people who have been able to purchase a home, surveys of housing and income from the Australian Bureau of Statistics (ABS) show that the average level of debt they are carrying has almost doubled in comparison to their annual income. These surveys show that, between 1990 and 2011, the mean ratio of mortgage debt as a proportion of a person's annual income has more than doubled for most age groups, with the mean mortgage debt to income ratio exceeding 2:1 for home owners aged 25 to 34 years, 35 to 44 years and 65 years and older. Moreover, since 1982 the percentage of people aged 25 to 34 years who own their own home has reduced by more than 21 per cent.[8]

Not only are Australian homeowners carrying more debt than ever before, the increase in dwelling prices has led many low income earners (both owners and renters) to enter a situation called 'housing affordability stress'

(HAS), most commonly defined as when housing costs exceed 30 per cent of income for households in the bottom 40 per cent of the income distribution.[9] The latest *Survey of Income and Housing* from the ABS conducted in 2013-14 shows that approximately 40 per cent of owners with a mortgage and 62 per cent of private renters were experiencing HAS as at 30 June 2014[10]. This is shown in Figure 1 (over page).

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[6] For the purpose of this submission, "low income households" are defined as households belonging to the bottom 40 per cent of the income distribution, unless specified otherwise.
[7] Issues Paper, p3.
[8] 1982 and 2011

[9] Australian Housing and Urban Research Institute, 'Factors shaping the dynamics of housing affordability in Australia 2001-11', September 2015, No. 244, p8.
[10] ABS, '4130.0 – Housing Occupancy and Costs, 2013-14, Table 15: Lower Income Households and All Households', released 16 October 2015.

Figure 1: Proportion of low-income households spending more than 30 per cent of gross income (including CRA) on housing costs
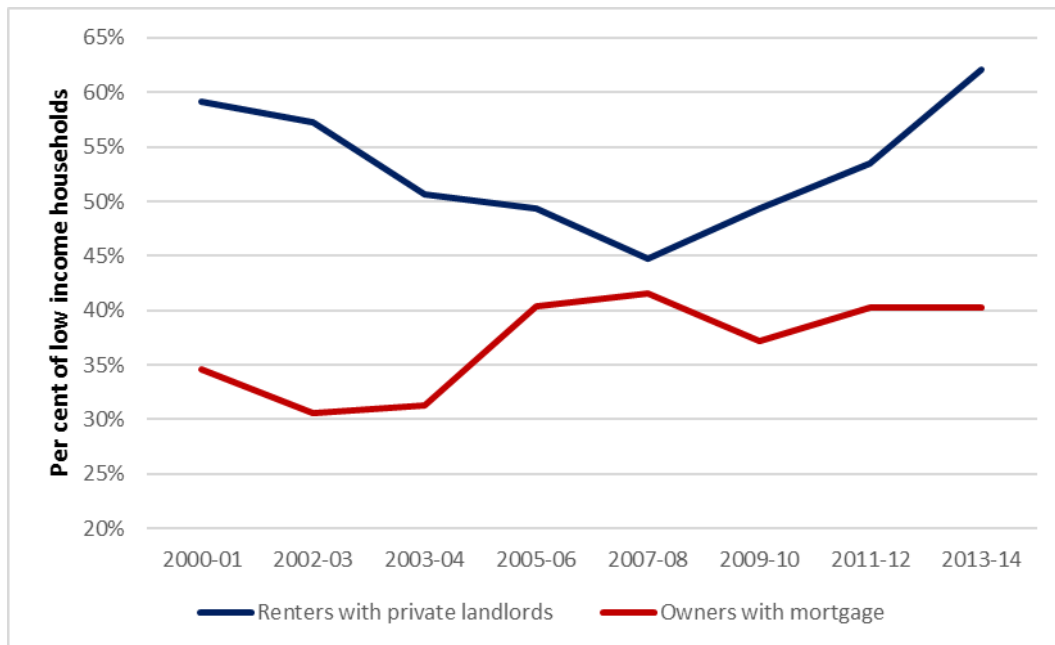
Source: Australian Bureau of Statistics, Housing Occupancy and Costs (publications for survey years 2000-01 to 2011-12), cat. no. 4130.0 and 4130.0.55.001, ABS, Canberra, 2004, 2005, 2006, 2007, 2009, 2011, 2013 and 2014, table 5.

HAS is not just an economic issue affecting individual households in isolation. HAS is shown to reduce the extent to which households spend money on items like food, as well as having an effect on family formation, as well as employment. This makes it a national productivity issue.[11] Further, traditional factors contributing to homelessness, such as domestic abuse, substance misuse and mental health issues are now being overtaken by economic factors, as lower income earners are increasingly being pushed out of the housing market by higher earners.[12]

Efforts to support low income households to meet the challenge of accessing affordable housing, or paying for housing that is outside of this range, are active at all levels of government.

- Each year, the Commonwealth Government distributes more Commonwealth Rent Assistance (CRA) payments than the year before, with spending on CRA projected to increase to $4.35 billion in 2014-15 from $3.95 billion in the year before (shown in Figure 2 overleaf).[13]

[11] Department of Prime Minister and Cabinet, 'Reform of the Federation White Paper', p31.
[12] National Shelter, *Rental Affordability Index*. 2015.

[13] Australian Institute of Health and Welfare, 'Housing assistance in Australia: 2014', Cat. no. HOU 275, Canberra: AIHW, p6.

Figure 2: Commonwealth Rent Assistance expenditure, as at August 2014
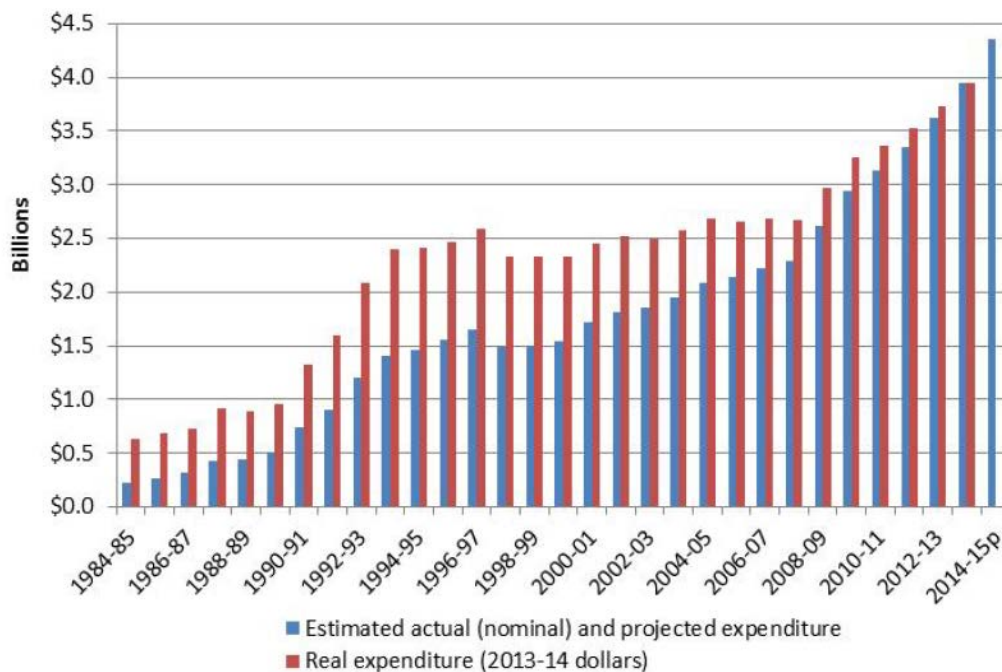
Source: Department of Social Services

- State and territory governments, which are responsible under the Constitution to meet citizens' housing needs, provided almost 322,000 public housing dwellings in 2015.

- The community housing sector provided more than 72,000 dwellings in 2015.

However, the latest data from the Australian Housing and Urban Research Institute (AHURI) shows that there is an undersupply of affordable housing for low income households (with incomes between 21 per cent and 40 per cent of all Australian household incomes) of 122,000 dwellings as at 2011, which is increasing over time. This shortage is even more pronounced for *very* low income households (lowest 20 per cent of Australian household incomes), with an estimated shortage of 271,000 dwellings as at 2011.[14]

Further, the number of social housing dwellings (both public and community housing) in Australia has decreased over time, from 404,289 dwellings in 2013 to 403,767 in 2015, as governments find it increasingly difficult to sustain, let alone grow, public housing stocks due to operating costs exceeding the revenue collected in rent.[15]

[14] Australian Housing and Urban Research Institute (AHURI), 'Shortage of Affordable Private Rental Housing Increasing', August 2015, No. 195, p1.
[15] Productivity Commission 2016, 'Report on Government Services, 2016', Ch. 17.

> Declining housing affordability will risk the prosperity of our country. Doing nothing in the face of this threat is not an option.

At an individual level, housing provides people with a base from which to study, work, and raise children. Given the link between stable housing and workforce participation, housing investment has been identified as having the capacity to pay off in terms of slowed growth in welfare expenditures. [16]

On a macro-level it is an integral part of what enables businesses to employ staff, and people to go to work. It affects people's leisure and social pursuits, and the ability of communities to foster good relationships.

The burden of lower housing affordability is borne disproportionately by defined sub-groups, in particular, younger people, single people, households with children and low income renters [17]. The ability of these groups to enjoy the benefits of Australia's economic and social prosperity are already compromised. Many from within these groups indicate they consider home ownership out of their reach [18].

In shutting some out of home ownership, declining housing affordability will potentially permanently change the distribution of wealth in our society, and affect who can provide for themselves when they are older. It is notable that the number of Australians over 65 with a mortgage has doubled since 2004. [19]

The consequences of housing unaffordability are spread across society, through [20]:

- declining social cohesion from frequent moves to seek cheaper housing,

- spatial polarisation within our cities as cheaper housing is pushed further out, and

- reduced spending power to support non-housing sectors within the economy.

In the coming 60 years, Australia's population is predicted to double to 46 million, likely concentrated in a small number of centres [21] Overall, the need has been identified for an estimated 186,000 dwellings per annum between now and 2050 – considerably higher than that achieved over the last 20 years [22].

If we do not act to meet this need, we run the risk of creating a large and growing class of people who whose ability to work, to raise children, and to participate in our community is permanently impaired by lacking stable, appropriate housing. Our economy and our society will permanently bear the consequences of this. Moreover, every year without decisive action leaves us at a worse position from which to try to resolve this crisis.

> In the face of the existing crisis, it is neither sensible nor sustainable for governments to spend more money on things that are not working. Systemic change is needed.

In its design and operation, affordable housing supports people towards greater independence, through promoting social and economic engagement. It does so at lower cost than government provision, and has the potential to grow housing stock where government stock is shrinking. Innovation is inherent in the model, which allows localised and community-specific responses to needs.

PowerHousing Australia considers that affordable housing, as provided within the community housing sector, represents a vital part of the response to the crisis outlined above, for these reasons.

[16] Christian Porter MP, address to the 2015 National Housing Conference, Perth.
[17] J Yates and V Milligen, 'Housing affordability: a 21st century problem,' for AHURI, Sydney Research Centre.
[18] Yates and Milligen, op cit.
[19] Porter, op cit.
[20] Yates and Milligen, ibid.

[21] ABS 3222.0, *Population Projections, Australia, 2012 to 2101*. Canberra.
[22] Real Estate Institute of SA, 'The consequences of not addressing housing supply,' 8 December 2014.

2 PowerHousing Australia's future vision

The Community Housing sector is not the answer to the affordable housing crisis, however it is a vital part of the solution. PowerHousing Australia suggests here key ways in which a future affordable housing system could be delivered within which growth is intrinsic to the model.

Key outcome 1: Whole of system policy framework

Governments have many and varied policy levers to achieve greater affordable housing outcomes. PowerHousing Australia would like to work with Government to ensure that these are all pulling in the same direction.

Key area for reform	What PowerHousing can do	What Government needs to do
The affordable housing 'system' is currently disjointed, and does not send out a consistent, clear message to the community about the future of affordable housing.	Effectively contribute to policy dialogue, with other stakeholders, regarding the future housing system we need for the benefit of our cities and citizens.	Coordinate across levels of Government, agencies within Government, and relevant stakeholders, to achieve policy consistency and predictability that will create an environment conducive to a sustainable, viable affordable housing sector.

Affordable housing lies at the intersection of economic and social infrastructure, and needs to achieve twin goals:

- It needs to provide stock – the 'bricks and mortar' of the dwellings; and

- It needs to allow and encourage people who are struggling to use affordable housing as a springboard to better educational, social and well-being for themselves and their families.

Like transport or telecommunications, the housing sector's ability to deliver on these outcomes is related to the operation of, and its level of integration with, a range of other systemic elements:

- The broader income support system (including CRA), which influences demand for affordable housing from low income groups, as well as affecting people's ability to weather economic down-turns and unexpected life events.

- Community services, the effectiveness of which impacts how much support people can get to help them overcome challenges they encounter.

- A range of taxation and payment policy settings (including those applying to First Home Buyers and those that promote housing as an investment class) that can affect the relative affordability of housing of different types and in different locations.

- Land and housing development and planning functions, which can support, incentivise or prevent affordable housing.

- Policies relating to residential tenancies, such as lease lengths, which affect the accessibility and cost of rental housing.

- A range of other exogenous factors such as immigration, business and economic decisions, that affect overall demand for housing and location of that demand.

> For an affordable housing system to be effective, the policy levers must send consistent signals to markets, investors and consumers.

PowerHousing believes that the current system could be better integrated, and more consistently support the growth of affordable housing. For example:

- State Government influence of planning, zoning, land release and development policies, and Commonwealth/state influence on private sector (construction, finance and funding) functions, can require and / or incentivise the provision of smaller, more affordable housing that requires no on-going subsidy.

- Better integration of welfare services between homelessness and housing systems has the potential to ensure that people get the help they need, when they need it, to move speedily into housing that is appropriate for their needs.

- More flexible funding approaches, including procurement and tendering processes, can allow, support and encourage the sector to deliver greater inter-service collaboration (including regionally), and growth in stock.

- Integrated data tools and systems can support measurement of demand on a whole-of-system basis, allowing resources to be targeted where they are most needed and where the return is greatest.

Governments can also work across agencies to coordinate welfare, development, planning and infrastructure portfolios so that consistent messages are received by investors, developers and the community about the role, value and priority of affordable housing.

A key pre-cursor for growth is the existence of an underlying, long-term policy framework with bi-partisan commitment that supports the on-going growth of the sector, and allows it to function more independently from Government. It is not possible to build a sustainable, future-oriented investment pipeline in an environment where the future settings are not known.

There is not currently future certainty over the settings. PowerHousing Australia calls on Government to work towards a long-term, bi-partisan) policy framework that will deliver certainty to the sector.

In operating outside of Government, PowerHousing Australia brings a unique and valuable perspective on housing need that crosses traditional inter- and intra-Government boundaries, and is informed by real-world experience of the intersections between all of the systemic elements that contribute to housing need.

PowerHousing Australia looks forward to facilitating involvement of its members in future policy discussions, so that future policy is informed by the sector perspective on the underlying whole of system issues – for both providers and clients – and solutions that respond to the exigencies of the environment can be designed and implemented.

Housing reform in New Zealand – A greater role for the third sector[23]

New Zealand has moved into the Social Housing Reform Program, which began in 2010. The reform program has four key outcomes, being:

- Greater involvement of third-sector providers of social housing;

- Housing New Zealand focussed on providing social housing to those with high needs, while their needs last;

- Increased effectiveness of financial assistance; and

- Aligning organisation and responsibilities of Government agencies.

Under the reforms, Housing New Zealand's role has been redefined as to provide affordable accommodation for the people who are most in need, for the duration of that need. The community housing sector, for its part, is being encouraged to increase the supply of affordable housing, to provide a pathway for people to exit public housing and those not able to access state housing. "Wrap around" supports are a key element, ensuring that housing delivers on-going improvements in health and wellbeing for social housing tenants.

The Government's ambition is to grow the sector, to provide 20 per cent of New Zealand's social housing over the five years from 2014.

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[23] Ministry of Business, Innovation and Employment, sector information 2013; New Zealand Productivity Commission, 2012; Minister of Housing, Dr. Nick Smith; all in Lisa Woolley, CEO, VisionWest Community Housing Trust – Case Study webinar – Social Housing Initiative in Auckland.

Key outcome 2: An aggregated approach to community housing

PowerHousing Australia believes the future of the community housing sector lies in aggregated models operating at scale.

Key area for reform	What PowerHousing can do	What Government needs to do
A more aggregated model is needed to deliver growth and future sustainability, achieved through a variety of means such as mergers & acquisitions, formal partnerships, consortia, or sub-contracting.	Facilitate aggregated activities by growing the capacity among high performing providers to enter into effective partnerships that exhibit appropriate governance and legal structures and are fit-for-purpose.	Create a system that supports the development of innovative partnerships that deliver the benefits of scale, acknowledging that this will contribute to, but not on its own deliver, long-term financial viability for the sector.

> PowerHousing Australia believes operating at scale is an essential element of future sustainability, and a trend that will and should continue.

Agencies operating at scale can successfully raise additional funds (financed through equity and/or revenue streams) to grow stock. PowerHousing Australia's members alone have raised over $385 million in debt facilities[24], which has been used for development and growth functions.

Scale is also required to carry out large-scale property developments, through which additional houses can be delivered. PowerHousing Australia's members have an established history of delivering innovative developments, both through in-house development functions, as well as engaging with private sector developers on joint venture arrangements. PowerHousing Australia notes the many positive effects of housing growth in the community, in terms of directly and indirectly generated jobs, investment and business across a number of sectors.

Scale also delivers additional benefits, such as supporting organisations to deliver a more strategic asset management approach, to make investment in IT and other systems, and to improve strategic and financial planning processes and procedures. Scaled operations also offer the opportunity to deepen management expertise and building capacity through targeted training and professional development programs[25].

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[24] Scott Langford, *Chairman's report*, PowerHousing Australia Annual Report, 2015.

[25] *The Community Housing Industry: Delivering for NSW*, NSW Federation of Housing Associations Inc.

Scale is a pre-requisite for financial
sustainability. However, simply scaling up
existing transfer practice will not deliver
optimal outcomes.

PowerHousing Australia considers that scale is
part of what is required for sustainability, and
will support greater independence from
Government.

The available evidence suggests that the
greater the number of housing assets under
management, the greater the potential to
derive an operating surplus, due to the impact
of economies of scale, with on-going growth in
scale of CHP operations expected to yield
'consequential unit cost reductions'.[26]

However, simply scaling up operations under
the existing transfer settings alone will not
deliver optimal outcomes.[27]

In the UK, where aggregation is more
advanced, housing CEOs surveyed indicated
that by 2015, 90 per cent of the 'quick win'
efficiencies that could be derived from scale
alone had been achieved, and that further
gains would require comprehensive
restructuring, along with new organisational
and group systems, IT investment and
governance changes. The barriers to making
these kinds of changes identified include
potential taxation costs and debt repricing,
with strong strategic plans necessary to avoid
these.[28]

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[26] H Pawson, V Milligan, E Liu, Peter Phibbs and S
Rowley, 'Assessing management costs and tenant
outcomes in social housing; recommended
methods and future directions'. AHURI, 2015.
[27] H Pawson, V Milligan, I Wiesel and K Hulse also
discuss this, although note that the paucity of data
makes it difficult to speculate on the extent to
which transfers contribute to system efficiency
generally. (Source: *Public Housing Transfers: Past,
present and future*. AHURI, 2013.
[28] *The Housing Association of the Future?* KPMG
UK, Spring/Summer 2011.

PowerHousing Australia believes that mergers
and acquisitions are not the only way to
achieve the benefits of scale.

Sub-contracting, joint ventures, consortia, and
formal and informal partnerships can each
contribute to growth, better quality services,
and/or more coordinated service delivery.

Formal and informal partnerships of various
kinds offer the opportunity for smaller 'niche'
providers, who can provide valuable services
to specific client groups or in specific
geographical areas, to partner with larger
partners, who can be in a position to offer
specialised resources such as:

•   pooled finance and human resources staff

•   cloud-based IT back-office solutions; and

•   a pool of Board resources to support
    strategic decision-making remotely
    (particularly for regional services).

Innovative partnerships that marshal existing
resources across the housing system can
allow the growth of pathways between people
in housing need and existing resources. Such
partnerships can involve project-based
developments, or cross-sector collaboration.

Aggregation of specific functions can also
occur – such as maintenance or tenancy
management (rent collection, service
provision). Such approaches also deliver
efficiencies through spreading overhead costs
over a larger number of properties. Within a
funding model that includes other property
functions, they can provide a revenue stream
to finance development.

This approach may be particularly suited to
operators growing their capacity, who are not
yet in a position to take on the entire range of
housing functions. This may be particularly
applicable to regional and remote providers. In
these circumstances, operating selected
management and maintenance functions at
scale provides the opportunity to grow
capacity, and prepare for additional functions.

PowerHousing Australia's members already
engage in these kinds of innovative
partnerships and demonstrated their ability to

quickly scale up – including during the Social Housing Initiative Stimulus program. PowerHousing Australia considers that there is a need for greater knowledge and understanding among providers about the different models through which scale can be achieved, and can support organisations in these areas.

Pension Fund Investment in Social Housing in the UK[29] **– how scale can support financing**

A number of local authorities and Housing Associations in the UK are partnering with Pension Funds to unlock funding to deliver new affordable homes. Pension funds typically have a large amount of capital, and are seeking long term investments with a reliable and steady rate of return. They are therefore willing to invest the capital costs needed to build affordable housing, for a return over a period of time paid through rents. In most cases pension funds will retain ownership of the properties and be able to sell them off after a set period of time.

Many local authorities are considering utilising funding from their own pension funds. Pension funds are increasingly seeking investments with positive social outcomes – and many organisations are urging a shift towards the French model, where pension funds offer savers a choice of at least one social investment fund for a portion of their money (10 per cent).

Pension investors typically require a high minimum initial investment (one generic estimate being a minimum of £10 million, or roughly 80 units), making this option better suited for local authorities or large housing associations pursuing significant growth. In the UK, many local authorities and housing associations are considering partnering in larger groups to invest pension savings with required scale.

Pension funds require a higher rate of return than a transitional bank loan. This means that there is pressure to: keep build costs low; charge as high a rent as possible; and allow the fund the option to sell stock on.The investment model is attractive to housing associations as it allows access to capital that would be 'off balance sheet', and housing associations retain a good deal of control over the project.

The importance of effective housing association regulation to promoting growth – lessons from the UK[30]

Policy Exchange, a UK think tank, has undertaken research into the contribution of regulatory environment on affordable housing shortfalls. They argue that, using current surplus alongside government contributions, housing associations could provide around 45,000 affordable homes, and that if housing associations were permitted to build capacity through strategic asset management and if access to cheaper debt finance was made available, this number could be even higher.

Currently, the UK Government gives a number of grants to housing associations, which come with associated restrictions and regulations. Policy Exchange argue that decreasing regulation and moving from grant funding towards a zero grant model where the Government invested levels of repayable equity would allow the sector to significantly increase the building of new homes.

[29] Local Government Association, 'Delivering Housing Growth, a collection of essays', October 2012, Pensions and Lifetime Savings Association 'Investment Insight: Social Housing' March 2013
[30] Policy Exchange 2014, 'Freeing Housing Associations: Better financing, more homes'

Collaboration for Growth and Efficiency - The merger of Haven, Home, Safe and North East Housing Services

In June 2014 North East Housing and Haven, Home, Safe agreed to amalgamate the organisations. The merger was subject to regulatory consent from the Registrar of Housing Agencies and the Director of Housing. The amalgamation brought together two organisations – one with a metropolitan focus and one which was primarily regional.

There was a decision taken by the Boards of each organisation that they would only proceed if their "key stakeholders" were better off. A "betterment" test was conducted with clients, employees, business and support partners, regulators, members of the company limited by guarantee. Once this was agreed due diligence was conducted and a 100 day transitional plan was put into place.

The newly expanded organisation now has:

- $27m annual revenue

- $260 + total assets

- Continuing development pipeline

- 1600 + houses across the state

- 150+ staff

- 7 offices

Some examples of what has been achieved:

- Increased housing options for clients

- Enhanced ability to consider and apply for growth opportunities

- Enhanced development/construction potential

- Increased ability to apply for private and philanthropic funds

- Access to central IT, Finance, Marketing, Communication and HR support

- Job security and opportunity for staff

- Growth plan for HIVE Property Services

- NRAS Compliance business established

- QIP accreditation

After 12 months the organisation evaluated the merger against the betterment test. Stakeholders confirmed that:

- They are very positive about the merger

- The merger has strengthened the alignment with government policy and funding arrangements

- The merger will in future enable stronger development and construction capacity

Source: PowerHousing Australia case study library.

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Key outcome 3: A sustainable, predictable funding model

PowerHousing Australia calls for Government to agree to work to develop a sustainable funding model for future social and affordable housing.

Key areas for reform	What PowerHousing can do	What Government needs to do
A sustainable, predictable funding model is needed to deliver day-to-day quality services in the short-term and growth in the long-term.	Marshal the resources of high performing community housing providers to contribute knowledge, expertise and ideas to the co-design of future funding arrangements.	Establish a basis for funding affordable housing that delivers quality services in the short-term and service viability (including stock renewal) in the long-term, on a 'level playing field' across sectors.

Government needs to work with PowerHousing Australia's members to develop a funding model that delivers a viable, diverse, efficient and effective system.

PowerHousing Australia considers that the current arrangements are untenable – both for its members and Government. A fundamentally new conversation about funding between Commonwealth, State and Territory Governments and the community housing sector is needed to deliver a funding model that supports quality service delivery in the short-term, and service viability (including stock renewal) in the long-term.

This is not about community housing needing a new hand out from Government. It is about Government understanding that, if community housing is to deliver on its promise of high quality services, growth through leverage and increased independence over time through scale and innovation – while delivering below market rents – there needs to be a conversation about the right funding model to achieve these goals.

PowerHousing Australia believes that the answer lies in engaging a range of partners to

leverage the collective assets and mechanisms in the system, and unleashing the capacity of the community housing sector to generate growth, including through financing, in innovative ways.

PowerHousing Australia and the Commonwealth and State/Territory Governments share a need to fundamentally reconsider how affordable housing is funded.

Tenant rents are the major source of funding for community housing.

Community housing rent setting

Community housing rents can be slightly higher than those in public housing, due to the ability of Community Housing Providers to have some lower-middle income earners paying a discounted market rent (typically 74.9% of market rate). Across a sample of providers, around 83 per cent of tenants

were charged income-based rent and around 16 per cent charged a discounted market rent. [31]

PowerHousing Australia's members compete in a commercial environment for land and other services such as construction, while offering a below market rental housing product. Some level of on-going subsidy will be required to not only continue to operate day to day, but make provision for future supply growth.

Currently, the sector also receives CRA, which makes up an estimated 30-39 per cent of the income of community housing providers [32]. CRA is available to low income tenants renting from private and community landlords, and supports access to rental housing. However, it was never intended to deliver funding certainty or stability to community housing providers.

One set of estimates shows that CRA can represent the difference between profit and loss: with a portfolio of 500 dwellings run by a social housing authority returning a $780,000 deficit per annum, while a CHP with access to CRA able to return a $438,00 surplus under the same conditions [33].

CRA also does not guarantee any new supply of affordable housing, nor that the quality of that accommodation meets any minimum standards. Further, as a demand side subsidy, CRA is likely to contribute to rent increases that cancel out some or all of its value to recipients.

There is no reason to expect the cost of housing will not continue to rise faster than the cost of living, to which CRA is linked – as it has consistently done. As such, this major source of revenue for community housing is declining each year in real terms.

Community housing providers' ability to offer properties to slightly higher income earners allows them to cross subsidise lower income-related rent paying tenants. (See Community Housing Rent Setting Box above). This is one of the mechanisms that allows CHPs to maintain sustainability, in the face of declining CRA in real terms. However, doing so means that CHPs end up taking a correspondingly lower number of very low income tenants, who often have complex and chronic needs [34].

This means high need tenants – many of whom could benefit from the high quality services community housing providers offer – are instead forced into an already stretched public system, further residualising state portfolios.

This fact gives providers and state and territory governments a common interest in reviewing how and why this policy operates – and in designing a better, fairer means that delivers both quality client services and provider sustainability.

PowerHousing believes that a new funding model can apply to all providers of affordable and social housing products – including Government and not-for-profit providers.

Further, PowerHousing Australia believes that Government and non-Government providers alike should be expected to deliver high quality services, for an efficient price.

As part of the new funding model, PowerHousing Australia would like to work

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[31] Community Housing Peaks Policy Network, 'The Vital Subsidy: The importance of Commonwealth Rent Assistance to community housing providers'. May 2014.
[32] *Ibid.*
[33] Sphere Company, *Maximising growth potential of housing providers through title transfer*. Cited in Community Housing Peaks Policy Network, ibid.

[34] Noting that the number of new tenancies allocated to households in the greatest need is slightly higher for community housing than public housing; in 2013-14, 75.1 per cent of new community housing tenancies were households in greatest need, compared with 74.1 per cent of new public housing tenancies. (Productivity Commission, *Report on Government Services*, 2015. Table G.2.)

with Government to set benchmarks for activities, services and outcomes – including growth – and establish fair prices for delivery of those services. This would create a level playing field on which all providers – Government, non-Government and private – would be expected to deliver.

PowerHousing Australia also calls on governments to consider the role of outcomes-based performance frameworks against which performance can be measured – and achievement of results rewarded.

Access Housing WA – Central Park project[35]

Access Housing was established in 2007 under the Corporations Act, as a not-for-profit company limited by guarantee. The company was formed from the merger of three smaller community housing organisations.

Access Housing has entered into Alliance Agreements with private companies in the building, development and finance industries in order to share expertise and de-risk the delivery of affordable housing options.

Federal funding towards the Central Park project came with the condition that the project would provide for a full range of residential housing. Within that scope, an initial commitment to provide 50 affordable housing dwellings by 2016 was agreed by the City of Mandurah and Westcross.

Westcross donated freehold land to Access Housing to undertake a group housing development, with Access Housing to develop 35 dwellings on the land. Approximately 75 per cent of these dwellings will be allocated to affordable home ownership, with the remainder offered as affordable rentals.

Access Housing will invest more than $11 million to deliver the affordable housing component. The sale proceeds will reduce Access Housing's development debt and enable the company to invest in more affordable rental and home ownership projects.

Caggara House – BHC

PowerHousing Australia member, BHC initiated this project completed in February 2015 to provide a viable, replicable model to deal with under occupancy in public housing. The project created 57 well located 1 bedroom apartments at a cost of $15m excluding land. It provides accommodation for people over 55 who were residing in under occupied public housing.

The Benefits to State Government:
- New purpose built homes better matching the size and needs of the residents
- Ability for residents to "age in place" in adaptable apartments
- Offers local options for singles and couples who wish to remain in their community

- Vacated public housing can be re-allocated to families
- Frees up under occupied housing for redevelopment
- Value of Unleashed Assets
- Taking an assumed value of $450k per dwelling, this program has unleashed assets worth approx. $25m for an investment of $11.2m.

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[35] Access Housing, http://www.accesshousing.org.au/

Key outcome 4: A strong and effective regulatory and governance framework

The community housing sector is comprehensively regulated, and PowerHousing Australia is committed to ensuring its members have strong and effective governance structures in place to manage their businesses. PowerHousing Australia sees opportunities to adjust regulatory procedures for Community Housing Providers to support further growth.

Key area for reform	What PowerHousing can do	What Government needs to do
Regulatory procedures for providers are not always well aligned to the risks being managed, creating an excessive regulatory burden that works against innovation and growth.	Continue to increase the level of professionalism and expertise of providers in areas such as governance, strategy, risk management, operational planning, reporting and performance, so as to support them to comply with the letter and spirit of regulatory frameworks.	Seek opportunities to alleviate regulation of provider activities, where agencies have an established track record of performance, so as to promote growth, innovation and renewal.

The community housing sector is regulated in a transparent and consistent way across most states and territories. Regulation under the Australian Securities and Investments Commission and the Australian Charities and Not-for-profits Commission leads to stability and effective risk oversight, while the National Regulatory Scheme for Community Housing (NRSCH) supports a national, scaled approach.

The regulatory system should, as a matter of principle, focus on risk management, rather than regulate day to day administrative tasks.

Noting that arrangements vary across Australia, community housing providers across Australia can face a range of administrative barriers to delivering good service and growth.

Given the effectiveness and extensiveness of the regulation within the sector, PowerHousing Australia considers that, in many of these instances, regulatory processes are excessive in relation to the risks. In many instances, effective oversight mechanisms rather than blanket restrictions could achieve a better goal.

PowerHousing Australia also considers that the current operation of the NRSCH, wherein two jurisdictions are still not covered by the Scheme, also still creates undesirable complexity for agencies operating or seeking to operate nationally.

PowerHousing Australia also considers that a 'level playing field' approach should apply with regard to regulation, with both Government and community providers of social housing subject to the same regulatory framework.

Asset transfer – as opposed to management transfers alone – is essential to achieve growth, and needs to be considered from a risk management approach.

PowerHousing Australia notes that government retains a preference for property transfer in the form of transfer of management responsibility, rather than responsibility for the asset which includes the ability to re-develop.

PowerHousing Australia appreciates that accounting procedures cause asset transfers to show a negative budgetary impact on the state's balance sheet, which has limited some states' willingness and ability to transfer title.

However, there are equally compelling reasons to devote the necessary resources to resolving this issue.

Asset transfer achieves beneficial outcomes for providers and governments. It enables the sector to achieve additional growth through leveraging stock to generate capital for finance. Many social housing assets are in a degraded condition, and with property transfer, providers have the opportunity to strategically manage the assets – including the opportunity to deliver better quality, better matched stock and better utilised land assets, as well as deliver community renewal and regeneration.

If the accounting treatment currently poses a barrier to transfer, PowerHousing Australia calls on governments to show leadership in resolving these issues so that the benefits of doing so – to tenants, communities and the country – can be realised.

PowerHousing Australia's members represent a trusted set of hands to receive these assets, the proven track record of which is publicly available. PowerHousing Australia considers that the regulatory system provides sufficient checks and balances to give confidence to Government regarding risks, and that the time for resolution of this issue has come.

Arms-Length Management Organisations (ALMOs) in the UK – development without title[36]

An arm's-length management organisation (ALMO) is a not-for-profit organisation that provides housing services on behalf of local authorities. ALMOs as a model were first mooted in 2000 as a way of achieving social housing investment without local authorities losing ownership. ALMOs are an alternative to transfer of stock.

ALMOs are owned by local authorities but managed by Boards of Directors, a significant portion of whom will be tenants. Ownership of housing stock remains with the local authority, but crucially as an independent organisation the ALMO is able to access increased funding based on performance from central government and pursue different, potentially more efficient, management structures.

There are currently ALMOs operating in around 42 local authorities. This number has declined since 2009 when central government diverted money from ALMOs to fund building new homes.

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[36] The National Federation of ALMOs, 'Key Facts About ALMOs', December 2015, The National Federation of ALMOs, 'ALMO USP and Successes' December 2015; National Federation of ALMOs, 'Building on the potential of ALMOs to invest in local communities' June 2011

Risk Reward Partnerships between Local Authorities and Housing Associations in the UK – an alternative way to manage risk.

Previously a local authority may have gifted available land to a Housing Association with the understanding that they would deliver a certain level of affordable homes for the wider community. Since the Global Financial Crisis, Local Authorities have been pursuing more sophisticated risk reward models.

Under such agreements, land is often set at nil value or a fixed price (ideally phased payment) and the local authority would benefit from any additional profit from the development of the site.

The benefits of such investments mean that two organisations not able to independently provide affordable housing are able to increase availability, with risk shared broadly. Sharing profit makes this a more attractive option to pursue, and provides potentially self-sustaining benefits should profits be reallocated to further affordable housing.

A number of partnerships on this basis exist in the UK. This includes the project between Spectrum, a housing association, and Poole Borough Council to deliver affordable housing. Poole Borough Council gave the land at nil value on the basis that Spectrum built the maximum percentage of affordable homes. In 2015 a development of 17 affordable new homes was delivered.

Source: Local Government Association 'Supporting housing investment: a Case Study Guide' (February 2014)

Logan Renewal Initiative

Compass Housing Services was selected by the Queensland Government to play a key role in Queensland's largest ever housing renewal project, which will make it the largest community housing provider in Australia managing around 10,000 properties.

Both PowerHousing members, Compass Housing Services and affordable housing property developer BlueCHP Limited joined together to create Logan City Community Housing (LCCH). The consortium won the tender for the renewal project. The initiative will replace 1,000 dwellings with 1,600 social houses, and more than 1,000 new affordable dwellings. The consortium will carry out the management of more than 4,600 housing dwellings from mid-2015.

Compass Housing Services will be responsible for the management of the dwellings from mid-2015 onwards whilst BlueCHP's role in LCCH will be to oversee the development of the dwellings. The partnership was about bringing together two organisations with the appropriate skill sets but more importantly with a similar set of cultures and values.

Source: PowerHousing Australia case study library

Key outcome 5: Resourcing quality outcomes for tenants

PowerHousing Australia's members operate within an ethos of engagement with tenants, provision of high quality services, and working with partners to deliver linked services within a community.

Key area for reform	What PowerHousing can do	What Government needs to do
Essential client support services are not currently funded, and demands are increasing. Providers' ability to continue to get outcomes for clients will be compromised without specific, adequate resourcing.	Continue to develop, test, refine and promote innovative responses to the tough issues facing vulnerable people, including on a localised, place-based basis.	Incorporate resourcing for quality service provision, and rewards for outcomes, into any future funding model, and apply these on a provider-neutral basis.

The member agencies represented by PowerHousing Australia are viable, ethically run businesses, driven by strong missions and values[37]. They offer an alternative to the services offered by state housing authorities, focussed on delivering against both social and financial goals.

The approach is predicated on partnering with a wide variety of organisations to deliver integrated housing services across the continuum of need, as well as community capacity building.

- Community housing providers work with crisis accommodation services to transition people to longer-term housing solutions.

- They work with education and employment providers to support people to build the skills and capacities to transition to more independent living.

- They work to generate innovative affordable housing products that can bridge the gap between public housing and independent private arrangements.

- They work with specialist services, such as those serving people with disabilities, young people, and women and children who have been homeless, to provide innovative, high quality services that meet the specific needs of these people and address the causes of their vulnerability and disadvantage.

Community housing consistently outperforms public housing on key measures of effectiveness and tenant satisfaction. For example, 89.3 per cent community housing dwellings meet the dwelling condition performance indicator, compared to 81 per

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[37] *The Community Housing Industry: Delivering for NSW*, NSW Federation of Housing Associations Inc.

cent for public housing[38]. Customer satisfaction with services provided is also consistently higher, at 79.7 per cent for community housing against 72.7 per cent for public housing[39]. The National Social Housing Survey indicates that the most common reasons tenants give for high satisfaction include speed of repairs, and friendly and professional services from staff[40].

> Evidence is emerging about the value of the partnerships and approach inherent in the community housing model, particularly in relation to high needs groups.

There is a great deal of evidence that what CHPs produce is a quality product that does not just meet housing needs, but improves the lives of individuals and whole communities[41].

The social and community outcomes that community housing providers deliver are not 'add ons' to a core housing function; they are integral to the success of the entire affordable housing model as offered by community housing providers.

For example, a growing number of community housing providers are entering into partnerships to provide high quality supports to young people through the 'Foyer' model.

The Foyer Oxford – an innovative and successful response to youth homelessness

The largest Foyer project in Australia, Foyer Oxford, is operated as a joint partnership between Foundation Housing and Anglicare WA, which offers 98 studio-style apartments to young people who have been homeless or at risk of being homeless for up to two years. Residents benefit from high quality, well located accommodation, and integrated wrap around support services from dedicated case workers.

Early results from Foyer Oxford are highly encouraging, with its residents showing good education and employment outcomes, high levels of exits to private accommodation, and improved personal well-being after their stay. [42]

The roll-out of the National Disability Insurance Scheme will increase the call for services for people with disabilities, many of whom require intensive support, and who have new options under the Scheme to live more independently.

Community housing providers – some of whom offer specialised disability services – can offer innovative, high quality options to support people to live in accordance with their capacity and ambitions, within a financially sustainable framework. The Scheme will also offer the opportunity for new partnerships with new providers – with agencies with expertise in the disability field potentially able to enter the community housing sector, and community housing providers able to seek to deliver specialised disability services.

PowerHousing Australia's members already provide homes for a significant number of people with disabilities. Its members have also established a community of practice to engage with the National Disability Insurance Authority to respond to need.

> PowerHousing Australia's members can and will continue to achieve quality outcomes for clients and for the system.

PowerHousing Australia's members have expertise and skill in working across communities and with individuals to build capacity and get social outcomes, within a

[38] Productivity Commission, *Report on Government Services*, 2015. Table G.2.
[39] *Ibid*.
[40] Australian Institute of Health and Welfare, *National Social Housing Survey, A summary of results*, 2012. Canberra.
[41] *The Community Housing Industry: Delivering for NSW*, NSW Federation of Housing Associations Inc.

[42] J Martin and J Sercombe, *Solutions to youth homelessness: the wisdom of practice*, presentation to the National Housing Conference 2015, Perth, WA.

financially responsible model. In particular, the model is predicated on actively working with tenants to build their capacity to exit the system where this is possible. In an environment where demand for affordable housing outstrips supply, strategically managed exits are a vital part of the solution.

Foundation Housing's Tenant Wellbeing Index – measuring the impact of the work[43]

Foundation Housing understands that the provision of a safe and affordable home is just one of the factors which makes up our tenants overall wellbeing. Since 2014 Foundation Housing have developed ways to identify, measure and contribute to tenants wellbeing in order to maximise their ability to successfully manage their tenancies and (where appropriate) to move through the housing continuum.

Housing people with a disability[44]

PowerHousing member Evolve Housing, in partnership with support partners Northcott and RASAID, secured $6 million dollars grant funding through the Commonwealth Government's Supported Accommodation Initiative Fund (SAIF) to deliver homes for 20 persons living with disability, who are receiving life time funding through the National Disability Insurance Scheme.

Evolve Housing, with the support partners, worked collaboratively with prospective tenants to develop person centred support housing for people with varying levels of disability. This has been achieved through a combination of adaptable infrastructure, community based space and support programs that deliver independence, community engagement and social inclusion.

Both the housing projects at North Parramatta and Ryde were awarded Platinum Performance Level compliance, with Grandview the first to achieve this under SAIF. Grandview has also been recognised by the NSW Disability Industry Innovation Awards for its innovative design and support system inclusions.

Hume Housing Mental Health Business Project – MHBiz

Over the past 14 months, Hume has been conducting a mental health business project (MHBiz). The initial purpose of the program was to increase the knowledge and skills base of both staff and customers to support people impacted by mental health issues. For people experiencing monetary pressures, unemployment, family unrest and instability, mental illness is more prevalent and therefore a major concern for Hume's customers and the communities within which the organisation operates.

The project has been fully embraced by staff, customers and local partners and transformed and expanded into a customer led awareness, education, support and advocacy project driven by people with lived experience and their supporters. *(cont. overleaf)*

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[43] Source: Foundation Housing
[44] Source: PowerHousing Australia case study library

(continued from above)

Outcome 1: Qualifications

- The achievement of a recognised qualification is a starting point for customer to expand their education attainment levels and create confidence and capacity to be able to potentially re-enter the workforce in an identified future employment growth area of personal care.

Outcome 2: Customer Capacity Building

- Engaging with others, participating in community activities and taking on responsibility for events are capacity building activities for the individual and contribute to a community's social capital.

Outcome 3: Resources

- Gold Practice (case studies and examples of effective interventions);
- Initiated new Policies and Procedures to guide Hume practice
- Extenuating circumstances review;
- Coordinated care panels (both internal and external representation);
- Process for contacting Community Mental Health Directors in crisis/emergency situation
- Mechanisms for information sharing in crisis situations and for shared customers with complex care needs
- Concept plans for expanding partnerships – TAP Plus; Housing and Mental Health Forum with NSW Mental Health Commission

Outcome 4: Community Cohesion and capacity building:

- Build the capacity of Hume customers to be good neighbours
- Connect people to their neighbours, relatives and broader community
- Facilitate links of customers to local services
- Encourage community led networking and community building
- Encourage and facilitate participation in existing neighbourhood events
- Build skills and capacity of customers to engage in and lead neighbourhood based activities
- Facilitate customers to be leading the delivery and decision making of activities

Outcome 5: Enhanced sector capacity

The training and project measures in place have expanded our capacity to meet the challenges of delivering housing and wrap around support services. Our team have revealed that:

- 90 per cent reported that the information provided during the training was relevant and could be applied to their work
- 94 per cent reported they have an improved understanding of mental illness and mental health as a result of training
- 77 per cent reported that the training challenged their thinking about mental illness and those experiencing mental illness
- 89 per cent reported that the training is helpful to their work with customers.

Source: PowerHousing Australia case study library

Key outcome 6: Innovative financing arrangements

PowerHousing Australia considers that while the method of financing is an important aspect of the growth equation, the system within which housing is delivered has a greater impact on the extent to which growth in supply can occur.

Key area for reform	What PowerHousing can do	What Government needs to do
Attracting investment to support new growth will be a key component of a financially viable, sustainable future affordable housing system.	Continue to develop, test, refine and promote innovative approaches to partnerships that attract investment into the affordable housing system, on a localised, case by case basis.	Continue to investigate and resource a range of options and solutions on a systemic basis so as to support and grow providers' actions to deliver growth through innovative financing and delivery models.

PowerHousing Australia's members operate at scale, generating growth in supply by borrowing against the equity and/or revenue stream generated by a property portfolio.

Even under an optimal funding and regulatory framework, this alone is not sufficient to deliver sustained growth in high quality services that deliver outcomes for clients in meaningful numbers.

This is particularly the case in Australia where, as AHURI[45] has concluded, real and complex barriers to large scale institutional investment exist.

There are examples here and internationally of affordable housing providers drawing in institutional investment to fund growth, independently of Government. To date, the results are mixed, and challenges exist in implementing such measures on a large scale in Australia.

However, PowerHousing Australia's members are already delivering growth under these and other innovative arrangements, and PowerHousing Australia considers this evidence that medium to large community housing providers, while being a low yield operation due to the nature of the business, do enjoy growing investor confidence, including from banks, as a result of their predictable and stable revenues[46]. *(see box overleaf)*.

[45] AHURI March 2013, 'Financing rental housing through institutional investment'.
Case study on Social Impact Investing sourced from: Centre for Social Impact Bonds, Knowledge Box at https://data.gov.uk/sib_knowledge_box/; Social Finance, 'Designing Outcomes Metrics For an Outcomes-Based Contract' at http://www.socialfinance.org.uk/wp-content/uploads/2015/06/Case-Studies.pdf

[46] *The Community Housing Industry: Delivering for NSW*, NSW Federation of Housing Associations Inc.

Community Housing – low yield can also be low risk.

Social and affordable housing charges below market rents. However, PowerHousing Australia asserts that elements inherent to the sector's business model mean that this can co-exist with a low risk profile to investors.

- The tenant is generally assisted through CRA, making rent more predictable;

- the majority of tenants are not exposed to the risk of losing income through job loss;

- tenants are highly motivated to maintain a tenancy that is on favourable terms.

Further, many PowerHousing Australia members have low vacancy rates, due to waiting lists and good management practices.

In the event that there was an unexpected call on the funds of the provider, providers have the short-term option of boosting yields through renting units at full market rents for a period (to clients that can pay a higher rent).

These elements can protect the industry from some of the shocks that the private market is exposed to, and mean that low yields can still support low risk ratings from investors.

Social Impact Investing in Housing

Social Impact Bonds were first developed in the UK in 2010, and have since been implemented across North America, Europe and in Australia.

A Social Impact Bond is a financial instrument that pays a rate of return based on the achievement of agreed social outcomes. Intervention can improve individual or group social outcomes, therefore saving the public sector expenditure, but often it is difficult for public sector bodies to attract the initial investment to achieve these savings.

Under the Social Impact Bond model, investors provide capital to a services provider to achieve improved social outcomes. If outcomes are achieved, there are cost savings to Government that can be used to repay that upfront investment plus a financial return.

Though there are a number of social impact investment bonds already running globally, to date Social Impact Bonds have not been particularly focused on affordable housing provision. There has, however, been investment in housing-related programs looking at, for example, homelessness. Social Impact Bonds do not currently make capital investments, and the focus is on program support, though this could develop as the Social Impact Bonds model mature.

Source: Centre for Social Impact Bonds, Knowledge Box at https://data.gov.uk/sib_knowledge_box/. Social Finance, 'Designing Outcomes Metrics For an Outcomes-Based Contract' at http://www.socialfinance.org.uk/wp-content/uploads/2015/06/Case-Studies.pdf

The Aggregated Capital Raising Community of Practice

PowerHousing Australia's members have recognised that the community housing sector will increasingly need to drive the financing the growth of affordable housing supply. To achieve this PowerHousing Australia has established an Aggregated Capital Raising Community of Practice to explore the development of aggregated capital raising vehicles to support the growth of social and affordable housing and the regeneration and development of their assets.

PowerHousing Australia members have already raised $385m in debt facilities and currently manage 53% of properties in the community housing sector. They have a 10 year history of collaborating and aggregation which has seen the establishment of joint ventures, mergers and partnerships. This provides a strong foundation to build a national aggregated financing structure. The model that has been established will also allow nonmembers to participate in financing mechanisms.

PowerHousing Australia members have indicated that there is a requirement to raise $770m over the next five years to meet their core debt requirement.

The Challenge facing PowerHousing Australia members

Government funding commitments: Government funding is under pressure and PowerHousing Australia is operating in a volatile environment of policy change and funding uncertainty. As governments increasingly try to cap expenditure and address budget deficits there is a growing emphasis on mobilising the private market to fund the shortfall in affordable housing.

Current funding model shortfalls: Research indicates that the Australian housing sector is facing a multi-million dollar unmet capital funding need. Relying on government subsidies, grants and revenue tools cannot cover these capital requirements or those going into the future. The sector has very long term assets (40 year + life) with a need for long term finance to fund these assets.

Improvement of the current terms of funds available: A number of PHA Members have negotiated financial accommodation with mainstream banks. However, the tenor of funds is typically less than seven years. Loans with long tenors are extremely rare in the market.

Creation of a financing alternative that will support core debt requirement as the sector grows: With growth, core debt requirements will most likely exceed prudential limits of financial institutions under current debt arrangements. The sector is seeking alternatives to traditional bank funding, with tenors of 20 years and beyond a preference to better match the lifecycle of the assets.

The Opportunity

PowerHousing Australia, in partnership with affiliate member Community Sector Banking, has been exploring the bond market as an alternative source of capital for social and affordable housing in the Australian context.

Raising capital in the bond market is a complicated and sophisticated process that requires significant time, effort and resources.

Any effective capital raising program needs significant scale in order to provide investors with liquidity and address otherwise prohibitive transaction costs. The aggregation of PowerHousing Australia members will address this issue of scale.

PowerHousing Australia is currently developing a business case to progress the development of a housing bond product.

Other Jurisdictions

The Housing Financing Corporation (THFC) in the UK is a not for profit financial intermediary that raises money in the capital markets and lends to UK housing associations. Since inception in 1987, THFC has raised over £3.3B for registered housing associations and maintained an A+ credit rating from S&P, all with a current staff of 17.

In the Canadian context, BC Housing has established a very efficient social housing finance model in which BC Housing serves as a National Housing Act insured lender, offering both construction financing and CMHC insured financing at excellent rates with low transaction costs.

Housing Partnership Canada is currently exploring the feasibility of establishing a Canadian Housing Bank which would focus on pooling capital needs through the private capital markets to provide a sustainable, long term source of funding specifically tailored to the needs of the affordable housing sector.

Source: PowerHousing Australia

There is no 'magic bullet' to financing affordable housing. Many developments rely on individual partnerships and relationships in a 'place-based' context. This means that there will be a range of possible options and solutions that, paired with appropriate partners and in the right contexts, will result in growth.

PowerHousing Australia believes the opportunity for greater investment lies in the model of using community housing itself. PowerHousing asks Government to commit to delivering the policy settings the sector needs to allow this to flourish.

Pacific Link Housing (PLH) Limited – delivering growth

PLH has initiated the following self-funded projects – independent of (or partially funded by) Government:

- Pilot 4-townhouse development – completing March 2016

- Two 3-bedroom house development – completing June 2016

- A self-funded $500,000 re-generation project of a 95-unit estate.

Three further development projects are underway, partially funded by a $7m government grant, that has been leveraged to an 82-unit $17m project over three sites through:

- Joint venture with Evolve Housing, and

- Non-government debt financing.

In 2012, PLH developed a plan to transition from Class Two to Class One (developer) registration status. This was achieved in mid-2013 and their systematic plan was published by the Registrar as a best-practice case study of a well-planned approach to achieving developer status. Once registered as Tier One under NRSCH, in 2014 the Board approved commencement of a pilot project to test its developer credentials and build management expertise. The project was fully self-funded and managed in-house with a local building contractor. The four townhouses were successfully completed on schedule and within budget in February 2016. During the build, there have been no disruption complaints, no health and safety incidents or near misses. The gardens have been designed with dry-tolerant indigenous plants and twelve new trees were planted to replace the trees that were originally on the site. Tenancy allocation is underway in conjunction with PHL disability support provider partners.

Source: PowerHousing Australia case study library

St George Community Housing – Creating a living community

PowerHousing member St George Community Housing (SGCH) is a large and highly awarded community housing provider working across western, southern and central Sydney. They are involved in the Bonnyrigg 'Living Communities' social housing transfer and estate redevelopment, and are responsible for the rehousing and tenancy management of 800 homes.

The Bonnyrigg *Living Communities* project was the first social housing Public Private Partnership project in Australia and was designed to create new social and private housing by redesigning, renewing and reinvigorating an existing 81-hectare public housing estate within the western Sydney. The project aims to improve services to the area, build community capacity and renew housing and public areas surrounding the local community.

Before the redevelopment, Bonnyrigg was known for high levels of crime and anti-social behaviour, while the local school was threatened with closure due to poor results and a lack of registrations from new pupils. The redevelopment of the estate and the project's focus on place-making has encouraged residents to take pride in their homes, and look out for their neighbours and others in the local community. As a result, crime levels have dropped, the local school is now so popular that it has become selective, and tenants are reporting extremely high levels of satisfaction (83% in the 2013 independent survey run by Sweeney Research).

The role of SGCH has now broadened to encompass property maintenance services, as well as various community programs and activities at Newleaf Bonnyrigg. SGCH is the first community housing provider in Australia managing all of these types of services on a large estate in one location.

Source: PowerHousing Australia case study library

3 Roles and responsibilities

The housing system relies on a range of agencies from different sectors (Government, private and non-Government) delivering a range of functions.

The main funding flow from the Commonwealth to the States for affordable housing, the National Affordable Housing Agreement (NAHA), is worth some $1.748 billion in 2015-16. [47]

The Commission of Audit report flagged a potential re-design of Commonwealth Rent Assistance that would provide more equal access to the payment to all low income households – potentially putting public, community and affordable housing tenants on a more equal footing. This signals a potentially major shift in future funding arrangements for the sector.

The Commonwealth Government, in its Reform of the Federation White Paper, has signalled its interest in reviewing its responsibilities with regard to housing and the way it funds these responsibilities. [48] Specifically, it has stated a commitment to the principle that responsibility for delivering services such as housing should generally lie with the lowest level of Government, with accountability for high level performance rather than prescriptive control.

PowerHousing Australia considers that the roles and responsibilities debate should be expanded to include the future role of the

sector, as managers of a large and growing proportion of the social and affordable housing stock.

PowerHousing Australia contends that the natural role for government is in supporting, regulating and overseeing a social and affordable housing sector that is largely delivered on a day to day basis by a range of specialised, professional housing associations, within a clearly defined legislative and policy framework. An optimal system would see the roles of Government as provider and regulator separated.

However, PowerHousing Australia accepts that government will retain an on-going responsibility for social housing in the medium-term. Where this is the case, it should do so on a provider-neutral basis. PowerHousing Australia therefore supports moves to shift to a more equal funding footing, in line with the direction outlined in the Commission of Audit.

With NAHA funding agreement due for renegotiation for 2018-19 and beyond, PowerHousing believes it is timely to review funding and service delivery arrangements with an eye to addressing the issues outlined here, and establishing a new platform going forward. It calls for Government to engage with PowerHousing Australia and its members in these negotiations, and consider how their energy and potential of the sector can be captured and developed in future arrangements

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[47] Treasury Budget Paper 3, Table 2.8, Affordable Housing, available at http://www.budget.gov.au/2014-15/content/bp3/html/bp3_03_part_2f.htm. This figure includes the National Partnership payments made for Homelessness, Remote Indigenous Housing and Stronger Futures (in the NT).
[48] Australian Government, Reform of the Federation White Paper, available at https://federation.dpmc.gov.au/.

Measuring the Social Return on Investment of Public Housing Transfers

In one of the largest property transfers undertaken in the community housing sector, Housing Choices Australia (HCA) took over the management of 1,175 public housing properties on behalf of the Tasmanian Government.

As part of the transfer HCA has forecast the social return on investment. The evaluation is being co-delivered with EY. This process:

- Measures forecast environmental and social impact of activities relative to resources spent

- Is outcomes based and measures change that matters to stakeholders

- Establishes a baseline for ongoing data collection and evaluative SROI analysis

- Is independently verified

The process has involved a comprehensive interaction with residents and the value is only attributed as an outcome when individuals express a 100 per cent change on the designated outcome scale.

The forecast social value of the transfer has indicated that for every dollar invested, a forecast social return of between $1.00 and $1.20 can be expected for the first three years.

For State Government, the major financial proxy was the reduction in maintenance liability/funding – an average of $2,780 per property – close to $3.75 m per annum.

For Federal Government it is based on tax receipts from employment, with the creation of nine new positions at $10,700 per annum per new position, and the reduction of unemployment benefits at $11,890 per employment outcome.

Forecast Social Value Created over 10 years for all Stakeholders
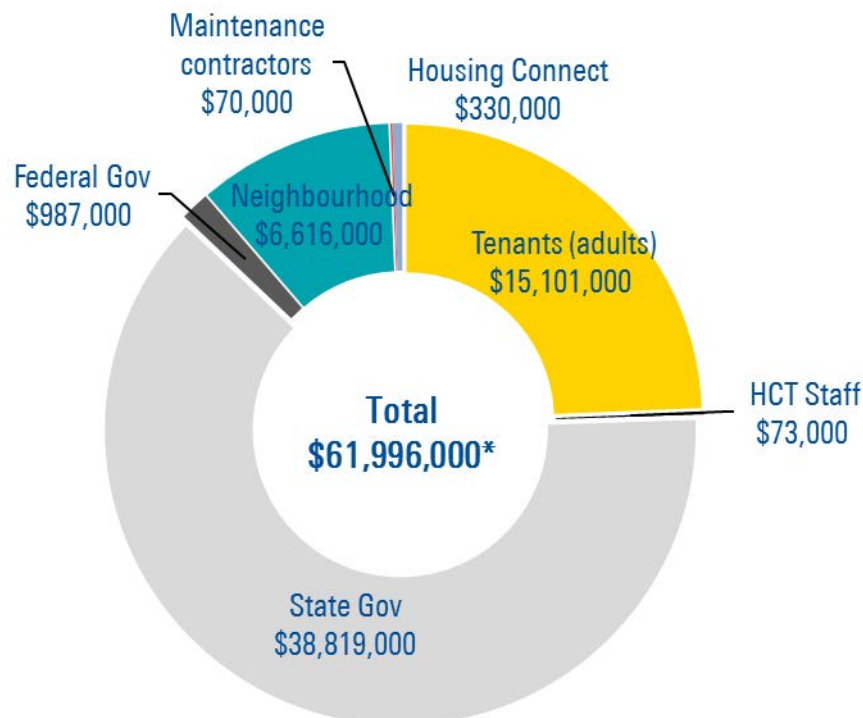
Source: PowerHousing Australia internal report

4 Summary of key recommendations

Key areas for reform	What PowerHousing can do	What Government needs to do
1. The affordable housing 'system' is currently disjointed, and does not send out a consistent, clear message to the community about the future of affordable housing.	Effectively contribute to policy dialogue, with other stakeholders, regarding the future housing system we need for the benefit of our cities and citizens.	Coordinate across levels of Government, agencies within Government, and relevant stakeholders, to achieve policy consistency and predictability that will create an environment conducive to a sustainable, viable affordable housing sector.
2. A more aggregated model is needed to deliver growth and future sustainability, achieved through a variety of means such as mergers & acquisitions, formal partnerships, consortia, or sub-contracting.	Facilitate aggregated activities by growing the capacity among high performing providers to enter into effective partnerships that exhibit appropriate governance and legal structures and are fit-for-purpose.	Create a system that supports the development of innovative partnerships that deliver the benefits of scale, acknowledging that this will contribute to, but not on its own deliver, long-term financial viability for the sector.
3. A sustainable, predictable funding model is needed to deliver day-to-day quality services in the short-term and growth in the long-term.	Marshal the resources of high performing community housing providers to contribute knowledge, expertise and ideas to the co-design of future funding arrangements.	Establish a basis for funding affordable housing that delivers quality services in the short-term and service viability (including stock renewal) in the long-term, on a 'level playing field' across sectors.

Key areas for reform	What PowerHousing can do	What Government needs to do
4. Regulatory procedures for providers are not always well aligned to the risks being managed, creating an excessive regulatory burden that works against innovation and growth.	Continue to increase the level of professionalism and expertise of providers in areas such as governance, strategy, risk management, operational planning, reporting and performance, so as to support them to comply with the letter and spirit of regulatory frameworks.	Seek opportunities to alleviate regulation of provider activities, where agencies have an established track record of performance, so as to promote growth, innovation and renewal.
5. Essential client support services are not currently funded, and demands are increasing. Providers' ability to continue to get outcomes for clients will be compromised without specific, adequate resourcing.	Continue to develop, test, refine and promote innovative responses to the tough issues facing vulnerable people, including on a localised, place-based basis.	Incorporate resourcing for quality service provision, and rewards for outcomes, into any future funding model, and apply these on a provider-neutral basis.
6. Attracting investment to support new growth will be a key component of a financially viable, sustainable future affordable housing system.	Continue to develop, test, refine and promote innovative approaches to partnerships that attract investment into the affordable housing system, on a localised, case by case basis.	Continue to investigate and resource a range of options and solutions on a systemic basis so as to support and grow providers' actions to deliver growth through innovative financing and delivery models.