

# **The corporatisation of government agencies:**

## **Does it work for public housing?**

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# THE CORPORATISATION OF GOVERNMENT AGENCIES: DOES IT WORK FOR PUBLIC HOUSING?

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## 1. Key points

- There has been persistent speculation that the Government is considering either converting Housing Tasmania into a corporate entity such as a government business enterprise (GBE) or state-owned company or corporation (SOC) or creating a new housing company to develop and manage public housing. Most corporatisation of government business enterprises and statutory authorities took place in the mid-1990s. This means that the current debate about corporatisation is limited. Discussion has been confined to questioning the size of the return the Government receives from its existing GBEs and SOCs. It has not focussed on the central question of whether the model is appropriate for achieving social outcomes.
- Corporatisation is the process of establishing a government business as a separate entity that operates as a private sector business while retaining government ownership. The Tasmanian Government has established two models: the government business enterprise (GBE) model, and the state-owned company or corporation (SOC) model.
  - GBEs are statutory authorities subject to the provisions of their enabling legislation and to the provisions of the *Government Business Enterprises Act 1995*. The formal objectives of a GBE are to operate efficiently as a successful business in accordance with sound commercial practice, to achieve a sustainable commercial rate of return, to perform any community service obligations efficiently and effectively, and to perform any other objectives specified in its establishing legislation.
  - SOCs are government businesses and authorities that may be subject to the provisions of their enabling legislation and are also subject to the provisions of the *Commonwealth Corporations Act 2001*. The government is the sole shareholder in each SOC on behalf of the Tasmanian community, and the SOC's governance framework is set out in the applicable legislation and its constitution. SOCs serve a public purpose and are autonomous in day-to-day decision-making but receive Ministerial direction through their strategic planning process.
  - Community Service Obligations (CSOs) arise when the Government requires a GBE to carry out a non-commercial activity on behalf of the government. An example is Metro Tasmania's concession fares for low income earners and students. The Government will usually provide the GBE with funding to undertake the CSO but there is no legislative requirement that this funding fully cover the cost of delivering the CSO. Only GBEs have CSOs, but the Government can enter into a contract with a SOC for the delivery of a CSO-like activity, as it has with Aurora Energy around the delivery of electricity concessions.
- There are three major concerns in using a GBE or SOC model to deliver social services and in particular, public housing. These are:
  - a housing provider catering for high-needs clients on income-related rents is unable to operate commercially without government meeting the full cost of its community service obligation.
  - the structure and obligations of a corporate entity create a risk that commercial objectives will be prioritised over social and community objectives. There is no guarantee or requirement that a CSO or CSO-like activity will be fully funded by the government, yet failure to adequately fund or prioritise such activities, accompanied by a focus on commercial returns, can have devastating effects on disadvantaged people.
  - use of a commercial model for a non-commercial service such as public housing can endanger the long-term sustainability and viability of the business, including its capacity to fund asset upgrades.

- Housing Tasmania is facing severe financial challenges and is chronically under-funded. The Tasmanian community sector's collective policy position on public housing is that the State Government must provide Housing Tasmania with sufficient funding to operate viably and sustainably. This would mean providing Housing Tasmania with funding to cover its operating deficit, most of which is due to the gap between rental revenue and operating costs, and removing the burden of debt repayment from Housing Tasmania to free up an additional \$17 million in funding per annum. Housing Tasmania does not need to be a GBE or a SOC for the State Government to do this. In fact, there are no benefits to corporatisation that could not be achieved under the current system and significant risks in adopting a commercial model to deliver a non-commercial service. Anglicare therefore recommends the retention of Housing Tasmania as a Budget-funded government agency and a core government service with recurrent operational funding.
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## **2. Introduction**

This paper has been produced in response to persistent speculation that the Government is considering converting Housing Tasmania into a corporate entity such as a government business enterprise (GBE) or a state-owned company or corporation (SOC) or creating a new housing corporation in order to allow the use of debt finance to construct new public housing without affecting the Government's balance sheet.

This speculation emerged most recently in the lead up to the 2007 Budget (see Neales 2007). The Minister for Health and Human Services stated at the time that she could "completely rule out any change in Housing Tasmania's status, or the creation of a 'new public housing corporation'" (Giddings 2007), and also rejected the idea that Housing Tasmania would be converted into a GBE (Mercury 2007). However, the Treasurer indicated to representatives at the 2007 Budget Roundtable that a number of options were under consideration, and refused to deny that corporatisation of Housing Tasmania was one of those options, and the rumours emerged again in April 2008, this time in relation to the creation of a new state-owned company to take over the development and management of public housing (Duncan 2008).

Most corporatisation of government business enterprises and statutory authorities took place in the mid 1990s in the wake of National Competition Policy reform, which required that government businesses be placed on a competitively neutral footing with the private sector, and in the context of more widespread reforms to the public sector designed to improve efficiency and effectiveness in the delivery of public services. For this reason, current debate about corporatisation is limited and often confined to the size of the return the Government receives from its existing GBEs and SOCs rather than looking at broader concerns about the appropriateness of the model for achieving social outcomes.

This paper provides some background to the corporatisation debate as it occurred in the late 1990s, considers some case studies of GBEs, SOCs and other corporatised entities in Tasmania, Australia and New Zealand, and then outlines Anglicare's position on whether a corporate model is appropriate for the delivery of public housing.

## **3. The context: public service reform and National Competition Policy**

### **3.1. Reform of the public service**

The reforms that led to the creation of government business enterprises, state-owned corporations and other models of corporatisation began with the restructuring of the public service that occurred from the mid-

1970s. These changes arose out of a shift in prevailing beliefs about the appropriate role of government, from the view that governments should be active and interventionist, controlling large sections of the economy in the name of national development, to the view that governments should focus mainly on promoting productivity and competition and protecting consumers (Nethercote 2003). The changes were also driven by concerns about fraud, duplication and waste in the public sector, and a perception that government employees were under-worked and lazy (Quiggin 1996). The Coombs Royal Commission into government administration in 1974-6 found that the public service was too centralised, hierarchical and rigid and recommended change (Minns et al 2003).

A series of reforms throughout the 1980s and 1990s culminated at a Commonwealth level in the *Public Service Act 1999*, which devolved responsibilities and powers to departmental heads and sought to maintain standards through a legislative values statement. Comparable legislative change was introduced by the states and territories: in Tasmania, the *State Service Act 2000* also introduced a less prescriptive and more flexible framework which incorporated a values statement and a code of conduct but delegated important powers to agency heads. Across Australia, there was a shift in focus away from ‘managing for compliance’ towards ‘managing for results’, through the introduction of business practices like user-charges, outcomes and outputs frameworks and accrual-based accounting. Activities considered either commercial or peripheral to core government business were outsourced on the basis that while it may be appropriate for governments to fund – or ‘purchase’ – services, direct public provision was only necessary if it added value to the service. Otherwise, it was considered better for governments to regulate rather than own particular services (Minns et al 2003).

The introduction of commercial practices into the public sector was intended to increase productivity and efficiency (Mellors 1995), and reduce costs by imposing a system of incentives and disciplines comparable to those used in the private sector (FMRB 1992). But in many cases it resulted in fundamental changes to the way in which agencies operated. The then Deputy Secretary of the Department of Administrative Services, Michael Clarke, described the commercialisation of the Department in the following terms: “Since 1987, DAS has been transformed from a Budget-funded, regulatory department that took decisions on behalf of others to a non-regulatory, service provision agency which assists others in their decision making” (Clarke 1995).

### **3.2. National Competition Policy**

According to the National Competition Council, competition provides businesses with incentives to improve performance, efficiency and productivity, reduce their costs and prices, and produce new and innovative products (NCC 2007). Yet in the late 1980s, there was concern that Australia lacked this kind of competition, and that overlap, duplication and inconsistency between the different economies of the nation, states and territories was partly to blame (Clarke 1995). In 1992, Fred Hilmer was commissioned to head a committee of inquiry into how best to further a national approach to competition policy.

The Hilmer report identified six elements to a national framework: limiting anti-competitive conduct, reforming legislation that unjustifiably restricted competition, reforming the structure of public monopolies to facilitate competition, providing third-party access to facilities essential for competition, restraining monopoly pricing and fostering competitive neutrality between the government and private sectors. It recommended that the *Trade Practices Act 1974* be extended to apply to all business activity in Australia, with exemptions only where a clear public benefit had been independently confirmed, the restructure and reform of public monopolies, and the reform of government businesses to compensate for the competitive advantages they held over the private sector (NCPR 1993).

The recommendations were implemented in a trio of intergovernmental agreements signed in April 1995: the Competition Principles Agreement, which laid out the principles of the reforms to be undertaken by the

national and state and territory governments, the Conduct Code Agreement and the Agreement to Implement the National Competition Policy and Related Reforms. In relation to the reform of government businesses, the Competition Principles Agreement committed all Australian governments to the adoption of a corporatisation model, including the imposition of an independent process for prices oversight, full taxation or taxation equivalents, debt guarantee fees and any regulations applying to the private sector (NCC 1998). The implementation of competition policy in Tasmania was a significant undertaking, with 213 pieces of legislation requiring review, and some reviews requiring possible consultation and joint action with other governments (SCFIPA 1997).

Competition policy did include what was commonly known as a ‘public interest’ or ‘public benefit test’, which was designed to assess whether the overall impact of introducing competition was in the interests of community welfare (SCFIPA 1997). It was not explicitly laid out in those terms in the Competition Principles Agreement, but the signatories were required, when deciding on particular courses of action, to take into account any matters related to ecological sustainability, social welfare and equity, occupational health and safety, industrial relations and access and equity, economic and regional development, consumer interests, competitiveness of business and efficiency in resource allocation (NCC 1998). There was some controversy over the matters listed, with business and industry groups wanting greater emphasis to be placed on competition, efficiency and growth and for long-term benefits to be better balanced against short-term costs, while unions and local government were more concerned about the elements relating to social equity. But in reality, many public benefit assessments were political in nature (SCFIPA 1997), and the test was often ignored in practice (Quiggin 2001).

### **3.3. The costs of reform**

The National Competition Council is careful to state on its website that national competition policy “does not require privatisation, blanket deregulation, free markets, welfare cutbacks, contracting out, reduced social services or a focus on markets, money and materialism” (NCC 2007). But there has always been concern that these things will be the result of an increased focus on commercial objectives. Concern about the loss of government responsibility and accountability over statutory authorities and GBEs, particularly in relation to their social responsibilities, triggered a federal parliamentary inquiry in 1992 which conceded that profitable performance could be pursued at the expense of social responsibilities in commercially-oriented agencies (JCPA 1992). Some international commentators are now criticising the market-oriented approach for failing to recognise that there is a fundamental difference between public and private interests and that concepts like efficiency, transparency and responsibility cannot be applied in the same way to each sector (Drechsler 2005).

Competition policy reform was expected to result in price reductions, lower inflation, more growth, more jobs and uniform protection of consumer and business rights, as well as a 5.5% or \$23 billion long run annual gain in real GDP<sup>1</sup>, but there was no significant analysis at the time of the broader costs of the reforms, such as the impact on employment, working conditions, social welfare, equity and the environment. There was concern that the national benefits of the reforms may not outweigh the costs to some communities, particularly those losing jobs (SCFIPA 1997). There is evidence to suggest that many of the cost savings in the public sector were attributable to a reduction in the number of workers and increased workloads for those who remained (Quiggin 1996). A review of competition policy implementation in Victorian hospitals found that although the reforms did achieve significant cost savings, the impact on workers was one of increased workloads, labour shortages, reduced commitment and morale, and increased levels of stress and ill-health. Long-term consequences included the loss of career pathways and internal training and development as

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<sup>1</sup> These benefits were not uncontested. In relation to this figure, research by Quiggin argued that estimated benefits were likely to be considerably lower. The figure of 5.5% was from modelling by the Industry Commission; Quiggin calculated a percentage gain of just 0.48% per annum (Quiggin 1996 in SCFIPA 1997: Appendix 4).

implementation of the reforms took place in the context of severe budget cuts under the Kennett Government (Stanton et al 2003). A limited attempt to model the impact of GBE price reforms in the electricity and water, sewerage and drainage sectors on household expenditure found that the income decile with the highest dependence on Centrelink payments was the worst off under the changes (Industry Commission 1996). In New Zealand, similar reforms to those pursued in Australia generated positive results on a range of economic indicators, with declining unemployment, surplus budgets and significant efficiencies in previously state-owned industries. But these gains have been disputed, and there is also evidence to suggest that income inequality and relative poverty levels increased, and that many of the new jobs generated were poorly paid, part-time or casual positions only (Mulgan 1997).

There were other costs as well. Quiggin (2001) concludes that Telecom (now fully privatised as Telstra) did achieve significant productivity growth following its conversion to a statutory authority in 1975, but that its later corporatisation did not lead to any further improvements. And while corporatisation and outsourcing allows governments to save costs and focus more on core business, it does require the implementation of a more rigorous monitoring regime so as to ensure that public money is being spent appropriately (Minns et al 2003). During the 1990s the wider community also became increasingly disillusioned with some aspects of the public sector reforms and competition policy, particularly following the recession of 1989-92, high profile examples of unethical corporate activity and corporate failure, a focus on economic efficiency over other aspects of the public benefit test and the loss of the economic certainty of earlier years. People began to turn against privatisation as a policy and there was renewed concern about the place of human, social and natural capital in contributing to both social and economic wellbeing (Quiggin 2001).

## **4. Corporatisation in Tasmania**

### **4.1. Background**

Corporatisation is the process of establishing a government business as a separate entity that operates as a private sector business, while retaining government ownership (see FMRB 1992, Department of Treasury and Finance 2006, Minns et al 2003). Proponents argue that corporatisation allows a business to become more efficient, particularly in relation to meeting the changing needs of customers (FMRB 1992). A corporatised business will have its own Board of Directors responsible for decision-making, but government will retain control over its broad policy direction and performance targets (Minns et al 2003).

A corporatised business has a commercial focus and applies commercial business thinking. It has the freedom to set its own policies on wages and conditions for workers, and develop a financial reporting system based on the needs of the business. However, implementing a corporatised model does incur upfront costs in relation to incorporation, legal and taxation advice, corporate branding and information systems, and ongoing costs in relation to Directors' fees, compliance fees and performance monitoring (Department of Treasury and Finance 2006).

The only reference to 'corporatisation' in Tasmanian legislation is contained in the *Local Government Act 1993*, which states that a single or joint authority established by a council must have rules that are "consistent with the requirements of the corporatisation model for government business enterprises referred to in the Competition Principles Agreement made between the Commonwealth, the States and the Territories" (s.38.2.a). The Department of Treasury and Finance (2006) has identified five key principles of corporatisation: clear and non-conflicting commercial objectives (with any non-commercial objectives subjected to explicit contracts and funding arrangements); management responsibility, autonomy and accountability; effective financial and non-financial performance monitoring; rewards and sanctions relating to performance; and competitive neutrality.

Some of the tensions involved in corporatising government services were evident in the recent hearing conducted by the Legislative Council Government Businesses Scrutiny Committee on the Public Trustee. Committee members argued that many people had an expectation or perception that because it was a government business, the Public Trustee provided a free service to members of the public, when in fact it charges fees (Hansard 2007a).

In corporatising its businesses, the Tasmanian Government has established two models: the government business enterprise (GBE) model, and the state-owned company or corporation (SOC) model. The GBEs are Forestry Tasmania, the Hydro-Electric Corporation (Hydro Tasmania), the Motor Accidents Insurance Board, the Port Arthur Historic Site Management Authority, the Rivers and Water Supply Commission, the Tasmanian International Velodrome Management Authority (also known as the Silverdome), the Tasmanian Public Finance Corporation (Tascorp) and the Public Trustee. The SOC's are Aurora Energy, Metro Tasmania, Tote Tasmania, Transend Networks, the TT-Line Company, the Tasmanian Ports Corporation (TasPorts), and the King Island Ports Corporation. The latter two are both wholly owned subsidiaries of TasPorts. Each business is established under specific legislation defining its purpose and general functions (Auditor-General 2007).<sup>2</sup>

## 4.2. Government Business Enterprises

Government business enterprises (GBEs) are statutory authorities subject to the provisions of their enabling legislation and to the provisions of the *Government Business Enterprises Act 1995*. The Act was introduced as part of the national competition policy reforms (Auditor-General 2007). It states that the formal objectives of a GBE are to operate efficiently as a successful business in accordance with sound commercial practice, to achieve a sustainable commercial rate of return, to perform any community service obligations efficiently and effectively, and to perform any other objectives specified in its establishing legislation (s.7). GBEs are generally required to pay income tax equivalents, guarantee fees (to compensate for the lower borrowing rates available to government), and, on the recommendation of the Board, a dividend into the Consolidated Fund (ss.66-89).

The policy expectations of the responsible Minister – called the Portfolio Minister – and the Treasurer are to be laid out in a GBE's Ministerial Charter, and the Board of the GBE is obliged to ensure that the GBE conducts its business and affairs in a manner consistent with the Charter (ss.36-8). The Treasurer also has the power to issue binding written instructions to the GBE on any matter required or authorised under the Act (s.114).

As well as setting out expectations in relation to the GBE's objectives, strategic directions, scope, performance targets, financial considerations, pricing policies and human resources, the Ministerial Charter includes expectations in relation to any non-commercial activities that might be performed by the GBE. For example, the original Hydro-Electric Corporation Charter specifies that the Corporation's non-commercial activities are to include the provision of concessional arrangements to certain customers, including Pension Concession Card holders and customers on King and Flinders Islands (Gray 1995).

## 4.3. State Owned Corporations

State-owned corporations or companies (SOCs) are government businesses and authorities that may be subject to the provisions of their enabling legislation and are also subject to the provisions of the *Commonwealth Corporations Act 2001*. The government is the sole shareholder in each SOC on behalf of the Tasmanian community, and the SOC's governance framework is set out in the applicable legislation and

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<sup>2</sup> The Hobart International Airport was a SOC but has since been sold.

its constitution. SOCs serve a public purpose, are autonomous in day-to-day decision-making but receive Ministerial direction through their strategic planning process, and are required to pay guarantee fees, taxation equivalents and dividends to the Government (Auditor-General 2007).

Various commentators have raised concerns about the tensions inherent in the government-owned corporation model. For example, there can be tensions between accountability to customers and accountability to Parliament. In the 1990s the Department of Administrative Services prioritised a customer's interests and confidentiality over its obligations to Parliament, and withheld information from a Senate committee. The incident ultimately led to a censure motion against the responsible Minister and his Senate representative (Clarke 1995). There can be tensions between commercial goals and the public interest: the managers of a corporate entity have a fiduciary obligation to maximise profits by whatever means appropriate (unless overridden by their shareholders). They do not have comparable obligations in relation to social welfare objectives (Quiggin 2001). The Department of Treasury and Finance (2006) acknowledges that it is critical that the corporative governance structure minimise the risk of conflict between commercial and non-commercial objectives.

A Board's independence and capacity to carry out its legal obligations can be compromised when government, through the Minister, has the capacity to intervene in or control strategic direction, the appointment of Directors and managers or the content of corporate documents (McDonough 1998). And Bottomley (1994 in McDonough 1998) has argued that the provisions for accountability and governance in corporations created under general legislation are governed by non-specific legislation and non-legislative documents, rather than through the explicit and specific engagement of parliamentary control, limiting the input and scrutiny of Parliament over the operations of such corporations.

#### **4.4. Community service obligations**

The term 'community service obligation' or 'CSO' appears unique to Australia and the Australian form of government. Yet a survey of 65 employees of GBEs and 22 academics with an interest in public sector accounting found that there was no clear consensus on the definition of a CSO, although there was some congruence on what sorts of services constituted a CSO (Baird 2001). Interpretations can range from a belief that CSOs represent the minimum standards for service delivery through to a belief that CSOs incorporate the entire public sector itself (SCFIPA 1997).

Australian governments have now generally accepted a definition of CSOs developed through the Industry Commission (now the Productivity Commission), which states that a CSO "arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices" (Industry Commission 1997: 7), although some jurisdictions have introduced variations – Tasmania requires a CSO to be a net cost to the GBE and specifically excludes certain activities, such as the costs of meeting regulation or corporate social responsibility activities while New South Wales requires the CSO to have a specific social objective.

Generally, CSOs fit into three broad categories – uniform provision of a particular service irrespective of the cost of provision, such as service provision in rural areas at the same price that applies in urban areas; concessionary provision of a service to special groups of consumers; or a requirement that a provider purchase from a particular source or under particular supply conditions that do not apply in the private sector (SCNPMGTE 1994). Some CSOs do seem to lie outside these categories – at a Commonwealth level, examples include the provision of national mapping and surveying services and quarantine protection (Mellors 1995). A federal parliamentary committee stated that "[m]ost CSOs provide essential services... and operate in ways which impact directly on social welfare. CSOs are critically important in ensuring those



services are provided to lower income and/or socially disadvantaged groups and to those in rural and regional areas...” (SCFIPA 1997: p.43).

Under the Tasmanian *Government Business Enterprises Act*, a community service obligation (CSO) must either be formally declared by the Treasurer or come about as the direct result of a formal direction given jointly by the Treasurer and Portfolio Minister (ss.61, 65.1). In declaring an activity a CSO, the Treasurer must be satisfied that the activity is or will be performed as the direct result of a direction given to the GBE or a requirement made of the GBE by legislation, and that the activity would not be performed if the GBE were a business in the private sector operating according to sound commercial practice.

The Treasurer has also issued written Instructions under s.114 of the Act which lay out the Government’s policy position in relation to CSOs. The policy states that focus of GBEs should be commercial. Since CSOs are potentially distracting or compromising, they need to be identified, justified and separately accounted for. The Government’s preferred approach is that CSOs be costed on the basis of ‘avoidable cost’<sup>3</sup>, that they be funded out of the Consolidated Fund through the normal Budget process, and that they be controlled through a contractual arrangement between the Government and the GBE (Tasmanian Treasurer 1996). The instructions also note that in order to maximise efficiency, costs will be calculated according to national and international best practice, not the actual costs borne by the organisation at the time the CSO is declared, and that some CSOs may be subject to competitive tender in the future.

According to the Industry Commission (1997), having a methodology for identifying and funding CSOs also allows the government to identify the social policy objectives that lie behind CSOs, and therefore enable governments to decide the most appropriate way to achieve that policy objective. That may not necessarily be by funding the GBE in question to deliver the CSO – it could be by contracting out the provision of the CSO to another agency,<sup>4</sup> or through a different method entirely.

A particular concern of governments in relation to CSOs is transparency. The then Secretary of the Department of Administrative Services, John Mellors, argued in 1995 that the critical issues in funding CSOs were assuring commercial competitors that CSOs were not being used to cross-subsidise commercial services and assuring stakeholders that they were getting value for money from CSO funding (Mellors 1995).<sup>5</sup> Humphry (1997 in Baird 2001) argues that subjecting CSOs to the budget scrutiny process is the best way to ensure that they are appropriate, cost-effective and open to competition for funding with other government policy objectives, and the Tasmanian Treasurer’s Instructions on CSOs state that funding CSOs through the Consolidated Fund will make the policy objectives of each CSO more explicit and ensure greater equity, government control, accountability and transparency (Tasmanian Treasurer 1996).

The process of defining CSOs is not however straightforward, as the example of Australia Post shows. Under the *Australian Postal Corporation Act 1989*, Australia Post, which is a Commonwealth GBE, has an

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<sup>3</sup> Avoidable cost means all the costs that the GBE would avoid paying if it did not have to provide the CSO (Tasmanian Treasurer 1996).

<sup>4</sup> The Industry Commission (1997) notes that if the CSO were funded by an agency that was not a GBE, it would of course no longer be a CSO by definition, but a voluntary, commercial contractual arrangement between the government and the provider. This would mean the CSO became a budget-funded social program designed to achieve the government’s social objectives, in the same way as social objectives are achieved by other outsourced welfare or social programs delivered on a contract basis by non-government, not-for-profit or private sector organisations, and a stringent monitoring regime would be required (SCFIPA 1997).

<sup>5</sup> Concerns in relation to cross-subsidisation of CSOs are usually the other way around – that commercial services will be used to subsidise delivery of the CSO. This concern emerged recently in Tasmania with regard to the Public Trustee (Hansard 2007a). The objections to cross-subsidisation of CSOs are that the cost of providing the CSO pushes up the prices paid by other customers, which is both unfair on the customers paying inflated prices and potentially opens the provider to being undercut by competitors, that there is a lack of transparency because governments can make decisions in relation to the CSO without parliamentary approval or clarity around costs and benefits, and that, by blurring the divide between commercial and non-commercial services, the CSO inhibits effective performance monitoring of the enterprise or corporation (SCNPMGTE 1994).

obligation to provide mail delivery at a single, uniform rate (then 45 cents for a standard letter) within Australia, and make the service “reasonably accessible” to all people on an equitable basis (s.27). In 1997, the Industry Commission pointed out that the Act did not specify the frequency of deliveries required to meet the obligation and it did not define the term “reasonably accessible” (Industry Commission 1997). The *Australian Postal Corporation Amendment Act 1994* had inserted a section into the Act on performance standards and audits (ss.28B-E), but it was not until 1998 that regulations imposed under that section set out the performance targets which Australia Post was required to meet, including the minimum number of street posting boxes, maximum timeframes for delivery, distances to nearest mail lodgement outlets for metropolitan and non-metropolitan areas and frequency of deliveries (*Australian Postal Corporation [Performance Standards] Regulations 1998*, gazetted 27 May 1998 and *Australian Postal Corporation [Performance Standards] Regulations 1998 [Amendment]*, gazetted 30 June 1998).

However, when objectives are spelled out as exhaustively as this, the broader objective of serving the public interest is at risk of being overlooked – CSOs work well in relation to price-setting and other quantifiable matters, but less well when the requirement is around qualitative matters, such as the nature of services to be provided, because this is harder to specify contractually. So, for example, while Australia Post is required under its regulations to maintain at least 4,000 retail outlets Australia-wide, with not less than 2,500 in rural or remote areas, it is not explicitly required to maintain this network of country outlets so as to support regional vitality – this aspect of the role that Australia Post once played in regional communities is lost (Quiggin 2001).

## **5. Case studies**

### **5.1. The Public Trustee**

The Public Trustee was originally established under the *Public Trustee Act 1930*. It is also a GBE subject to the *Government Business Enterprises Act*. The Public Trustee’s role is to provide trustee services to the Tasmanian community, including services like preparing wills and enduring powers of attorney, acting as the trustee for various types of trusts or as the executor or administrator of estates, assisting other trustees and executors in their duties, and managing funds under the control of the Public Trustee in order to provide a commercial rate of return to contributors. The Public Trustee also has a declared CSO to administer the estates, trusts and the financial affairs of represented persons (those people whom the Guardianship and Administration Board considers incapable of managing their own financial affairs), notwithstanding that the financial value of these matters prohibits full cost recovery (Public Trustee 2006). Eligibility for the CSO is means-tested, with eligible matters including the administration of estates with assets of less than \$60,000, continuing trusts and life tenancies valued at less than \$100,000, the finances of represented persons with assets of less than \$100,000 and minor trusts with assets of less than \$20,000 (Hansard 2007a).

The Public Trustee’s CSO services are purchased from the Public Trustee by the Treasurer. Previously, the CSO funding received by the Public Trustee was not sufficient to cover the full cost of providing the CSO, even following an announcement by the then Attorney-General Judy Jackson in 2005 that the State Government had increased its CSO contribution so that the Public Trustee could abolish some of its fees and charges for represented persons (ABC 2005). To make up the shortfall, the Public Trustee had to cross-subsidise the concession. In 2007-08 the Government will for the first time be providing the Public Trustee with sufficient funding that it will no longer need to cross-subsidise, although it will still charge fees. This funding is being provided on a net avoidable cost basis for one year. During the year, the Public Trustee is expected to review its funding methodology, including eligibility tests (Hansard 2007a).

In its 2004-05 annual report, the Guardianship and Administration Board noted that the abolition of upfront fees and charges made professional administration more realistic for more people (GAB 2005). However,

the Public Trustee still charges represented persons \$24.50 per week for their administration service. For a single person aged over 21 on the Disability Support Pension (DSP), this represents 9% of their weekly income.<sup>6</sup> The CEO of the Public Trustee stated at the December 2007 Legislative Council Government Businesses Scrutiny Committee hearings that this cost was “not too much of a burden really”, given the value of the service and the complexity and number of the cases involved (Hansard 2007a), but research has identified the significant financial burdens faced by people on the DSP and the high levels of hardship many of them face on a day-to-day basis (Cameron and Flanagan 2004, Hinton 2006). In recognition of this, community sector advocates have for some years argued that all fees and charges associated with the financial administration service for represented persons with assets of less than \$100,000 be abolished (see for example Anglicare Tasmania 2005). This would cost the government just \$155,000 in additional annual CSO funding (Hansard 2007a). In addition, a Legislative Council committee has previously concluded that the Government should review the \$100,000 asset limit for represented persons given the increase in property values and the likely impacts on people who are ‘asset rich but income poor’ (GBSC B 2006).

**This case study raises the following concern:**

There is no guarantee that a CSO or CSO-like activity will be fully funded by the Government. If it is not, the GBE or SOC must make up the shortfall, either through cross-subsidisation from its commercial activities or, if there is not the capacity to do this or the GBE or SOC chooses not to do this, through the imposition of user-charges on its clients, who can be extremely disadvantaged as a result.

Under the *Government Business Enterprises Act*, the basis of funding a CSO “in whole or in part” is determined by the Treasurer in consultation with the Portfolio Minister and the GBE (s.63). There is no obligation under the Act for the CSO to be funded at the same level as its costs. That there are incentives for the Government to limit funding for the CSO can be demonstrated by this statement from the Northern Territory Treasury (note: the Northern Territory calls its corporatised agencies and authorities Government Business Divisions, or GBDs):

As owner of the GBD, the Government is entitled to pursue its broader policy objectives by exercising its rights of ownership and requiring the GBD to provide certain non-commercial services. As a customer of the GBD, the Government has a right to negotiate the best price it can for the performance of those services. By negotiating a price for the provision of CSOs the Government can also ensure that the cost of providing these services is minimised and that the GBD has an incentive to perform these services in an efficient manner (NTT 1996: 96).

## **5.2. Aurora Energy**

Aurora Energy is an electricity distribution and retail company owned by the Tasmanian Government, distributing electricity through its network of poles, lines and substations, and then selling the electricity distributed to business and residential customers. It was formed under the *Electricity Companies Act 1997* and is incorporated under Corporations Law (Aurora Energy 2007).

Aurora plans a \$588 million capital program to upgrade and extend its electricity distribution system over the next five years. It is this program that has led to the recent announcement that electricity prices will rise in 2008 (Hansard 2007b). At the same time as prices increase, the State Government is anticipating additional returns from Aurora in its 2008-09 and 2009-10 Budgets. Aurora’s position on this is that it is reasonable for shareholders who have increased their investment in a business to expect their returns to also increase (Hansard 2007b). The returns Aurora already provides are healthy, with a return on investment of 12.3% in

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<sup>6</sup> For a single person aged over 21, the maximum DSP entitlement excluding Commonwealth Rent Assistance is \$537.70 a fortnight, or \$268.85 a week. Centrelink payment data taken from <www.centrelink.gov.au> on 14 December 2007.

2006-07 and a dividend to the Consolidated Fund of \$10.7 million (Aurora Energy 2007). Aurora also provides a discount on electricity to holders of Commonwealth Pension Concession and Health Care Cards. This discount is funded by the Tasmanian Government and delivered via a contract between the Government and Aurora and is comparable to a community service obligation (Auditor-General 2007). In 2007, Aurora received \$11.8 million under this agreement (Aurora Energy 2007).

However, decisions relating to the level of concession provided are made by the State Government, not by Aurora (see Aird 2007), and as Aurora is a SOC, not a GBE, neither the Minister nor Treasurer has the power to compel it to administer the concession. Under Aurora's establishing legislation, the *Electricity Companies Act 1997*, its principal objectives are to operate in accordance with sound commercial practice and maximise its returns to shareholders (s.6). While under various provisions of the Act, Aurora is to be treated as a GBE for the purposes of certain provisions in the GBE Act, these provisions relate to tax equivalents, guarantee fees and dividends, not community service obligations, and although the Minister can enter into an agreement with the company in relation to the performance or cessation of activities, this agreement requires the approval of both the Treasurer and of the Board of the company (s.19.1).

**This case study raises the following concern:**

The SOC model prioritises commercial objectives over social and community objectives. This leaves open the potential for social and community objectives to be compromised, particularly if the company makes a commercial decision – as Aurora did, in applying for a price increase to fund its capital investment program (Hansard 2007b) – that disadvantages community members, and the State Government fails to make any policy adjustment to compensate for this, as could have occurred recently if the Treasurer had chosen not to increase electricity concessions.

It is Anglicare's experience that Aurora's commitment to and engagement with the wider community is genuine. One of the company's core values, as listed in its annual report, is social and environmental responsibility (Aurora Energy 2007) and Aurora demonstrates this through a comprehensive corporate social responsibility program that includes support for the No Interest Loans Scheme (NILS) and the provision of \$100,000 in annual funding to welfare organisations for disbursement to clients experiencing hardship due to electricity costs (Hansard 2007b). This hardship program funding is to increase by 15% to \$117,000 in order to absorb the impact of the 2008 electricity price increases (ABC 2007).

However, there is no guarantee that this approach would continue were the company to experience a change in management or further reform through privatisation. During the recent Government Business Scrutiny hearings, the Chair of Aurora stated that, "philosophically it worries me that we are being scrutinised this morning and our competitors are not" (Hansard 2007b: 5). This statement, and others made throughout the hearing, demonstrates the tensions that exist between the commercial goals of the company, which are achieved through remaining competitive and protecting that competitive advantage through keeping some information commercial-in-confidence, and the company's accountability to Parliament and parliamentary processes, which have the broader goal of achieving the public good.

### **5.3. Metro Tasmania**

Metro Tasmania's establishing legislation, the *Metro Tasmania Act 1997*, sets out its core purpose as the provision of road passenger transport services to Tasmanians in accordance with sound commercial practice (Metro Tasmania 2007). As a state-owned corporation, Metro Tasmania is not subject to the *Government Business Enterprises Act* and its community service obligation provisions, but Metro does have a contract with the Department of Infrastructure, Energy and Resources to provide concession travel and non-commercial services (services that run on non-profitable routes). Payments under the contract are determined on the basis that Metro achieve a break-even result (Auditor-General 2007). The contract is

critical to Metro's survival: about three quarters of Metro's passengers travel on some sort of concession ticket, and many of its regional routes are non-commercial, even at full price fares (Hansard 2007c).

A Legislative Council committee in March 2007 found that the break-even funding arrangement prevents Metro from generating a surplus, placing Metro's bus replacement program, which aims to upgrade the fleet and ensure a quarter of its buses are accessible by 2007, under threat and recommended that the Government increase its funding to Metro to ensure that the program was not compromised (GBSC A 2007). Metro also faces pressure due to a long-term decline in patronage and the need to 'green' the fleet in response to climate change and the rising cost of petrol (Hansard 2007c).

The Industry Commission has previously criticised the use of CSOs and similar arrangements in urban transport, arguing that they do not deliver value for money, can be inequitable (such as when concessions are provided on the basis of age rather than income) or 'leak' to wealthier groups, and ignore the reality that many disadvantaged people are dependent on private rather than public transport, or are excluded from public transport due to disability (Industry Commission 1994). There is also a strong relationship between concessions of the type provided to Metro passengers and the social security system, because eligibility for a travel concession often depends on eligibility for a Commonwealth concession card. These relationships can become critical for people on very low incomes and adjustments to one must consider the impact on the other. A parliamentary committee recommended national coordination through COAG (SCFIPA 1997).

**This case study raises the following concern:**

It is difficult for a government business which provides the bulk of its services to disadvantaged people to operate on a commercial basis, because the majority of its services will be non-commercial in nature and under a corporatised model, require direct government funding. If the business then lacks sufficient alternative commercial revenue to generate adequate returns outside its funding contract with the government, its ongoing sustainability and viability as a commercial operation is endangered.

Metro's principal objective under its establishing legislation is the provision of transport services in accordance with sound commercial practice (s.5) – there is no explicit reference to generating a profit, and unlike other SOCs, Metro is not subject to the provisions of the *Government Business Enterprises Act* relating to the payment of dividends. Metro's financial statements are prepared on the basis that it is a not-for-profit entity (Auditor-General 2007). But these financial constraints have placed in danger a program which is not subject to a community service agreement but which does have a significant community impact – the provision of safe and accessible transport to people who rely on public transport, especially those with disabilities or other mobility issues. It is clear that Metro is struggling to be a successful commercial entity, but its current structure means it is also struggling to achieve the broader social and community goals that would or should be the aim of government.

#### **5.4. The Housing New Zealand Corporation**

The Housing New Zealand Corporation is a statutory corporation which provides public rental housing and home ownership assistance to low income earners. It has a Board which is responsible for setting strategic direction, appointing the CEO, monitoring performance and ensuring legislative compliance. The Corporation has accountability requirements similar to those of Tasmania's GBEs and SOCs – it tables a statement of intent for the year and an annual report in Parliament, and reports on performance every quarter to the Minister for Housing (HNZC 2007a). In 2006-07, the Corporation achieved a net operating surplus of \$NZ13.0 million, despite 91% of tenants being eligible for income-related rents (HNZC 2007b). But since the early 1990s, the Corporation has undergone a significant period of reform and restructure which has had far-reaching consequences for its clients.

The changes to the Corporation were part of a broader reform agenda introduced by the Labour Government and expanded by the National Government that was designed to improve public sector efficiency (Pawson et al 1996). New Zealand was seen in the 1990s as a trailblazer in public sector reform and held up for other countries to emulate. The Government implemented similar reforms to the ones adopted in Australia in relation to deregulation and corporatisation, but New Zealand was much more aggressive, particularly in relation to public service restructuring, extending the reforms beyond transport and communications into defence, justice, science, conservation, education and health services (Mulgan 1997).

Since 1974, the Housing Corporation New Zealand had provided public housing and home purchase assistance, overseen residential tenancy legislation, and administered the papakainga housing scheme, which gave loans to Maori people to build on collectively-owned rural land. By 1991, the Housing Corporation controlled almost 70,000 public housing dwellings across the country, \$710 million in revenue and \$8.6 billion in assets. However, the Budget that year introduced radical reforms, including the creation of a new enterprise, established as a Crown entity with defined social responsibilities, called Housing New Zealand to manage public housing stock, and – in 1992 – the creation of the Ministry of Housing to provide policy advice on housing. In 1992 and 1994, \$1.2 billion of Housing Corporation mortgages taken out by low income earners under the home purchase assistance scheme were sold on the open market. Housing New Zealand's commercial focus also led to the sale of public housing in areas where there was a high demand for owner-occupation, and the purchase of any replacement stock in cheaper, lower-amenity areas with poor socio-economic indicators (Pawson et al 1996). By August 2000, Housing New Zealand had sold 10,000 properties, or 15% of New Zealand's public housing stock, and had plans to sell a further 20,000 (Hall and Berry 2004).

As a trading entity, Housing New Zealand was extremely successful. It achieved significant profits, paid off its debt, and generated large returns to Treasury (Hall and Berry 2004). As a community service provider, it was not so successful. The Government replaced the provision of in-kind housing support (subsidised public housing) with cash support through income supplementation by introducing market rents for all public housing properties and paying a new Accommodation Supplement through the social security system to all eligible tenants, whether they were in public or private rental housing. The Government said that the new system improved equity between public and private tenants, who would now be paying comparable rents and receiving the same level of public subsidy (Pawson et al 1996).

But evidence from tenants and housing support workers was that the market rent regime led to massive increases in public tenants' rent, with tenants relying on support from food-banks to survive, unhealthy levels of overcrowding as people moved in with friends and relatives to pool costs, and high vacancy rates in public housing because tenants could no longer afford to live there (NZMCH 2007). Accommodation supplement was meant to allow tenants greater choice – market rents varied according to location and amenity, and tenants were to assess these and make appropriate trade-offs. In reality, they congregated in cheap and poorly-constructed housing in areas far from jobs and services, in a market where there were few safeguards to protect their rights (Pawson et al 1996). Among tenants remaining in public housing, a significant number were paying more than half their income in rent. Housing New Zealand's focus on asset sales was also at the expense of attention to maintenance, and a massive backlog accumulated (Hall and Berry 2004).

In August 2000, the incoming Labour Government introduced the *Housing Restructuring (Income Related Rents) Amendment Act*, which abolished Accommodation Supplement and reinstated income-related rents, setting them at a maximum of 25% of after-tax income. A new Housing New Zealand Corporation was established, with a funding agreement that provided it with funding to cover the gap between the income-related rents paid by tenants and the market rents on the properties (Hall and Berry 2004).

**This case study raises the following concern:**

Putting a public housing provider on a corporate footing without sufficient attention to the cost of its community service obligations has the potential to hurt the interests of clients, both tenants and potential

tenants. Housing New Zealand was able to achieve excellent commercial results, but only through significant rent increases, asset sales, lack of attention to maintenance and reliance on cheap, disadvantaged housing estates. New Zealand's public housing system had originally been developed in response to concerns about the poor quality of 'affordable' housing in the 1930s (Rudd 1997). The corporatisation of Housing New Zealand recreated many of these problems in the 1990s.

The Housing New Zealand Corporation is still established on a corporate model, and still operates successfully. The critical difference is that the New Zealand Government has chosen to ensure the viability and sustainability of the Corporation by meeting the full cost of Housing New Zealand's community service obligations. The Corporation would not be able to achieve the results it has under existing policy settings without the provision of this funding (Hall and Berry 2004).

## 5.5. Territory Housing

The Northern Territory reformed its government business enterprises in 1995, establishing them as Government Business Divisions (GBDs) under the *Financial Management Act* (NTT 1999). The Act defines a GBD as "an agency, or part of an agency that – (a) recovers a significant proportion of its operating costs through charges on users; and (b) is determined by the Treasurer to be a Government Business Division" (s.3). The Act places no specific obligation on GBDs to commercialise, although under s.36.2, the Treasurer may require the GBD to pay a dividend to Treasury if satisfied that the GBD has the resources to do so, and under s.10.2, GBDs must prepare annual financial statements using commercial accounting principles. The Northern Territory's housing department, Territory Housing, is classified as a GBD, with identified community service obligations that include public housing rent subsidies, stamp duty concessions for first home buyers, low interest home loans and home loan deposit assistance (NTT 1999).

The classification of agencies as GBDs was intended to allow the Northern Territory Government to develop an operational policy framework that increased the agencies' commercial focus by introducing a range of commercial practices including full cost attribution, cost-based pricing, identification and budget-funding of any CSOs and financial and non-financial performance monitoring systems (NTT 1996). Additional reforms to further improve efficiency and productivity were announced in 1998, including reforms to CSO policy, dividend policy and capital structures, performance monitoring and budget treatment and financial management (NTT 1999).

Despite operating as a corporatised agency, however, Territory Housing is, like other public housing providers, struggling to deliver enough housing and services to meet demand (NTCOSS 2006). Public housing is increasingly targeted, with the proportion of tenants on subsidised rents increasing from 43% to 80% between 1990-91 and 2000-01, and then to 84% by 2005-06, and Territory Housing is carrying a significant debt burden and maintenance backlog. Since 2000-01, almost 10% of public housing stock has been lost (Hall and Berry 2007). The financial situation is expected to worsen now that Territory Housing has taken over responsibility for management of indigenous housing from remote communities, where the appalling condition of the housing and the lack of supporting infrastructure will make it very difficult to set fair rents at levels that can achieve the hoped for efficiency and revenue gains (Vine Bromley 2007).

Territory Housing is expected to make a pre-tax loss of \$12.2 million in 2007-08, which includes a loss from public housing and a significant loss from remote and community housing. The operating performance of public housing is expected to improve on the previous year, but only due to a \$1.5 million profit on asset sales, which means a decline in public housing stock. Although budgeted expenditure for public housing is \$62.2 million in 2007-08, Territory Housing will only receive CSO payments of \$15.5 million (NTT 2007). The difference is currently made up by supplementing CSO funding with funding from the Commonwealth State Housing Agreement (Territory Housing 2007). A review by Hall and Berry (2007) found that between 1990-91 and 2005-06, Territory Housing's real operating deficit per dwelling has grown by 297%. If interest

and depreciation are included in the calculations, the deficit is tripled. Hall and Berry concluded that for the operating result to return to surplus, CSO funding that recognised the full cost of discounted rents would need to be introduced, and Territory Housing would need to be freed from its debt-servicing liabilities.

**This case study raises the following concern:**

The corporate model does not deliver for public housing unless sufficient government funding is provided to meet the full cost of the agency's community service obligations – as is done in New Zealand. This is particularly the case when performance requirements in relation to targeting to clients in greatest need are imposed, because this has a significant impact on rental revenue.

Territory Housing's situation is not unique: the review by Hall and Berry (2007) found that all Australian housing authorities were in operating deficit. But Territory Housing is presumably open to all of the advantages that can accrue from a corporatised structure and yet it is still struggling to achieve results for its clients and for the Government. In fact, it is the worst performing public housing authority in the country, second only to Tasmania and well behind the other states (Hall and Berry 2007).

## **5.6. Defence Housing Australia**

Defence Housing Australia (DHA), formerly the Defence Housing Authority, provides housing, tenancy, maintenance and relocation services for defence force members and administers a subsidised home loan scheme for serving and former members. It became a GBE in 1992, with shareholder Ministers including the Minister for Defence and the Minister for Finance and Administration. DHA manages a portfolio of 17,000 properties worth \$7 billion, and plans a \$1.6 billion capital program of acquisition, development and construction. Operationally, it is highly successful, generating an operational surplus of \$100 million in 2006-07, and meeting or exceeding the financial targets set by its shareholder ministers (Defence Housing Australia 2007). In 2005, DHA's responsible Ministers announced that DHA would expand into the provision of housing and related services to other Commonwealth agencies, and that its Board would be restructured into a smaller, more commercially-focussed body (Hill and Minchin 2005). The Chair of DHA, Peter V. Jones, believes that the changes will allow DHA to better compete in the market (Defence Housing Australia 2007).

DHA's capital program is to be funded primarily through its Sale and Lease Program, which sells DHA-owned properties to private investors under an arrangement to lease them back into DHA management. The lease commits DHA to the provision of property management and maintenance services and guarantees to the investor that there will be no loss of rent if the property is vacant, there will be no re-tenancing costs and rent paid will not fall below its starting point. Almost two thirds of DHA's 17,000 properties are head-leased from investors in this way. In April 2006, DHA sold \$98.2 million worth of residential properties to Westpac Funds Management Limited under a similar lease-back arrangement, and a further \$121.9 million worth in December 2006. DHA's annual report describes this transaction as "landmark" and "innovative", and says it will open up "new business opportunities and ... access to a new segment of the investor market" (Defence Housing Australia 2007: 6).

When stock no longer meets defence force operational requirements, is unsuitably located, does not meet minimum standards or is at the end of its economic life, DHA sells it to generate additional funding which it invests into its capital program. This surplus sales program earned \$68.4 million in revenue in 2006-07, but the number of properties that are surplus is diminishing. DHA does have loan arrangements with the Department of Finance and Administration, although it lacks a commercial overdraft or re-drawable loan facility, and had \$340 million in outstanding borrowings on 30 June 2007 (Defence Housing Australia 2007).

According to figures published in DHA's 2006-07 annual report for seven regions where DHA has housing stock, the number of properties sold and leased back, or sold as surplus stock, exceeds by 12 the number of



properties that DHA has acquired or constructed during the financial year. In those areas, DHA owns just 3,410 properties, while it leases over 10,300 from investors. The rationale for DHA's extensive capital program is to replace the 6,600 head-leases over the next three years that will not be renewed. Under the various head-leasing arrangements used by DHA, leases range from 3-12 years in length with an additional 3 years of options (Defence Housing Australia 2007).

DHA derives its operating funding through charging the Department of Defence for the provision of housing and relocation services and the Australian Customs Service for property services (Department of Defence 2007a). It is the Department of Defence that provides defence force members with their various housing assistance entitlements – barracks accommodation, service residences, temporary accommodation allowances or rent allowance (Department of Defence 2007b); DHA manages these services on behalf of the Department and they are not treated as a CSO.

**This case study raises the following concern:**

While it is possible for a housing provider to deliver commercial success, it can only do this in certain circumstances. DHA was chosen as a case study for this paper because on the surface it is a provider of subsidised housing that faces similar challenges, such as ageing stock, to those faced by Housing Tasmania, but operates successfully on both a commercial level and as a service provider. However, there are significant differences between the situation of DHA and that of Housing Tasmania.

Firstly, DHA is not responsible for meeting the costs of rent subsidies and other entitlements. These are provided in full to defence force members by the Department of Defence and do not negatively affect DHA's budget. Secondly, the contribution DHA's tenants are able to make to their rent is much higher than that of Housing Tasmania's tenants because DHA's tenants are salaried members of the defence forces, many on above-average wages. Thirdly, DHA tenants do not have the significant and complex needs of many of Housing Tasmania's tenants, and do not require the same level of intensive and expensive support. Were DHA required to meet the gap between rents paid by its tenants and the market rents on properties itself, were its tenants dependent on welfare payments as their main source of income, and were it required to provide ongoing support services to sustain its tenancies, then its financial position would be very different.

It is also worth noting that DHA is able to commit to its impressive capital program due to its reliance on head-leasing. The Sale and Lease-back program has, in addition to capital income, provided DHA with a degree of flexibility in meeting defence force requirements, but this policy has led to a considerable erosion in stock levels over time – stock that must be replaced as leases expire. Head-leasing has also been found to be more costly than housing provision through public ownership (Industry Commission 1993).

## **6. Conclusion: Should Housing Tasmania be corporatised?**

The case studies above raise a number of concerns about the corporatisation of government services, and in particular, the corporatisation of public housing. In summary,

- the structure and obligations of a corporate entity create a risk that commercial objectives will be prioritised over social and community objectives. There is no guarantee or requirement that a CSO (for a GBE) or CSO-like activity (for a SOC) will be fully funded by the government, yet failure to adequately fund or prioritise such activities, accompanied by a focus on commercial returns, can have devastating effects on disadvantaged people.
- use of a commercial model for a non-commercial service (which public housing in its current form very definitely is) can endanger the long-term sustainability and viability of the business, including its capacity to fund asset upgrades.
- a housing provider catering for high-needs clients on income-related rents is unable to operate commercially without government meeting the full cost of its community service obligation.

It is true that one reason the corporate model is attractive to Government is that a corporatised agency can borrow funds without the loan appearing on the Government's balance sheet. Debt is a significant source of finance for government businesses (Productivity Commission 2007). Aurora, for example, is anticipating its borrowings will increase significantly over the next three years from their present level of \$50 million in order to fund its planned capital program (Hansard 2007b). But it is a fallacy to suggest that borrowing funds in order to build housing supply is an option that would only be open to Housing Tasmania if it was converted into a GBE or SOC. This option is open to it as a Government agency. Most economists argue that debt-funding essential and long-term infrastructure is a sensible approach that does not endanger a government's economic standing (Felmingham et al 2007). There have been recent and encouraging signs that the Tasmanian Government is prepared to concede that debt-funding of infrastructure development may have its place (Lennon and Aird 2008).

One of the original rationales for public sector and competition policy reform was to improve the efficiency and effectiveness of Government agencies. Yet within the constraints of inadequate funding and long-term financial neglect by Government, the services provided by Housing Tasmania are already efficient and effective. Its vacancy rate is less than 2%, a very high proportion of allocations are to clients deemed as in greatest need or with special needs, its average turnaround time for vacant stock has been decreasing over time, and it has achieved above-average satisfaction scores in national tenant surveys (SCRGSP 2007). Its most significant challenges – ageing stock, a maintenance backlog and its debt to the Commonwealth – could be solved with additional investment.

According to the former Queensland Treasurer Keith de Lacy, an agency becoming a government-owned corporation must meet the following criteria: it must operate in a competitive environment, perform well commercially, have a commercially-experienced Board and management, have few community service obligations and derive little benefit from Government ownership (McDonough 1998). Very few of these elements are true for Housing Tasmania – its commercial performance is poor, it has considerable 'community service obligations', with over 84% of tenant households eligible for reduced rents (SCRGSP 2007) and a high proportion of tenants with complex needs, and the Government's willingness to accept its delivery of ongoing operational losses as 'revenue foregone' is critical to its survival. As a provider of rental housing, it is potentially operating in a highly competitive market, but the competition in this market is not about providing housing to tenants, especially not to disadvantaged tenants – it is about providing returns, including capital gains, to investors, and depends on increases in rent and house prices.

The Tasmanian community sector's collective policy position on public housing is that the State Government must provide Housing Tasmania with sufficient funding to operate viably and sustainably (Flanagan 2007). This would mean providing Housing Tasmania with sufficient funding to cover its operating deficit, most of which is due to the gap between rental revenue and operating costs, and removing the burden of debt repayment from Housing Tasmania to free up an additional \$17 million in funding per annum (see also Hall and Berry 2007).

It is possible that the State Government could provide this funding under a contractual arrangement with a newly corporatised Housing Tasmania or a new company set up in place of or parallel to Housing Tasmania, in the same way as it provides concessions to electricity customers through a contract with Aurora Energy. But the case studies included in the previous section demonstrate that there are no gains that could not be achieved under the current system and significant risks in adopting a commercial model to deliver a non-commercial service, particularly a service which works with people with highly complex needs and significant disadvantages and provides those people with something as essential and non-negotiable as housing.

## **7. Recommendation**

Anglicare Tasmania calls for:

- a clear commitment from the Tasmanian Government to retaining Housing Tasmania as a Budget-funded government agency and a core government service;
- a clear statement from the Tasmanian Government that it will not further undermine Housing Tasmania's position by creating a new corporatised entity to deliver public housing;
- the retirement of Housing Tasmania's debt to the Commonwealth; and
- the provision of sufficient recurrent funding to Housing Tasmania to enable Housing Tasmania to operate viably and sustainably, appropriately care for and manage its assets, support its tenants, respond to changing needs and increase supply if required.

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## **Going for growth:**

# **The pros and cons of using community housing associations to increase housing supply**

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**SOCIAL ACTION & RESEARCH CENTRE**

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TASMANIA

# GOING FOR GROWTH: THE PROS AND CONS OF USING COMMUNITY HOUSING ASSOCIATIONS TO INCREASE HOUSING SUPPLY

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## 1. Key points

- Housing authorities across Australia are moving towards a new strategy for increasing housing supply. The strategy is based on the provision of Government capital (either through funding grants or through the transfer of title to public housing properties) which the recipient community housing organisation then uses to leverage private investment. Governments are attracted to this approach, called a ‘growth provider’ model, because of a perception that community providers are more flexible and innovative than public housing authorities, and because community housing providers have access to additional resources through tax breaks and their tenants’ Commonwealth Rent Assistance.
- The new growth providers receive capital investment from government but no recurrent funding. They have to cover maintenance, tenancy management, operational costs and the repayments on their private loans out of their revenue, which mainly comes from the rent paid by tenants. Making sure there is enough rental revenue to cover costs can involve:
  - leasing a set proportion of the properties to moderate income earners, who then pay higher rents that can be used to cross-subsidise the lower income tenants;
  - increasing rents to increase the amount of Commonwealth Rent Assistance for which tenants are eligible; or
  - leasing some of the properties as ‘affordable housing’ instead of ‘community housing’. Generally, tenants in community housing pay income-linked rents (e.g. 25% of income), while tenants in affordable housing pay market-linked rents (e.g. 75% of market rent). Affordable housing rents are therefore much higher than community housing rents.All of these options mean an increased risk that tenants on very low incomes or with high or complex needs will be excluded from the new system.
- In order to be successful at leveraging private finance and managing the resulting developments, growth providers must operate on a sufficient scale to be cost-effective. They also need in-house knowledge, skills and capacity in a range of areas to support their involvement in property acquisition, housing development, asset management, property management, tenancy management, body corporate management, private rental management and possibly community building, economic development or the administration of home purchase schemes.
- Growth providers depend on private investment. For investors, there are two main drivers. The first is risk. Investors will not provide funding unless they have confidence that the growth provider has sophisticated and effective risk management systems in place and that the regulatory framework is robust, comprehensive and independent. The second driver for investors is return. There is a significant body of research demonstrating that providers will not be sustainable or attractive to investors into the long-term without ongoing subsidies and support from governments. At present levels, Commonwealth Rent Assistance does not provide an adequate subsidy.
- The issues involved in successfully pursuing a growth provider strategy are complex. A new approach should not be implemented just because it is ‘innovative’, but because it will deliver the best possible outcomes for existing public and community housing tenants and for Tasmanians living in housing stress who need the affordability and security of tenure provided by public and community housing. In moving forward:

- **The State Government must first invest in Housing Tasmania**, providing recurrent funding that covers the full cost of providing housing and support to tenants and allows Housing Tasmania to increase supply as required.
  - **The State Government must also invest in the community housing sector** to allow the sector to build on its strengths and improve its viability into the future as a meaningful provider of social housing.
  - **If the State Government chooses to pursue a growth provider strategy** – or any strategy based on the leveraging of significant amounts of private finance – it must ensure that the system first benefits those most in need and delivers housing that is genuinely affordable and appropriate for low income tenants and people with complex needs, and that the new system does not undermine the viability and sustainability of the existing public and community housing systems.
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## 2. Introduction

Housing authorities across the country are recognising that the only substantive way to address the affordable housing crisis is to increase supply. However, there has been a clear trend away from traditional means of increasing supply – through public housing – towards increasing supply through community housing organisations. A number of states and territories, including Victoria, New South Wales, the ACT and South Australia, are planning or have implemented models based on the provision of Government capital, either through funding grants or through the transfer of title to public housing properties, which the recipient community housing organisation then uses to leverage private investment.

This method of increasing supply was recently raised by Housing Tasmania at a stakeholders’ forum on housing affordability held on 2 November 2007. A proposal was presented that aimed to address some of the challenges facing Housing Tasmania, including its lack of financial viability under current policy settings and funding arrangements, and the lack of any commitment from the Government to provide sufficient investment to tackle these challenges.

The proposal was that:

- Housing Tasmania would retain 10,000 of its properties as public housing to provide accommodation to people with high and/or complex needs; and
- properties surplus to that number would be transferred into the ownership of community housing associations, which would be established as ‘growth providers’ and required to use the assets transferred to leverage additional capital to increase their portfolios.

This discussion paper has been produced both in response to that proposal and in response to the national trend towards using this strategy for increasing supply. For ease of reference, community housing associations using government capital to leverage private investment in this way will be described as ‘growth providers’. Because both capital grants and stock transfer can be used to establish a growth provider model, and because Housing Tasmania has indicated support for stock transfer, the paper also includes a closer look at the implications of pursuing this method of delivering capital to the growth providers.

### **A note on terminology: public, community, social and affordable housing**

Traditionally, ‘public housing’ is housing that is funded and provided by government directly, while ‘community housing’ is funded primarily by government but provided through non-government organisations. Community housing can include housing owned by government but managed by a contracted community organisation and housing that is owned by the community organisation but was purchased or constructed using government funding or became the property of the community organisation through stock

transfer. In recent years, public and community housing have become increasingly targeted in varying degrees to people on very low incomes or with complex needs that cannot be met in the private housing market. Such housing usually includes an element of support for tenants that extends beyond the provision of shelter. Within the housing sector, the term ‘social housing’ is used as an umbrella term for public and community housing.

With the development of new models of housing delivery, such as through growth providers or under the Federal Government’s proposed National Rental Affordable Scheme (NRAS), a new term is emerging: ‘affordable housing’. In this paper, the term ‘affordable housing’ is used to describe housing that is sold or leased at costs above those of social housing but below those of the market (from Malpass 2007a).<sup>1</sup> Through initiatives such as the NRAS and the various Innovations Units being established by the states and territories, governments in Australia are increasing moving towards the provision of affordable housing funded in partnership with the private sector and community organisations to meet the needs of households which are not eligible for social housing but which are experiencing significant housing stress.

### **3. Tasmania’s community housing sector**

The community housing sector in Tasmania is small and fragmented, with an estimated 529 community housing dwellings operated by 51 different providers, and 349 Indigenous housing properties which are managed by Aboriginal Housing Services Tasmania through a partnership between Housing Tasmania and three Regional Aboriginal Tenancy Advisory Panels (SCRGSP 2008). The largest provider of community housing, Red Shield Housing, only has 149 properties while the smallest providers manage only a handful of properties each. There are seven housing cooperatives in Tasmania. The Community Housing Program, the main source of growth funding, only disbursed \$3 million in 2006-07 (DHHS n.d.). Historically, the sector has catered mainly for older people (Housing Tasmania 2003), and as of June 2006, of the 467 Tasmanian households living in community housing, only 16 households had a principal tenant aged under 25, while 75 had a principal tenant aged over 75 and 102 households included a person with a disability (AIHW 2007).

To date, Tasmanian efforts to expand the community housing sector through non-traditional means have met with considerable delays and difficulties. Tasmanian Affordable Housing Limited (TAHL), was registered with the Australian Securities and Investment Commission as an unlisted public company on 21 December 2006. Its purpose is to provide 700 affordable homes in Tasmania over four years. The properties will be built by private investors on crown land and head-leased by TAHL on behalf of low income earners; the State Government will provide annual funding of \$6 million to TAHL to cover the gap between the rents paid by tenants and the market return required by the investors. The extensive delays in establishing TAHL and the organisation’s shifting targets have been previously criticised by Anglicare (Anglicare Tasmania 2006, 2007) and in the media (Duncan 2007).

Linked to the establishment of TAHL was a call for tenders through a process called Home Folio. Home Folio was to attract investment to build up to 200 new homes which would initially be managed by the Government and would then be transferred to TAHL (DHHS 2006). None of these properties have yet been transferred to TAHL and the number that have been completed is not clear. In June 2007, just six had been finished and tenanted, a further 50 were under construction and about 120 were in the planning stages

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<sup>1</sup> Other definitions exist. Housing NSW, for example, defines affordable housing as “housing that is appropriate for the needs of a range of low-to-moderate income households and priced so that these households are able to meet other basic living costs”. The definition is adopted because Housing NSW acknowledges that “a household that does not spend more than 30 percent of their income on housing may still not have enough to live on...”. (Housing NSW 2007: 28). Anglicare has not used this definition because the requirement that households are able to afford to meet other costs after paying for housing would and should apply to public and community housing as well. Croce and Zakhorov (2003) note that, like public and community housing, ‘affordable’ housing should be safe, secure, appropriate, energy efficient and located close to services, job opportunities and transport.

(Bresnehan 2007). Fifty of the properties delivered under Home Folio are being operated by Community Housing Limited, a registered growth provider in Victoria, where it has a portfolio of over 1,000 properties (Community Housing Limited 2007). Under the Home Folio umbrella, the State Government also entered into bilateral agreements with STEPS and OneCare to deliver 58 new affordable housing units under head-leasing arrangements. But the process of delivering these properties has not been without problems, with delays in tenanting affecting at least one development (Worley 2007). There are also five supported residential facilities that have been or are being established as part of the Affordable Housing Strategy which are expected to provide communal accommodation to over 100 individuals, but again, difficulties in gaining planning approvals, the collapse of Village Life, the operator of the Kingston facility, and a number of operational challenges have delayed the construction and full tenanting of these facilities.

However, despite its small size, the services already provided by Tasmania's community housing sector are valued by tenants, with expressed satisfaction levels higher than those recorded for public housing (AIHW 2006a, 2006b). Some community housing models, such as cooperatives, can also provide tenants with opportunities to develop self-reliance and valuable skills by involving them in day-to-day tenancy management. And where community housing is provided through head-leasing arrangements, it can reduce discrimination against low income tenants by placing a supportive third party between the tenant and the property owner (Industry Commission 1993). Community housing providers also have the potential to access significant tax advantages that are not available to public housing authorities, such as Public Benevolent Institution (PBI) and Deductible Gift Recipient (DGR) status, GST concessions and income tax and fringe benefit tax exemptions, and community housing tenants are eligible for Commonwealth Rent Assistance (CRA), which can be a source of additional revenue for the provider. The Community Housing Coalition of Western Australia has estimated that the considerable additional rental income and cost savings on property management mean that community housing has significant financial advantages when compared to public housing (cited in Croce and Zakhovov 2003), although by contrast, modelling by the Industry Commission in 1993 found that public housing was the most efficient and cost-effective way to deliver housing assistance to low income earners (Industry Commission 1993).

## **4. Growth providers: the experience elsewhere**

### **4.1. The Victorian model**

In 2000, the Victorian Office of Housing commissioned a consultant to write a report on the Social Housing Innovations Project (SHIP), which was a \$94.5 million initiative aimed at developing ways to attract private, local government and community investment into social housing in order to build supply. The target for SHIP was 800 additional affordable properties. The consultant's report, known as 'the SHIP report', argued that SHIP would not deliver enough properties or funding to address demand. The report recommended a stock transfer of 83,000 public housing properties into the ownership and management of 15-20 community housing organisations by 2010 (Bisset 2000).

The SHIP report's recommendations met with stiff opposition from community and tenants' groups on the grounds that the proposal undermined the public housing system, established a competitive policy environment between public and community housing that could erode tenants' rights, represented privatisation of a public asset in a state which had already experienced considerable controversy over privatisation under Jeff Kennett's government, lacked a clear policy framework providing sufficient detail and shifted responsibility rather than addressing front-on the structural problems underlying the supply shortage (Jacobs et al 2004). The Housing for the Aged Action Group, a public tenants' lobby group, stated on its website that, "[t]he *SHIP Report* is not about community housing. It is about the formation of regional, private, mainstream housing", and criticised the lack of consultation that accompanied the development of SHIP, the diversion of funding away from the public housing system, the potential loss of

public housing assets built up over fifty years and the potential for rent increases as providers sought financial independence (HAAG 2001).

The Victorian government has since backed away from such an extensive stock transfer, although it has been criticised by the Opposition for this (see Legislative Council of Victoria 2004). But the State Budget of May 2003 included \$70 million for affordable housing growth, to be used in part to establish housing associations which would attract local government, community and private investment and diversify the social housing sector (Office of Housing n.d.). Stock transfer would be “modest” and approved on a case-by-case basis. Housing associations would instead be eligible for growth funding but not for recurrent subsidies, and would be provided with support to build their capacity by the Office of Housing. Under the new system, capital funding would be targeted towards the new housing associations, and smaller organisations would only have access to one-off project funding if the project supported the government’s strategic objectives.

Legislation establishing a regulatory framework, the *Housing (Housing Agencies) Bill*, was passed in 2004, and by June 2006, six organisations were registered under the new system (Office of Housing 2006a). The regulatory framework is extensive, and establishes a Registrar of Housing Agencies with the power to register and regulate housing providers. Providers will be monitored for compliance with the legislation and assessed against a comprehensive set of performance standards governing their operation. Registration is at two levels – housing associations will operate as growth providers and own their own stock, while housing providers will continue to operate government-owned stock as community housing. The Victorian Government has since committed significant further funding for housing association growth – \$100 million was announced in 2006 (Office of Housing 2006b), and \$300 million was committed in the 2007-08 State Budget (DHS 2007). A framework has been established setting out government requirements for eligibility, targeting and rent structures in properties funded under the growth strategy (Housing Sector Development 2006). Essentially, eligibility for these properties will be broader than eligibility for conventional public housing in order to support a stronger revenue base, but an agreed proportion of properties will be quarantined for public housing eligible households. Rents are to be affordable, but must also support the financial viability of the organisation.

The registration process requires considerable commitment from providers (CHFV 2007), and the government’s vision for the future makes it clear that smaller organisations which do not achieve registration or which lack the resources to undertake the process may need to consider restructuring, the creation of formal partnerships, or merging with a larger and more capable organisation (Housing Sector Development 2007).

#### **4.2. The New South Wales model**

Between 1995 and 2004, the New South Wales community housing sector grew by 250%, with one third of the growth attributable to stock transfer (Jacobs et al 2004). By 2006, there were 13,000 properties under the management of community housing organisations, and under the current CSHA, a further 500 properties are transferred each year. Ten per cent of the social housing sector in New South Wales is community housing<sup>2</sup>

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<sup>2</sup> Housing NSW defines community housing as including crisis accommodation, which in 2006-07 made up 41% of the community housing sector (Housing NSW 2007: 24). Anglicare does not classify crisis accommodation as community housing, because even though it is often run by community organisations, it is not long-term or secure, and people living in crisis accommodation are in fact homeless. According to Housing NSW (2007a), the other main types of community housing providers in New South Wales are housing associations, which support public housing eligible households, tenant-managed cooperatives and partnership structures between churches, charities and local government which receive Housing NSW funds for purchase or construction of properties but not for recurrent costs. These providers all offer long-term housing options and are therefore included in Anglicare’s understanding of community housing.

(Housing NSW 2007). Crucially, however, in New South Wales the transfer is of management responsibilities only; the government retains ownership of the properties.

The objectives of the transfer program were to deal with management problems on broad-acre housing estates, to promote innovation and efficiency in the social housing sector and to increase the number of providers, leading to more choice for tenants and improved services through competition (Jacobs et al 2004; Darcy and Stringfellow 2000). Management issues were a particular motivation; for example, one of the areas transferred was described by staff as “the worst street in the estate” (cited in Darcy and Stringfellow 2000). Transfer was also pursued as part of broader urban renewal initiatives based on a belief that estates run by a single landlord were unsustainable; some urban renewal programs had to provide quarterly updates on their progress in transferring properties to alternative providers (Darcy and Stringfellow 2000). While most of the transferred units were vacant, but some had sitting tenants, which Darcy and Stringfellow (2000) attribute to the need to meet transfer targets. A review by Jacobs et al (2004) found that the New South Wales housing authority was positive about the potential for the transfer to lead to an increase in supply, while community housing organisations argued that growth was not possible because they lacked access to the title to the stock and so could not access debt-funding. Lack of access to title and equity in stock is identified by the sector as one of the main obstacles to expansion in Australia’s community housing supply (NCHF 2001; SCSI 2003; Croce and Zakhovov 2003; Croce 2007).

In 2007, the New South Wales Government released a plan to increase the supply of community housing in New South Wales from 13,000 properties to 30,000 properties over 10 years through the establishment of a growth provider model (Housing NSW 2007). The current regime of annual transfers will continue, subject to new CSHA arrangements, but the new model will be driven by a \$49.8 million Affordable Housing Innovations Fund which will finance a debt equity partnership program, \$70 million in direct funding to community organisations and extension of the leases community housing providers currently hold over government-owned housing to establish a long-term income stream that can be used to leverage additional borrowings. These resources will be targeted to those places identified as in greatest need of additional housing and to a small number of growth providers selected through a competitive process. The plan will also incorporate the exploration of “other approaches to rent setting to improve provider income and therefore the capacity of providers to repay debt” (Housing NSW 2007: 14), and flags reviews of existing arrangements for operating subsidies and asset management and maintenance, and the possibility of amalgamation, consolidation and hybridisation within the sector to improve efficiency. While the model is intended to increase the supply of community housing, providers will also be encouraged to offer additional services, such as support for private renters, home ownership schemes, fee for service work and affordable housing. The community housing sector is to “complement” the public housing system, which is to take on the role of supporting people most in need.

Alongside the introduction of the five year plan, the Office of Community Housing is also moving away from its traditional role of overseeing accreditation and quality assurance in the community housing sector in favour of independent provision of those services. In moving to a new provider, the Office introduced co-payments for accreditation services, with organisations contributing \$2,000-\$5,000 per three year accreditation, depending on their size and complexity, and payment by organisations of fees to peer evaluators (NSW Office of Community Housing 2007). The rationale for moving to an independent provider was that while it was important to retain the performance improvement benefits of the accreditation regime, the Government’s role was more properly to regulate the sector rather than manage its continuous improvement (NSW Office of Community Housing 2008).

The regulatory framework for the new growth provider system is outlined in the *Housing Amendment (Community Housing Providers) Act 2007*, which amends the *Housing Act 2001*. The new provisions have not yet commenced, but they provide for the appointment of a Registrar of Community Housing, subject to the control and direction of the Minister, who will be responsible for maintaining a register of community housing providers, assessing the suitability of organisations to be registered, managing complaints,

disseminating information and providing advice. Registered organisations must provide the Registrar with information on their compliance with their obligations and allow the Registrar to carry out inspections of their operations. The Registrar has the power to cancel registration. The provisions also allow the New South Wales Land and Housing Corporation to form partnership agreements with registered community housing providers which provide them with funding, land or other property. Such agreements can direct how the funding, land or property is to be used and can include standards and targets. Additional regulation will be provided by the establishment of a regulatory code. This code is still under development, but the existing performance-based registration system includes nine performance outcomes relating to the treatment and support of tenants and applicants, property and tenancy management, responsiveness to tenant and community needs, governance procedures, risk management, accountability, business viability and use of funds received, and a total of 31 key performance indicators.<sup>3</sup>

### **4.3. The ACT model**

As in the other states, the ACT's current affordable housing strategy includes an emphasis on growth in the community housing sector. But in the ACT, much of the growth is to occur through just one organisation – Community Housing Canberra (CHC), an independent, not-for-profit affordable housing provider, and the growth is to be in affordable, rather than social, housing. The restructuring of CHC occurs against a background of considerable change in the social housing sector.

In 2002, a taskforce examining housing affordability concluded that the ACT's public housing system had a declining, inappropriate and under-utilised stock portfolio which was insufficiently targeted to people most in need and threatened by ongoing reductions in funding, while the community housing sector was small, fragmented and constrained by a lack of funding and policy direction. The taskforce recommended more effective use of public housing assets, including through greater targeting, and the expansion of community housing through a partnership approach that provided subsidised land to affordable housing providers and sought to leverage against existing assets (Ministerial Taskforce on Affordable Housing 2002). In response, between 2002-03 and 2003-04, the Government provided an additional \$3 million of annual funding for community housing expansion, as well as capital funding for social and affordable housing development, and released the Community Housing Policy Framework as a precursor to a promised Community Housing Plan (ACT Government 2004). A departmental paper prepared for a discussion forum on community housing strongly advocated for rationalisation of the number of providers in the community housing sector on the basis that to receive government funding, organisations should be viable (DDHCS 2005), and in 2006-07, efficiency savings of \$1 million were achieved in the community housing sector through a "strategic consolidation" of community housing providers, with several organisations choosing to cease providing tenancy management services (DDHCS 2007). The ACT Government has also placed pressure on the sector to seek other forms of financial support, arguing that "[i]f the sector is to have any independence from the government it will need to do its own work investigating other funding sources" (DDHCS 2005: 6).

Community Housing Canberra was originally created by the ACT Government in 1998 as a not-for-profit company operating under state control, and took over the management of 209 properties from ACT Housing (Milligan et al 2004). CHC was directly responsible for property development and asset management under contract from the Department of Disability, Housing and Community Services and sub-contracted the management of community tenancies to provider members (Horsham 2003). CHC's service agreement with the Government also required it to support the development of existing and new community housing organisations, and CHC was provided with \$30,000 to assist new providers with establishment costs, on the

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<sup>3</sup> Information downloaded from <[www.housing.nsw.gov.au/Office+of+Community+Housing/Community+Housing+Providers/Performance+Management+and+Accreditation/Performance+Based+Registration+System.htm](http://www.housing.nsw.gov.au/Office+of+Community+Housing/Community+Housing+Providers/Performance+Management+and+Accreditation/Performance+Based+Registration+System.htm)> on 31 March 2008.



condition that CHC match the Government contribution dollar for dollar (Legislative Assembly for the ACT 1999).

According to Milligan et al (2004), the establishment of CHC took a considerable time and involved high set up costs. Growth in supply was slow, with the first seven years producing just 19 properties, and a review of CHC's structure found that for some members the administrative burden of the sub-contracting arrangements was considerable and that a number of issues in relation to CHC's role, values and policies and relationship to government remained unresolved. CHC also found it difficult to establish a leadership role for itself within the sector as its structure and core business worked against its effectiveness as a peak body. While a new peak, the Coalition of Community Housing Organisations of the Australian Capital Territory (CCHOACT) was eventually established, tensions remained about what role CHC should take in relation to sector leadership and innovation (DDHCS 2005).

CHC moved into housing development with the City Edge project. The site was a rundown public housing estate which the Government sold to CHC at the cost of the land only, and on deferred settlement terms, which meant that there was no need to obtain interim finance to purchase the property. The developers demolished 143 bed-sits and replaced them with 126 dwellings of which 30 were retained for social housing (Croce and Zakhorov 2003). One hundred and twelve tenants were relocated, with the relocation costs met by CHC after negotiations (Milligan et al 2004). The original bedsit-based complex was problematic, with a 45% rejection rate, 63% tenant turnover and a high concentration of social disadvantage (Horsham 2003). A 1997 estimate was that refurbishment of the existing properties would cost \$3.7 million (Milligan et al 2004). In 2001 dollars, the social housing produced by City Edge was valued at \$5 million, and the market properties were sold for a total of \$16 million. The land was transferred at a negotiated value of \$2.6 million (the 15 public housing properties returned to ACT Housing were worth \$2.55 million). The net increase in the value of the social housing assets was \$2.86 million (Milligan et al 2004). At present, most of CHC's City Edge properties are managed as community housing, while some are 'affordable housing'. The City Edge properties are currently mortgaged to provide the company with additional finance (CHC 2007).

In April 2007, the ACT Government released its Affordable Housing Action Plan, which outlined strategies for improving the supply of affordable housing across the whole housing system. In relation to community housing, the Plan aims to enhance community housing sector capacity and focus the sector as a provider to non public housing eligible households on low to moderate incomes. However, many of the strategies and the Plan's main community housing target relate specifically to CHC. The aim is to achieve a 10% growth in the number of CHC-owned dwellings per annum and 500 affordable rental properties and 500 affordable home purchase properties within 10 years. To allow CHC to achieve this, it will be reconstituted as an independent entity and its asset base will be boosted by the transfer of title to 135 publicly-owned properties and a \$3 million injection of capital funding. CHC will also have access to a revolving finance facility worth \$50 million provided by the Government and a rolling program of land sales. In addition to growing supply, CHC will "renew" the transferred stock, three quarters of it within five years and the rest within seven, and will establish a shared equity home purchase scheme. The only non-CHC related initiative in the community housing section of the Plan is the identification of development sites throughout Canberra where mixed housing development can enhance the provision of affordable, accessible housing (ACT Government 2007).

The new approach was developed by CHC, the ACT Treasury and KPMG, and endorsed by the ACT Executive (Horsham 2008). CHC has adopted the Action Plan's targets as its strategic priorities for 2007-2012 (CHC 2007). The organisation also needs to undergo significant structural change, including constitutional amendments, the election of a new skill-based Board, completion of a Statement of Corporate Intent for the next five years and development of a new governance charter and contractual arrangements that preserve its PBI, DGR and Income Tax Exempt Charity (ITEC) status. The principal performance management tools will be the loan agreements between CHC and the Government and CHC's Statement of Corporate Intent (Horsham 2008).

CHC is clear that it is repositioning itself as a development company (Horsham 2008) and an affordable rather than community housing provider, with a new target group of non public housing eligible people on incomes of between \$32,000 and \$56,000 (CHC 2007).<sup>4</sup> The Government also sees CHC as plugging the gap in options for people ineligible for public housing but still suffering housing stress (Legislative Assembly for the ACT 2008) and the Minister for Housing, John Hargreaves, now describes Community Housing Canberra as a “not-for-profit company that operates both as a community housing asset manager and a provider of affordable housing” (in Legislative Assembly for the ACT 2007). This shift is being accompanied by greater targeting of the public housing system to focus on people assessed as being most in need (DDHCS 2007).

#### **4.4. The South Australian model**

The Government agency responsible for regulating and funding the community housing sector in South Australia is the Office for Community Housing (previously known as the South Australian Community Housing Authority, or SACHA) within the Department for Families and Community Services. Expanding community housing supply through partnerships with local government, private finance organisations and the wider community sector has been a priority for the Office for some years, and was included in the 2002-2007 strategic plan for the community housing sector as “explore new and enhance existing partnerships” (SACHA 2003: 3). The South Australian community housing sector carries a significant historical debt, with repayments made from rental revenue remaining after operational and maintenance costs are paid. Since 2006-07, when a new funding agreement was introduced by the Government, the leftover rental revenue does not cover the cost of the repayments. The Office of Community Housing’s current strategic plan suggests that tenant mix and cross-subsidisation may be one way to cover this deficit. Other concerns facing the sector a cumbersome regulatory framework, inconsistency in the application of regulatory requirements leading to poor quality in some services and a heavy administrative burden on organisations (SA Office for Community Housing 2006).

The 2005 *Housing Plan for South Australia* set out the South Australian Government’s intention to establish new partnerships between state and local government, non-profit organisations and the private sector to deliver additional housing supply, particularly for households without complex needs who were effectively excluded from the public housing system by long waiting lists. The first action listed in the Plan was the development, with an upfront investment of \$15 million, of an Affordable Housing Innovations Program to support the sale of \$93 million worth of social housing to existing tenants and the reinvestment of the proceeds into new affordable and social housing development. Investment via partnerships with the private sector, community organisations and local government was to be prioritised. The Program would be supported by an Affordable Housing Innovations Unit within the Department for Families and Communities, and would be used to drive an expansion in community housing supply (Government of South Australia 2005). Perhaps because the capacity does not exist in the community housing sector, the South Australian Housing Trust, the public housing authority, has taken on the development role. Recent legislative change has absorbed the Boards of SACHA and the Aboriginal Housing Authority into the SAHT Board and established the South Australian Affordable Housing Trust Board. While the SAHT Board is responsible for overseeing the achievement of strategic housing outcomes across the housing system, the Affordable Housing Trust Board will initiate and facilitate innovative partnerships with the for-profit and non-profit sectors to increase affordable housing supply, using the Affordable Housing Innovations Fund. A service level agreement between SAHT and the Department provides for the management of public housing tenancies by a new service delivery agency, Housing SA (SAHT 2007). The new arrangements have had some success; in 2006-07 the Government committed \$7.14 million, or 43.3% of the total project costs to

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<sup>4</sup> This would exclude most income support recipients. The Age Pension for example, one of the more generous Centrelink payments, would provide a single person with just \$14,216.80 a year (Centrelink payment data taken from <www.centrelink.gov.au> on 8 April 2008).

projects that delivered 87 housing outcomes – although this figure fell significantly short of the Department’s target of 200 housing outcomes. The Affordable Housing Innovations Fund had a balance of \$64.8 million at 30 June 2007 with \$22.2 million of that funding committed to further developments (DFC 2007).

Although SAHT is taking a strong role in delivering partnership-based developments and joint ventures that include private finance or contributions from community organisations, the Government is still looking towards the creation of a growth provider model. Following the development of the Housing Plan, the Office for Community Housing developed a Vision Plan for the community housing sector. One of the priorities of that plan is an increase in community housing supply, to be achieved through the development of alternative finance and joint venture models, new partnerships with non-government organisations not currently engaged in housing provision – to bring new resources into the sector – and the introduction of more appropriate development, regulatory and risk and performance management mechanisms. The introduction of new debt and private finance models is also intended to maximise the value of the Government’s investment in community housing and provide incentives for philanthropic and public donations. As a part of this process, housing associations will be more clearly delineated according to their size, core focus and structure, and new benchmarks and performance indicators will be developed (SA Office for Community Housing 2006). The Office for Community Housing is aiming for a 2% growth in community housing stock in 2007-08, and expects to achieve it with a combination of new build, including via the growth provider program, and redevelopment (DFC 2007). Additional funding for the sector is available – in 2007, the Minister for Housing, Jay Weatherill, announced an additional \$20 million funding for community housing to be delivered through the Affordable Housing Trust to community providers, as well as private and local government partners (Weatherill 2007).

The Department for Families and Communities’ 2006-07 annual report flags the development of a Community Housing Not-for-Profit Growth Program, to be jointly developed through the Office for Community Housing, HomeStart (the South Australian affordable home loan provider) and the Affordable Housing Innovations Unit. The Program incorporates the development of a process for identifying and supporting potential growth providers, a pre-approval process for organisations wishing to become growth providers and new frameworks for regulation, the protection of Government investment and overall policy development. By April 2007, 18 organisations had registered their interest in being a part of the process (DFC 2007), and according to the Office for Community Housing’s website, 14 community housing organisations are currently being assessed as part of the project to identify potential growth providers, while HomeStart Finance (the South Australian Government’s affordable home loan provider) is assessing 10 organisations as part of a financial modelling exercise to assess what would be a sustainable level of borrowing and realistic supply expectations for the growth provider model. These assessments are feeding into the development of a draft framework for the model. The process is still subject to Cabinet approval.<sup>5</sup>

#### **4.5. The UK model**

The decision to considerably expand the community housing sector in the United Kingdom was not originally about growing the overall supply of social housing. But a discussion of the UK model is included in this paper because of a number of interesting elements, including the use of stock transfer and leveraged private investment, and because it is often cited as a successful example in Australia – the New South Wales government’s community housing development strategy cites the UK housing association sector’s success in leveraging private finance in support of its own plans to grow community housing (Housing NSW 2007: 9).

The growth of the community housing sector in the UK has been built on substantial stock transfer of public housing – usually owned and managed by the local council and therefore referred to as council housing – to existing and purpose-built community-based housing associations. However, the council was not gifting the

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<sup>5</sup> Information downloaded from <[www.communityhousing.sa.gov.au/site/page.cfm?u=447](http://www.communityhousing.sa.gov.au/site/page.cfm?u=447)> on 31 March 2008.

stock to community organisations – it was ‘selling’ the properties to the new provider, albeit at less than market rates, reflecting the association’s obligation to continue using the stock to provide social housing. Where the value of the properties was negative, grants were provided in compensation (NAO 2003). The properties were paid for using private finance, which was then paid back using rental revenue.

A number of justifications were given for the transfer. The maintenance backlog in council housing was valued at £19 billion in 1996 (NAO 2003). It had accumulated partly due to government policies during the 1980s and 1990s that discouraged local councils from maintaining or building new stock (Malpass 2007a). It was argued that transfer would bring forward upgrades of substandard housing that would not be possible under current government fiscal constraints and policies on borrowing funds, while the recipient housing associations were permitted to use private finance to fund the maintenance, improvements and upgrades that were required.<sup>6</sup> The associations were required to secure 30 years’ worth of funding at the time of transfer, and between 1988 and 2003, £11.6 billion of private finance was raised, of which £5.4 billion was used to purchase the stock (NAO 2003). With the additional investment, social housing quality has improved markedly (Gibb et al 2005).

In addition to the maintenance issues, other reasons were provided. These included the need to fit with the then government agenda to access private finance to support public services, the enhancement of tenant participation opportunities, the transfer of risk away from the government, the separation of landlord and strategic housing policy functions and the improvement – in some cases – of the quality of housing management. Expanding tenant choice was also proffered as a justification for stock transfer, but as the National Audit Office pointed out in 2003, in the case of large scale stock transfers to a single housing association, all that happened was a change of landlord while the range of options open to tenants remained the same (NAO 2003).

Between 1986 and 2003, the ratio of council housing to housing association properties fell from 13:1 to 2:1, and 200 new housing associations were created (Pawson 2004). In general, the housing associations appear to have delivered. Rents are set at a level that allows the provider to recover costs, but tenants are provided with a subsidy (housing benefit) so that they have the capacity to pay (NCHF 2002). Evaluation of the transfer program in Scotland found that rent increases following transfer have been within commitments made to tenants (Gibb et al 2004). A National Audit Office review in 2003 found that 72% of properties had improved, almost all repairs had been made on time, rent increases had been within guidelines and promises on housing services and tenant participation had been kept (NAO 2003).

However, stock transfer was controversial, particularly among tenants’ groups. Critically, transfer depended on a tenant vote, and if tenants rejected the proposal, the transfer did not proceed (Jacobs et al 2004). In 2002, for example, a strong campaign conducted by tenant activists and trade unions led to a rejection of stock transfer by 67% of voting tenants in Birmingham (Daly et al 2004). About one quarter of transfer proposals in England failed to gain tenant support at the ballot box (Pawson 2005). And the anti-stock transfer Defend Council Housing campaign continues to have influence (Pawson 2004). In response to such opposition, an alternative approach has emerged (Pawson 2005). The ‘arms-length management organisation’ (ALMO) model allows a council to retain ownership of the properties while a semi-autonomous ALMO manages them. The ALMOs are able to qualify for extra public funding for repairs and improvements, but access to these funds is to be restricted to councils that have been given high performance ratings by the Housing Inspectorate – in practice, about one fifth of councils (Pawson 2004). ALMOs are also not able to obtain private finance through borrowing, which significantly restricts their capacity to

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<sup>6</sup> In the UK, there are formal restrictions imposed on government borrowing. Housing associations, as non-public organisations, are exempt from these restrictions and are therefore able to borrow significant amounts of finance for new housing (Tickell 2006).

increase supply, while the Right to Buy<sup>7</sup> program contributes to ongoing decline in stock numbers (Pawson 2005).

The stock transfer model did not deliver any significant growth in supply – nor was it intended to – due to the poor condition of much of the stock transferred, and the need for organisations to commit to significant programs of maintenance and upgrades. However, the housing association sector has since grown in size and influence, and is now pushing for greater independence from the Government. A consultant’s report commissioned by the housing association sector peak body, the National Housing Federation, argued that the existing regulatory requirements imposed upon housing associations potentially endangered the associations’ independence from government – and therefore their access to finance – and were in some areas lacking legal foundation (Tickell 2006). The report recommended moving away from a “micro-management” approach that would be appropriate for a public body – such as the requirement that housing associations deliver annual efficiency savings and report on them to the Housing Corporation – to an alternative regulatory regime equivalent to that which would apply to a private sector organisation, where regulation would be achieved mainly through the grant contract between government and provider, based on explicit, statutory powers on the part of the regulator and with greater scope for self-regulation through the Federation.

As in Australia, there is rising demand for affordable housing in Britain, with house prices having doubled in real terms in the last decade and demographic changes placing pressure on the market. The UK Government has recently released a Green Paper on housing supply which includes an £6.5 billion commitment in 2008-11 to build 45,000 social housing properties a year by 2010-11, and a goal to reach 50,000 new social housing properties a year in the next spending review (DCLG 2007). The new building program will include “stronger roles for local councils as well as housing associations and the private sector” (DCLG 2007: 73). The reasons for returning in part to council provision – through ALMOs or similar vehicles – are that councils have access to land and their own resources, which, combined with grants, could deliver better value for money.<sup>8</sup> The government also hopes to involve councils more in supporting urban renewal projects and the development of mixed communities.

The response to the Green Paper has been mixed. The Defend Council Housing network has welcomed the commitment to new council housing, but expressed concern about the continued reliance by the Government on the private and housing association sectors and argued that while housing associations are nominally non-profit, their legal structure and obligations are those of a private company, many of their homes are not affordable for tenants and the tenancies are less secure than those in council housing due to commercial pressures (DCH 2007a). However, the National Housing Federation, the non-profit housing sector’s peak body, welcomed the potential for independent housing associations to play an expanded role in increasing supply, and argued for the non-profit sector’s record of investing in communities and delivering housing supply, including low cost home ownership, and their considerable financial strength and experience (NHF 2007).

## **5. A discussion of stock transfer**

The experience of other jurisdictions in establishing growth providers through stock transfer rather than capital grants raises a number of questions, particular when the stock to be transferred is already occupied by public housing tenants.

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<sup>7</sup> Right to Buy was a central government program that gave council housing tenants the right to buy the house they were living in at a significantly reduced purchase price. The scheme contributed to a significant reduction in council housing stock numbers (Darcy and Springfellow 2000).

<sup>8</sup> The Green Paper notes that, with appropriate regulation, extending access to funding for social housing construction to councils in their own right is also a possibility (DCLG 2007). For the UK Government, the priority is about value for money, and if direct council provision can deliver this, then it is reasonable to pursue that option.

## 5.1. Should we privatise public housing assets?

In establishing a growth provider model using stock transfer, the Government must give up the title to the transferred properties. The transfer of public assets to a private provider was one of the key concerns expressed in response to the SHIP report in Victoria (Jacobs et al 2004), and these concerns were also expressed in Scotland (Gibb et al 2004). Stock transfer as it has been practiced is not directly comparable to outright privatisation, as the recipient organisation is a non-profit organisation, and the private investor in the growth provider model is not investing according to a conventional shareholder model – if the provider generates a higher revenue than expected, the surplus will be used by the organisation, not distributed to investors (Pawson 2005). But during a New South Wales Legislative Council inquiry, anxiety was expressed by tenants' groups and social policy researchers that if public housing assets moved out of public hands, then the government's control over those assets was lost; evidence was given that in other states, transferred stock had been used inappropriately, with the controlling organisations discriminating in favour of some groups of tenants and refusing applications from others (SCSI 2003).

Concerns about retaining control over transferred assets remain apparent in the UK. Across the country, only 5% of the transferred stock has gone to existing housing associations – instead, new housing associations have been created for the purpose, partly due to the desire of local councils to retain control over their 'successors'. More recently, it has been argued that the increasing surpluses being generated by housing associations are out of the reach of central government and therefore cannot be redistributed in line with government policy (Pawson 2004). The National Audit Office has recommended that it and the Housing Corporation seek to increase their influence over how associations use their surpluses to ensure they are directed towards social housing objectives or the building of sustainable communities (NAO 2003). And in Australia, Milligan et al have noted increasing tendencies by a number of Australian governments to seek to secure long-term influence over affordable housing companies in order to secure and protect publicly funded assets. For example, in relation to Community Housing Canberra, significant changes to the governance model were proposed in 2003 that would increase the Government's powers and influence (Milligan et al 2004). The rationale was that the Government needed to ensure capital funds would be directed towards growth in supply (DDHCS 2005)<sup>9</sup>.

Stock transfer is part of the current trend towards contracting-out government services to non-government providers, often justified on the basis of providing 'consumer' 'choice' (Jacobs et al 2004). In the UK, the stock transfer program was promoted as reducing the social housing monopoly held by local councils and providing tenants with greater choice of providers (Dodson 2006). But notions of 'choice' are problematic. Defend Council Housing argues that real choice depends on the capacity to implement choices through having access to all the options, including council housing (DCH 2007b), while Shelter UK argues that for the most vulnerable in the community, who lack the income, education or support to make choices, "fashionable policy priorities around choice, empowerment and opportunity are all too often meaningless concepts" (Sampson 2007: 85). The degree of choice that was provided to council housing tenants is also contested. An evaluation of stock transfer in the UK indicated that tenants were only consulted after the recipient housing association had been established and negotiations between the council and the new association were complete (Mullins, Niner and Riseborough 1992 in Darcy and Stringfellow 2000), and a review of pro-transfer promotional material used in Scotland found that the material sought to manipulate tenants in favour of transfer (Taylor 1999 in Darcy and Stringfellow 2000).

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<sup>9</sup> The proposed changes were eventually voted down by a majority of CHC members (DDHCS 2005). However, the proposed model included elements that would later be incorporated into the Affordable Housing Action Plan, such transfer of ownership as well as management responsibilities for community housing properties (Legislative Assembly for the ACT 2003).

Lawson and Milligan (2007) identify a shift towards private provision, including privatisation, and the promotion of self-reliant and locally diverse providers as common trends internationally. However, they also note that governments are increasingly reviewing policies that retracted investment in social housing and are turning to the sector once again to provide answers to the growing problems of homelessness, social exclusion and declining affordability. In the UK, it has been argued that removing stock from elected councils and transferring it to housing associations limits the exposure of lenders to the risk of political change and therefore stabilises the framework in which investors make their decisions (Pawson 2005). But, speaking on behalf of tenants, the Housing for the Aged Action Group in Victoria argued that a monopoly state landlord allowed for centralised, consistent, uniform policies, direct accountability and transparent scrutiny by outsiders, while devolving management to a diverse range of community providers would lead to fragmentation of eligibility, tenancy, maintenance and debt recovery procedures, unaccountable practice, administrative complexity and vulnerability to increased rents due to the vagaries of private economic forces (HAAG 2001). The UK's Defend Council Housing network is strongly committed to the concept of a 'democratically elected landlord', such as a council, arguing that these landlords are truly accountable to tenants (DCH 2007a). Housing association board members, even if tenant representatives elected by other tenants, are obliged to act in the best interests of the organisation, not on behalf of the body that elected them (Pawson 2005).

As the non-profit sector professionalises and adopts commercial business models, there is increasingly less distinction – to an outsider – between for-profit and non-profit organisations, and less argument for retaining housing provision in the non-profit sector. In the Netherlands, the growth and professionalism of the housing association sector has led to calls from the private sector for competitive neutrality in relation to taxation status (Mullins 2008). In the UK in 2005 the Government opened up eligibility for capital grants for social housing development to the for-profit sector (DCLG 2007). The probable contractual arrangements and differing regulatory regimes, which are likely to be less onerous than those imposed on housing associations, have caused considerable concern within the housing association sector, who see them as providing the private sector with advantages (see Tickell 2006). Shelter UK has called for improved regulation and evaluation in this area (Shelter 2007).

## **5.2. What stock will be transferred?**

One of the reasons for Housing Tasmania's difficult financial position is the age and inappropriateness of its stock. There is a significant maintenance backlog, and the stock is in the wrong locations with the wrong number of bedrooms and needs to be upgraded or replaced. Most of the stock is not designed for the needs of people with disabilities or people who are ageing and requires modification and, despite efforts to break up the broad-acre estates, a large proportion of the stock is still located in poorly-serviced, low-amenity areas (Housing Tasmania 2007a). These are problems faced by housing authorities around the country. But if growth providers are to leverage sufficient capital out of the assets, then the assets need to be of sufficient quality to make this viable. In New South Wales, there were concerns expressed with regard to the condition of stock transferred (FHA 2007).

At the same time, however, stripping the most valuable assets out of an already-struggling public housing system is not a strategic answer and will only increase the burdens imposed on state housing authorities.

## **5.3. What will happen to the tenants?**

Tenant anxiety about the implications of stock transfer blocked the recommendations of the SHIP report from being fully implemented and prevented some UK transfers from going ahead. Considerable concerns have been raised in relation to tenanted transfer in New South Wales (SCSI 2003). Part of the problem there was that much of the stock was located on 'super-lots', without individual titles, and with inbuilt wiring and

plumbing connections between properties. It had to be transferred in bulk, in lots of 50-100 properties at a time, and tenants were not given the choice of opting out. The United Kingdom allowed tenants to vote on whether or not transfers would proceed, but the choices open to tenants were limited. For example, in Glasgow, because the government had rejected the notion of any investment directly into council housing as a failed solution, the choice facing tenants was to vote for transfer or stay with a crumbling council housing system (Daly et al 2004). As Pawson (2004: 6) points out, there was “hardly a choice at all”. Defend Council Housing claims that tenants who have chosen to remain with council management continue to be disadvantaged through lack of access to funding for improvements and upgrades (DCH 2007a), and the rejection of transfer by some tenants has left lingering tensions: Maclellan, for example, seems to suggest that councils that did not hold a ballot, or where the tenants voted no, should have restricted access to funding, while councils that “made the ... effort for change” should be given a “reward” (Maclellan 2007: 29).

The New South Wales experience suggests that the process through which transfers occur is particularly important for tenanted transfers. For example, a review commissioned by Shelter NSW found that, although tenants who had transferred were generally happy with the outcome, the tenanted transfers were poorly organised and inconsistent, poorly communicated, conflicted with other housing policy aims and contributed to community division. Some organisations felt pressured to take tenanted properties in order to reach the quota of properties allocated to them and tenants living in properties that were to be transferred were given only two options – to transfer their tenancy or to be re-housed in a different location. While many tenants seriously considered re-housing, most were not satisfied with the alternatives offered. The review concluded that “[m]ost tenants made their decision based on fear of the unknown” and that “[t]he worst reading of the events ... is that both [the public housing authority] and housing association staff perceived the process, not as a transfer of tenants, but as a transfer of ... houses, where the existence of sitting tenants was just an inconvenience generating extra work” (Darcy and Stringfellow 2000: 25).

For tenants the risks in transferring are obvious: the transfer may result in changes in their housing and lease conditions. Given that the public housing system’s existing policy settings are producing severe financial constraints, it is unlikely that any growth provider would be adopting those settings – a different landlord may mean different rent policies, different eligibility requirements, different lease agreements and different support systems. In New South Wales, transferred tenants dependent on income support saw their rents increase (although they were now eligible for rent assistance, which offset some of the increase), and some tenants were required to pay bonds and contribute to water usage costs (Darcy and Stringfellow 2000). Yet retaining one set of conditions for the transferred tenants and one set of conditions for new tenants would be inequitable, administratively difficult, potentially financially unviable and increasingly hard to justify as time went on. In the UK, where new housing association tenants are excluded from the Right to Buy program which allows former council housing tenants to purchase their properties, there is pressure to end that inequity by introducing the same set of tenancy rights and conditions across the whole social housing system (Pawson 2004).

## **6. Growth providers: some questions**

### **6.1. Who will be housed?**

The growth provider model is based upon the provision of capital funding but not the recurrent funding needed to cover operating expenses and meet the cost of subsidising rent. Although tenants will be eligible for Commonwealth Rent Assistance, in practice, viability depends upon growth providers cross-subsidising their lower income tenants by leasing some properties to moderate income earners. Cross-subsidisation is the model used by some housing associations in Victoria – for example, Loddon Mallee Housing Association, one of the newly registered growth providers, leases just 20% of its stock to very low income earners (defined as those earning 0-55% of median income), with a further 20% allocated to low income



earners (those earning 56-89% of median income) and the remaining 60% allocated to moderate earners (who can earn up to 140% of median income) (Loddon Mallee Housing Association n.d.). Under this structure, households dependent on income support payments such as the pensions or unemployment benefits would generally fall into the very low income category and only have access to a fifth of the available properties.<sup>10</sup> The New South Wales growth provider system will target households on incomes of up to 120% of median income, which is \$72,000 in the greater metropolitan region and \$60,000 in the rest of New South Wales (NCHF 2005).<sup>11</sup>

Modelling by McNelis et al (2002) found that a successful model for private investment in community housing depended on tenants having additional private income on top of their Centrelink payments. Their recommendation was that such a model target single parents with one or two children on Parenting Payment (single), couples with children receiving Family Tax Benefit and single Age Pensioners, as these household types were most likely to be in receipt of sufficient additional private income. An organisation housing Centrelink-dependent households without additional income and seeking to attract private investment would not be financially viable.

Some growth providers are choosing not to accommodate very low income earners at all. In 2004, community housing in the ACT was more highly targeted than public housing: 98% of community housing tenants received rental subsidies compared to 85% of public housing tenants (ACT Government 2004). The Government viewed community housing as being complementary to public housing, offering a higher level of tenant participation and accommodating tenants with diverse and complex needs (Hargreaves 2005). However, Community Housing Canberra has made the decision to shift its focus away from public housing eligible tenants to people in housing stress who are on incomes above the public housing eligibility line, and sees its clients now as “moderate income tenants and buyers” (CHC 2007: 3).

The Council to Homeless Persons in Melbourne has expressed concern that a growth provider model will simply replicate the existing housing market at a more affordable level, rather than address the structural issues that act to exclude some groups of tenants, such as young people and single people, from housing (Wright-Howie 2004). There do appear to be some grounds for concern that young people and single people may be excluded under a growth provider model, at least from mainstream or self-contained forms of housing: in 2005, the Port Philip Housing Program, now the registered Port Philip Housing Association, housed 460 people in its properties, 36% of which were older people and 33% of which were singles living in rooming houses. Just under a fifth were families (19%), while just 5% were singles living in self-contained accommodation, 5% were people living in dedicated disabled persons’ units, and just 2% were young people and students (Papadopoulos and Spivak 2005).

There are also issues around tenant selection. TAHL, while not a ‘growth provider’, is an organisation dependent on attracting private investment. TAHL has indicated that all its tenants will come from the public housing waiting list and that its selection criteria are confined to whether the applicant’s requirements around property type and location match TAHL’s stock profile (Gillam 2007), but there is no commitment to prioritising those in higher-need categories. In fact, it is likely that TAHL will seek to avoid taking on

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<sup>10</sup> Tasmania’s median income in 2005-06 was \$44,200 (ABS 2007); very low income earners would therefore include households on incomes up to \$24,310. A couple totally reliant on the Age Pension earns an annual income of just \$23,252, while a couple dependent on Newstart Allowance has an annual income of only \$20,165.60.

<sup>11</sup> The discussion draft of the NSW Government’s community housing development strategy included a reference to a “proportionality principle” for jointly funded projects. Under this principle, any government contribution to a development would have to be used to provide housing for public housing eligible households, ensuring that government funding would exclusively finance housing for those most in need, while the community provider’s investment, obtained through equity or debt finance, would be channelled into affordable housing for low to moderate income households (NSW Department of Housing 2007). Shelter NSW opposed this requirement because in practice, it would mean that community providers would be taking in large numbers of tenants with high and complex needs, leading to problematic social consequences and placing the fiscal viability of the new properties and products at risk (Shelter NSW 2007). The proportionality principle is not included in the final version of the strategy.

clients with complex needs because the real and perceived characteristics of tenants are important factors for investors when assessing risk, and are therefore important factors in TAHL's capacity to deliver against its target. Given that the new housing associations will also need to attract private investors and will be under pressure to be financially self-sustaining, they may face similar barriers to housing clients with complex needs. Experience in the UK is that the provision of housing for tenants with a need for ongoing support is more complicated and costly due to the need to coordinate different streams of funding and manage hostile local reaction to developments, and that there is a higher property unit cost because of the additional facilities sometimes needed (NHF 2008).

The Tasmanian Government some time ago made a policy decision that 10,000 properties would be sufficient to house those Tasmanians classified as 'in greatest need' (Auditor-General 2005, Housing Tasmania 2005). These 10,000 properties are the Government's response to concerns about the inability of people with high and complex needs to find appropriate accommodation in any other part of the housing system. But given that 96% of Housing Tasmania's properties are occupied by tenants who continue to meet Housing Tasmania's eligibility requirements (Housing Tasmania 2007b), given that 92% of new allocations are to greatest-need tenants (Housing Tasmania 2007a), given that there is a waiting list for public housing of between 2,666 and 3,055 eligible households (DHHS 2007, SCRGSP 2008), and given that the waiting list is acknowledged to be an underestimate of demand (Auditor-General 2005), it is unlikely that the Government's assumption that 10,000 properties is enough is accurate.<sup>12</sup> There are a considerable numbers of tenants facing a range of complex issues who are not able to get into public housing and who will continue to turn to other options, such as the growth providers, for assistance.

## **6.2. How much will tenants pay?**

Given that growth providers will need to structure their rent policies to maintain a reliable and adequate revenue stream in order to meet their operating costs and any loan repayments, it is almost certain that the growth providers will charge rents in excess of public housing rents. The framework established by the Victorian government to govern eligibility, targeting and rent setting in housing funded through the growth provider strategy indicates that broader eligibility criteria will apply, although a certain proportion of properties will be quarantined for public housing applicants (Housing Sector Development 2006). Rents for tenants in the lower half of the income eligibility range must be no more than 30% of income (where rent and income are both net of CRA), but rents must also maintain the housing association's financial viability. The Housing Registrar will monitor the extent to which rents in community housing exceed 75% of market rent and 25% and 30% of tenant income (Housing Registrar n.d.). Of the housing associations presently registered with the Victorian Housing Registrar, some charge market-related rents (Community Housing Limited n.d., Loddon Mallee Housing Association n.d.), while others charge income-related rents (Port Phillip Housing Association Limited n.d., Supported Housing Limited 2007). In New South Wales, under the existing rent setting policy for community housing, community housing providers nominally charge market rent for their properties – defined as the median rent for a similar property in that Local Government Area – but people unable to afford this rent are only charged 25% of assessable income – 15% if they are aged between 18 and 21 (NSW Office of Community Housing 1999). Community Housing Canberra currently directly manages 68 tenancies, of which 56 are 'community housing', with rent set at 25% of household income, and 12, 'affordable housing', with rent set at 74.9% of market rent (CHC 2007).

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<sup>12</sup> To be eligible for public housing, a person must be on a low income, be a resident of Australia living in Tasmania, be aged 16 or older and have financial assets worth less than \$35,000 (information taken from Housing Tasmania section of Department of Health and Human Services website, <[www.dhhs.tas.gov.au](http://www.dhhs.tas.gov.au)> on 21 December 2007). Households in 'greatest need' are defined as households that at the time of allocation are homeless, in inappropriate housing, in housing that is affecting their health or placing their life and safety at risk or have very high rental costs (SCRGSP 2008). With regard to the waiting list figures cited, both figures are for 30 June 2007 and provided by the Department of Health and Human Services and the Productivity Commission respectively. The reason for the discrepancy is unknown, although it may be attributable to the Department's suspension policy.

Community housing tenants living in the City Edge complex pay 25% of their income plus their maximum Commonwealth Rent Assistance entitlement, whether claimed or not. The maximum rent they pay is 75% of market rent for five years, and thereafter, market rent (Milligan et al 2004). The company describes the gap between the market rent and the rent payable by tenants as “a subsidy provided by the Company to ... tenants” (CHC 2007: 22).<sup>13</sup>

The use of benchmarks such as 25% or 30% or the ‘30/40 rule’ (that people in the bottom 40% of income distribution should pay no more than 30% of their income in rent) are inadequate measures of affordability because they ignore the third component of affordability – the other costs involved in achieving a minimum standard of living (McNelis 2005). In short, if a household pays 25% of their income in rent, but 75% of their income is not adequate to meet other essential costs, such as food, heating, power, transport and healthcare, then their housing is not affordable. In 2001, Queensland Shelter expressed concern about the definition of affordability being adopted by new models such as the Brisbane Housing Company – that ‘affordability’ would be met if the tenant was paying 75% of market rent less rent assistance – on the grounds that this disconnected affordability from the actual income the household had to spend and instead related it to the market rent on the property (Queensland Shelter 2001).

The complexities inherent in discussions of affordability have been recognised in the definitions for ‘affordable housing’ being developed in some jurisdictions. For example, the ACT’s Ministerial Taskforce on Affordable Housing defined affordable housing as “a situation that conveys the notion of reasonable housing costs in relation to income: that is, housing costs that leave households with sufficient income to meet reasonable living costs such as food, clothing, transport, energy, medical care and education”, and then used the 30/40 rule to define “people ... having difficulty in accessing affordable housing” while acknowledging that some households just outside this definition could be living in housing stress as well (Ministerial Taskforce on Affordable Housing 2002: 5). Housing NSW has also recognised that affordability can vary according to the household’s circumstances, and has defined ‘affordable housing’ accordingly (Housing NSW 2007). However, flexibility around what is affordable for a given household does not seem to apply to social housing tenants – both public and community housing tenants in New South Wales are generally required to pay a flat 25% of their assessable income in rent (Housing NSW 2006), whether they can afford it or not.

For developments using debt finance, the provider needs a certain income stream in order to service the debt. Croce and Zakhovov acknowledge that this means that “rent models and targeting need to be established to address the target revenue requirement”. Targeting should still occur to ensure the development has an appropriate social impact, but it may need to be to a “general target group” (Croce and Zakhovov 2003: 4). The South Australian Vision Plan for community housing indicates that the Office for Community Housing will be reviewing the community housing rent policy to maximise organisations’ revenue streams and allow for greater flexibility in accommodating the demands of new financing models (SA Office for Community Housing 2006).

One source of additional revenue for community housing organisations can be Commonwealth Rent Assistance, but the capacity of this subsidy to generate additional income for the provider depends on how it is treated. If it is simply treated as additional income, the organisation in practice receives only 25% of a fairly small CRA entitlement (assuming the organisation charges 25% of income in rent). However, some organisations set their rents at a higher level in order to maximise the tenant’s CRA entitlement. Using the second method allows the organisation to obtain significantly more rental revenue, but can also leave the tenant paying a higher proportion of their income in rent.<sup>14</sup> The Community Housing Council of South

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<sup>13</sup> The ACT’s *Housing Assistance Act 2007* sets out definitions of both ‘housing assistance’ and ‘approved housing assistance programs’. Under the legislation, approved housing assistance programs must charge market rent for their properties, but may provide a rental rebate (s.22).

<sup>14</sup> Milligan et al (2004) provide a comparison of the rental revenues that can be generated by different treatments of CRA, and of the impact on tenants. In their example, on the open market a single parent with one or two children

Australia estimated that if community housing providers adopted the second method, additional funding of several million dollars a year would flow into the system via Commonwealth Rent Assistance. In the ACT, initial estimates suggested leveraging maximum CRA could result in an extra \$400,000 in funding and further financial modelling by the department is planned (DDHCS 2005).

There have been issues raised in relation to this approach, however, including whether it is fair to tenants and the risk of exposure to a Commonwealth policy change on community housing tenants' eligibility for CRA in the face of significantly increased annual expenditure (CHCSA 2006a). The Community Housing Council of South Australia put the various options to its membership at a policy forum in April 2006, and although the responses were mixed, overall, organisations indicated that they would not support a model that sought to maximise CRA (CHCSA 2006b).

CRA itself has come under criticism because of the assumption that household income is the only problem, and the exclusion of issues such as availability of housing, location, quality, amenity, tenants' support needs and tenants' rights. Because CRA is delivered via the income support system, it excludes the working poor (Hulse and Burke 2000). In addition, CRA does not always deliver affordability: in 2007, 35% of CRA recipients were still living in housing stress (Scullion 2007).

The need for policy stability in relation to the public subsidies provided by CRA and taxation settings has been identified as an important precondition for the development of growth provider models (NCHF 2005). Some proponents of maximising CRA flow into community housing argue that the Government will be paying the same amount regardless of whether the tenant is in community housing or in the private rental market, but the housing will be considerably more affordable for the tenant (Milligan et al 2004). However, eligibility for CRA was withdrawn from public housing tenants in 1982 on the basis that there was too great a disparity between the assistance provided to public housing tenants and that provided to private rental tenants (Industry Commission 1993). If the community housing sector develops and expands in the way in which state governments hope, this argument could be applied to community housing as well, particularly as real expenditure on CRA is projected to increase by 170% by 2045 (Yates et al 2008).

McNelis (2005) highlights two views of the role of the social housing: the non-shelter-first approach, which argues that it is housing costs that often undermine a household's standard of living, and the shelter-first approach, which argues that the standard of living depends on the household's income. The former approach takes the position that housing providers are responsible for supporting tenants to achieve a minimum standard of living and therefore reduces the cost of housing to free up income to meet other living costs, while the latter takes the position that housing providers are not responsible for the tenants' level of income and charges rents that reflect the cost of providing adequate, appropriate housing and remaining financially viable. State housing authorities like Housing Tasmania are currently struggling with the dilemma of whether or not they should be responsible for the fact that in Australia, income support payments that are too low. However, social housing tenants are some of the most disadvantaged people in our community and they should not have to carry the burden of an inadequate income support system any more than they already do.

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would be receiving the maximum rate of CRA, but, in paying \$500 a fortnight in rent, would be spending 108% of their fortnightly income on housing costs. If the property was community housing, the tenant's contribution to the rent would be income-linked. If the provider treated CRA as assessable income, the tenant's contribution would equate to 25% of their income in rent while the housing provider received a rent of \$129. If the rent was set higher, to maximise the amount of CRA for which the tenant was eligible, the tenant would be paying 32% of their income in rent while the provider received \$260 in rent. A rent set at 74.9% of the market rate would earn the provider \$375 but cost the tenant 57% of their income (illustrating that market-linked rents are not affordable for people on income support).

### 6.3. Where will the growth providers come from?

Research in 2004 found that the affordable housing sector in Australia was “tiny”, with the seven largest providers developing just 1,200 properties over the preceding decade. The researchers concluded that without incentives and support from government, the sector would remain small-scale, opportunistic and project-driven, and that while some providers were seeking to develop innovative models, they were constrained by a lack of concurrent government strategies (Milligan et al 2004). In 2008, the focus is now squarely on housing and on the development of partnership approaches between the community housing sector and private investors.

Modelling in 2004 by Bisset and Milligan (2004) found that to operate cost-effectively and, in particular, to manage risk at a level high enough to satisfy private investors and to offer adequate salaries to attract staff with the requisite skills and experience, a growth provider would require a management portfolio of 500 units and be developing 25 new units per annum, which would translate into an annual turnover of \$10 million, assets of approximately \$125 million, and liabilities through leverage of \$25 million. Another study indicates that at least 2,000 properties are required for an organisation to achieve financial self-sustainability (DDHCS 2005). In addition to scale, organisations need knowledge, skills and capacity in a range of areas to support their involvement in property acquisition, housing development, asset management, property management, tenancy management, body corporate management, private rental management and possibly community building, economic development or the administration of home purchase schemes. Bisset and Milligan (2004) list the required characteristics of successful growth providers as incorporation as a company limited by guarantee or shares operating on a not-for-profit basis; registration as an income tax exempt charity, possibly with DGR status as a PBI; a clearly defined mission centred on the provision of affordable housing; a long-term, financially viable business model; board-level skills in long-term strategic planning and financial modelling; strong governance regimes; professional management teams; adequate capitalisation; sufficient cash flow to take advantage of opportunities as they arise; capacity to raise finance through debt and equity when required; a robust risk management framework; and a willingness to participate in wider industry development activity. There is only a limited number of organisations meeting these criteria in Australia. In the ACT, the decision to channel private sector investment in affordable housing provision through one organisation, Community Housing Canberra, has been taken on the basis that most other community housing providers in the ACT have questionable viability and lack the necessary organisational resources (DDHCS 2005).

Even for organisations that are already large, professionalised and highly skilled, adjusting to the new system will hold challenges. The Victorian registration system is designed to ensure the required high standard of risk management among housing associations, but the registration process itself is onerous. An evaluation of the pilot process, conducted between October 2006 and March 2007, found that organisations had to commit an average of 763 hours, or a full time equivalent position for 20 weeks, to meet the requirements of registration and update their policies and procedures to comply with the new system (CHFV 2007). Many organisations employed project workers for the purpose. For all but one of the organisations involved, constitutional changes were required to ensure compliance with the new system; for one agency, independent advice from the Australian Tax Office was that the changes had endangered their charitable status. The Community Housing Federation of Australia sought ATO advice on 13 models of collaborative engagement with the private sector, and found that of these, two would place the organisations involved at risk of losing non-GST linked tax concessions, continuing endorsement as an income tax exempt charity and DGR and fringe benefits tax exemptions (CHFA 2004a). In the UK, associations taking on transferred council housing found that the process of developing an organisational infrastructure with supporting policies and procedures took longer than expected, which meant that investment in maintenance and upgrades, the purpose of the transfer, was delayed (Gibb et al 2005). Fifteen per cent of associations surveyed by the National Audit Office said that they had not met or had delayed meeting commitments due to financial or regulatory problems, planning delays or inadequate grant funding from councils. Some associations said that the

commitments were no longer appropriate due to significant cost increases or changes in housing need in the area (NAO 2003).

It is clear that a demonstrated capacity for high-level risk management is critical if housing associations are to successfully leverage private investment, as investment in residential property offers lower returns than many other investments but investors may accept these reduced rates of return in exchange for lower levels of risk (McNelis et al 2002). It is also that achieving the required competency in risk management will take time and will require significant resources to achieve. In 2004, the Community Housing Federation of Australia called for a two year capacity-building program to provide training and development for community housing organisations looking to attract private investment (CHFA 2004b). But in the SHIP report, Bisset (2000) argued that investing resources in establishing a supporting infrastructure for the sector – a regulatory system, for example – would only be worthwhile if the government was prepared to commit to community housing growth beyond the confines of SHIP, which, like most government programs, was a commitment for just three years.

The National Community Housing Forum suggests that community housing organisations need to be reconceptualised as being part of an industry rather than a sector (NCHF 2005). Croce and Zakhorov (2003: 5) ask the question, “Do community housing organisations stop being ‘community’ organisations when their role and mission extends beyond the services originally envisaged when it [sic] was established?” They suggest this question can be answered by ensuring that the original purpose and intent are codified and strategically integrated with the organisation’s new operating environment. Nieboer and Gruis (2006) argue that greater market orientation among community housing providers can lead to better outcomes for tenants, because it will drive the development of housing stock that meets tenants’ needs and housing demand and is economically efficient. However in practice some community housing providers have experienced tension between the organisation’s social purpose and a business approach – for example, when a tenant is experiencing difficulty and their tenancy is at risk – and point to the importance of retaining a commitment to the needs of tenants first and foremost and carefully managing any conflict between approaches (CHFA 2005).

#### **6.4. How will growth providers be regulated?**

Darcy (1999) points out that even though the potential for greater flexibility and innovation are invoked as reasons for turning to community provision of social housing, the growth of the community housing sector is accompanied by increasingly stringent regulation and controls that aim to standardise practices and performance. There are also pressures on organisations to consolidate and merge to generate greater efficiencies. However, regulation and performance management are important: an evaluation of the ACT’s program of transferring management responsibilities to community housing organisations found that the process for allocating the properties had not considered quality issues or the ongoing viability of organisations, and that some of the recipient organisations had been stranded in a situation of being too big to rely effectively on volunteers, but too small to support the costs of employing professional staff. The allocation of additional public housing properties to be managed as community housing for people with special needs, such as Indigenous people or people with disabilities and mental illnesses, was also problematic, because only one of the recipient organisations had enough scale – from other programs – to support the organisational structure required (DDHCS 2005). Inexperienced organisations can also be vulnerable to exploitation in relation to the recognition and allocation of risk in a partnership agreement (Aspin 2004).

Nationally, the community housing sector is recommending a regulatory approach that incorporates a legislative basis outlining the roles and powers of community organisations and government, registration based on compliance with identified industry standards, a voluntary accreditation system and regulation of

capital assets. The regulatory system would need to be tiered in order to recognise the diversity of the community housing sector (Croce and Zakhorov 2003).

Across Australia, a number of regulatory models are merging. In Victoria, following an arduous registration process,<sup>15</sup> housing associations must ensure ongoing compliance with performance standards covering governance, management, probity, financial viability, tenancy management, housing management and maintenance and risk management (Housing Registrar n.d.). The regulatory framework incorporates a tripartite review process, with the Registrar undertaking a regulatory review and a financial performance assessment, and producing a regulatory plan for each organisation registered on an annual basis. Failure to meet performance requirements triggers an intervention process which can range from the Registrar directing the organisation to remedy the matter, through to mandating Board appointments or appointing an administrator. Where the organisation fails to maintain registration, any properties managed by the organisation but owned by the government will be transferred to another organisation, and no further funding will be allocated to the organisation for construction or maintenance (Housing Registrar 2007).

In New South Wales, amendments to the *Housing Act 2001* have established the legislative framework for the growth, with a risk-based regulatory code to be developed, based on the Performance Based Registration System, which will set out required outcomes and service delivery standards. A public register of providers, supported by publicly-available performance data, will be provided, and a sector development strategy created to address the development and provision of affordable housing, workforce issues, standards of best practice, industry representation and capacity building (Housing NSW 2007). In the ACT, recent reforms to the community housing sector mean that all community housing organisations are now required to gain accreditation under the National Community Housing Standards. The development of a regulatory framework for the whole community housing sector is a priority for the Department of Disability, Housing and Community Services in 2007-08 (DDHCS 2007). However, regulation of Community Housing Canberra is to be handled differently. The loan agreement between CHC and the Government sets out the funding conditions and review and evaluation processes and in addition, CHC is to supply the Government with a Statement of Corporate Intent that includes a detailed five year business and financial plan and key performance indicators (Horsham 2008). In South Australia, there has been feedback from the sector that many community housing providers, due to resource constraints, are unable to meet the administrative requirements of optional improvement strategies, such as quality assurance accreditation, let alone obligations under a more rigorous regulatory framework (SA Office for Community Housing 2006).

In the UK, there is currently conflict between the Government and the housing association sector over the appropriate level of regulation that should be provided. The UK system is currently undergoing regulatory reforms which include the creation of a new regulatory body. In part, the system is intended to enhance consumer protection by empowering tenants to more strongly articulate their needs. It is argued that this is necessary because of the shortage of supply – tenants lack the capacity to go elsewhere if they are dissatisfied or treated poorly (Cave 2008). However, the housing association peak body, the National Housing Federation, has argued that the Government's 'command and control' approach is restricting their capacity to leverage additional funding and operate independently, flexibly and innovatively (NHF 2007). The regulatory system has been criticised for being too detailed and intrusive and too focussed on inputs rather than outcomes for tenants, applicants and the public, and for imposing unreasonable restrictions on the financing of new properties (Byatt 2007). One researcher has argued that there is still little clear evidence regarding the factors that help or hinder improvement in housing management performance, despite extensive government spending on regulating the housing association sector over the past ten years

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<sup>15</sup> To register as a housing association in Victoria, the Port Philip Housing Association implemented considerable structural reforms, including the establishment of a housing trust to own, develop and manage the \$84 million worth of community housing provided by the program and reconstitution as a company limited by guarantee to act as trustee of the new housing trust. The association is an arm of Port Philip Council, and as part of the reforms, the Council committed to annual cash payments to the association of \$400,000 for the next 10 years, as well as the transfer of \$2 million worth of property assets (Papadopoulos and Spivak 2005).

(MacLennan 2007). The Housing Corporation view is that regulation of governance and financial management will always be necessary because housing associations do not operate within the discipline of shareholder interest in the way that private developers do, and because of the large component of historic debt, both public and private, that is embedded in the sector (Rouse 2006).

There is currently no Tasmanian community housing provider with the capacity to become an effective growth provider. There is also no existing framework for developing a sufficiently sophisticated regulatory system. Establishing such a system and ensuring a commensurate level of capacity within the community housing sector would be costly, complex undertakings requiring considerable upfront and ongoing investment by Government and probably the importing of expertise. Ensuring cooperation from the sector would involve comprehensive consultation processes, and designing the system and ensuring that it was robust and rigorous would take time. All of these issues would lead to further delays in delivering properties on the ground. For Tasmania, at least, the growth provider strategy is a long-term response, not an immediate cure-all.

## **6.5. The bottom line: how many new houses will be built?**

At the heart of the affordable housing crisis is the issue of supply – the critical and ongoing shortage of sufficient affordable housing for all of those who need it. The private rental market does not work for low income tenants: it is not affordable, it is not secure, and the balance of power is too heavily weighted in favour of landlords. Without radical reform of Tasmania's private rental market to ensure longer-term leases, controls over rent increases, enforcement of minimum standards and a greater emphasis on tenants' rights, most of the increase in supply must be in social housing. It is this issue that a growth provider strategy is designed to address. But how effective will it be?

Individual developments, such as the City Edge development coordinated by Community Housing Canberra, are often cited as evidence supporting a move to a growth provider model. But the development demolished 143 public housing units to make way for 30 social housing units and 96 private units (Croce and Zakhorov 2003). Although the joint venture model used allowed for the development of 22 more properties than would have been possible had the land simply been sold outright and the proceeds used to purchase new stock (Croce n.d.), and although the development has resulted in a sustainable social mix, this still represents a significant overall reduction in social housing stock at a time when demand is rising. Other Community Housing Canberra developments have not had the affordable outcomes hoped for (NCHF 2005), and several planned community housing developments in the ACT have recently been subject to deferrals and delays (DDHCS 2007). During the development of the New South Wales growth provider strategy, NCOSS expressed doubt that the quantity of new properties promised could be delivered, arguing that local council community housing initiatives in the state had delivered just 120 new community housing properties over a number of years, of which 87 were available for public housing eligible households and 33 as affordable housing (NCOSS 2007).

Other experiences are more positive. By the end of the 2008, Victoria's Community Housing Limited hopes to have developed 292 new properties worth \$65 million, using a government contribution of \$47 million and additional finance from land donations, development surpluses, reserves and debt finance (Walsh n.d.). However, to obtain sufficient levels of private finance to make a growth provider model work, the main issues that must be addressed are risk and return (Docherty 2006). Potential investors must be confident that the investment is low risk, and they must also be confident that they will achieve a sustainable and worthwhile return. Regulation is critical to reassuring investors in relation to risk – for example, a consultant's report calling for a relaxation of regulatory control over the UK's housing association sector acknowledges the need to preserve lender confidence in the sector, which is backed to a degree by the considerable statutory powers held by the Corporation under the existing regulatory model allowing it to deal effectively with any financial or management problems within a housing association (Tickell 2006).



When it comes to return, however, there is a significant body of research evidence demonstrating that without additional subsidies or support, both capital and recurrent, flowing into the system from government, the growth providers will not be sustainable into the long term (see Bratt et al 1999, Bratt 2008, DCLG 2007, CHFA 2005, Milligan et al 2004, Lawson and Milligan 2007, Berry et al 2004, Nieboer and Gruis 2006). Where housing is intended to be for tenants with complex needs or in very disadvantaged areas, additional funding must be allocated to meet the support needs of tenants or the additional costs of operating in a disadvantaged area – such as the increased cost of security and safety in an area with a high crime rate (Bratt et al 1998). In Australia, the research evidence suggests that CRA, although critical, on its own does not provide an adequate subsidy (McNelis et al 2002).

Two recent examples of decisions made by Community Housing Canberra underline the issues that emerge when recurrent subsidies are not available: firstly, the organisation has had to take on direct management of the affordable housing tenancies that have resulted from its development projects, partly because the projects are not financially viable without recurrent subsidies from government and there is therefore little room in the budget to provide a management fee to a sub-contracted tenancy manager (DDHCS 2005), and secondly, CHC recently terminated 48 long-term head-leases on public housing properties due to the fact that the rental income from the dwellings was insufficient to cover the operational costs and recurrent funding support was not available (CHC 2007).

The example of the UK is often cited as evidence that growth providers not only work, but can be hugely successful. The UK Government currently contributes 44% of the cost of new housing developments, with housing associations providing 43% from borrowing and 13% from their own reserves, and Government modelling suggests scope for additional borrowings and efficiency savings exists (DCLG 2007). The Housing Corporation argues that too many housing associations are not leveraging their assets as strongly as they could (Rouse 2006). The housing association sector believes that with changes in the investment framework, an additional 274,000 social housing properties could be generated through a £13.4 billion public subsidy used to secure £20.5 billion in borrowings, which means the Government would be contributing 40% of the cost (NHF 2007). The recent Green Paper increased the government's capital funding for housing associations by 36%, but the targets it has established for the sector are for growth in affordable housing properties of 52% (Parker 2008). But despite the size of the numbers, the UK model is based on a very different subsidy system.

For example, community housing tenants in the UK are eligible for housing benefit. Although similar to CRA, housing differs in important ways – although income and asset tests apply, both income support recipients and low wage workers are eligible, and the benefit is paid irrespective of whether the person lives in public (council), private or community (registered social landlord) housing. The rate of housing benefit an individual household receives is usually based on an independent assessment of what is considered to be a reasonable rent for the property in question. For income support recipients, housing benefit covers the whole of this 'reasonable rent', while for others, the rate of housing benefit depends on their income and assets. Housing benefit can be paid to either the tenant or the landlord, depending on the tenure type and circumstances of the tenant.<sup>16</sup> Housing benefit accounts for 60% of rental revenue in the housing association sector (Cave 2008), and the capacity of providers in the UK to cover the costs of debt finance depends on the availability of housing benefit (Lawson and Milligan 2007). The sustained commitment of the UK Government to housing benefit and to its capital grants system are critical planks for investor confidence (Berry et al 2004). In addition to revenue from housing benefit, housing associations depend on activities such as market sales and low-cost home ownership to subsidise their loss-making activities of social housing provision and community investment (NHF 2007). The capacity to provide the former is critical for the continuation of the latter. Under Housing Corporation rules only 51% of housing association activities are

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<sup>16</sup> Information downloaded from the website of the National Association of Citizens Advice Bureaux (Citizens Advice), <[www.adviceguide.org.uk/index/life/benefits/help\\_with\\_your\\_rent\\_-\\_housing\\_benefit.htm](http://www.adviceguide.org.uk/index/life/benefits/help_with_your_rent_-_housing_benefit.htm)> on 27 March 2008.

required to be directly related to the provision of social housing, so housing associations can be and are also engaged in providing childcare and training and operating health and leisure services and facilities. Others provide a commercial or social services via subsidiary organisations that are not registered housing associations and therefore not subject to Housing Corporation rules (Marshall and Lovatt 2004).

Australian governments appear to have recognised the need for capital funding, either through transfer of property or through grant provision (Office for Community Housing 2006, DDHCS 2005). However, the issue of recurrent subsidies is arguably more important. In the UK, revenue subsidies like housing benefit are worth 6.5 times more than the capital subsidies provided through grants (Rouse 2006). Reliance on the subsidy provided by Commonwealth Rent Assistance is risky. It is poorly targeted with many gaps in eligibility that mean some low income households, such as low-wage workers, miss out on CRA entirely (Queensland Shelter 2001). Burke points out that in the early 1990s, it was suggested that the CSHA be replaced by the extension of eligibility for CRA public housing tenants, but the idea was dropped because the CRA available would not have allowed the public housing providers to be economically viable, especially at a time of greater targeting and the resulting financial pressures on the system (Burke 2005).

In addition to the risks posed by inadequate subsidy levels, there are other challenges facing the growth provider model. The 'NIMBY' or 'Not In My Back Yard' phenomenon has been a major threat to social housing developments in gentrified inner Melbourne suburbs, with opposition from residents who do not want social housing built near them placing considerable pressure on councillors and causing costly delays in approvals (Papadopoulos and Spivak 2005). Opposition from local governments can also lead to project delays which threaten the financial viability of developments. Ideally, local governments should be guided by an affordable housing policy and strategy, but many local governments remain ambivalent about affordable housing developments (Croce and Zakhovov 2003). Tasmania has seen examples of this recently with the reaction to the proposed development of supported residential facilities in Sandy Bay and Claremont (Flanagan 2007). There are potential threats to even the UK's vibrant housing association sector: reforms to housing association rent structures have led to long-term reductions in the associations' projected income (Zitron 2004). Many associations have incorporated ongoing increases in rents into their business plans, but the increases will not be possible under a 2002 restructure of the rent setting regime which placed caps on rents to prevent them from increasing beyond those charged both other social housing providers (Pawson 2004). The sector is currently lobbying for a change to the rent setting model to allow annual increases of  $RPI^{17} + 1\%$  (NHF 2007). Experience in the US suggests that partnerships need to be carefully structured to ensure the housing remains affordable into the long-term or there is a considerable risk that the private partner will quickly convert the properties into private rental housing available on the open market at open market rates (Bratt 2008).

US researchers argue that while housing production is important, the investment can only be sustained and justified by attention to the management of the housing into the long-term to ensure the housing is available as affordable housing into the future. A survey of 17 non-profit organisations and 34 of their affordable housing developments concluded that while the day-to-day operations of the organisations were generally good, their long-term financial future was highly suspect, with a significant proportion of organisations in severe operating deficit, using non-recurrent funding to cover operational costs and failing to divert funds into both capital and operating reserves. The study attributed these problems to structural issues rather than to poor management, pointing to poor quality construction due to inadequate development budgets and problems with contractors, inappropriate development size or configurations that undermined property management efforts, and the difficulties of operating in very disadvantaged areas without additional funding to address and overcome the problems (Bratt et al 1998).

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<sup>17</sup> The Australian equivalent is the CPI or Consumer Price Index.

## 7. Conclusion

Although public housing providers have access to a larger asset base than community housing, and only the reluctance of state governments to go into debt to fund long-term social infrastructure prevents the use of these assets as leverage for debt finance, the growth provider models being pursued in Australia are seeking to add to social housing through the community housing system. In justifying this move towards community housing, much is being made of the supposed benefits of a community housing model. The New South Wales strategy explicitly stresses the capacity of community housing to uniquely respond to particular challenges facing the social housing sector, arguing that community housing will address the growing complexity of need among tenants through its capacity to support a wide range of client types and its strong networks with support services, it will manage the impacts of demographic change and targeting of housing assistance on rental revenue through flexible rent-setting and business models, it will create sustainable communities through its local connections and relationships, flexibility, involvement of tenants, support of people throughout different life stages and preferences and promotion of social mix on large housing estates, it will meet the demand for affordable housing options through the spectrum of services it provides and its track record in delivering those services, and it will meet the shortfall in CSHA funding and increase the funding base through leveraging private investment, using its charitable tax status and fee-for-service activities (Housing NSW 2007). The South Australian Vision Plan also stresses the perceived strengths of the community housing sector – its capacity to respond to people with particular needs, its local networks, its responsiveness, its commitment to community and social inclusion, its engagement of tenants in management processes, its facilitation of capacity and skills development among tenants and its high level of volunteer involvement. The Plan also notes that community providers are able to reduce the costs of housing provision accruing through their access to GST credits, debt and private finance, fringe benefit tax exemptions, stamp duty exemptions (for registered providers), donations, property rates and tax concessions or exemptions, and the eligibility of tenants for Commonwealth Rent Assistance (SA Office for Community Housing 2006). Community housing advocates themselves see the core values of community housing as being diversity, tenant participation, local connectedness and control and community involvement (Croce and Zakhovov 2003).

Perhaps understandably, given the significant funding constraints they are under, many states are starting to see their public housing system as a burden. The South Australian Government comments that because South Australia's level of public housing stock is higher than the national average, South Australia "misses out on around \$32m every year which would otherwise have come into this State through Commonwealth Rent Assistance" (Government of South Australia 2005). A non-government member of the ACT Parliament has argued that the responsiveness of the public housing model is restricted by targeting and that it lacks the community-building capacity of community housing (in Legislative Assembly for the ACT 2006). Growing community housing offers opportunities to access other sources of funding, such as CRA and private finance, and embrace innovation and flexibility, attributes seen as lacking in public provision.

Research in the UK indicates that there is little congruence between outcomes and the legal status of the housing model – council housing, housing associations, registered social landlords created through stock transfer, cooperative and charitable housing providers deliver a broad range of outcomes on costs, rents and performance that don't correlate to the legal status of the organisation. In fact, outcomes are more likely to be related to the size of the stock, the internal operational structure of the organisation and purchasing decisions (Maclennan 2007). The cost of provision varies markedly between housing associations, for example, even if regional differences in wages are considered (Cave 2008). There is even some evidence to suggest council housing is the cheaper option. A 2001 review found that continuing the large scale voluntary transfer program would cost taxpayers £4,200 a home over 30 years, compared to £2,900 a home if upgrades were conducted under continued council ownership, although it is important to note that the formal restrictions placed on councils in relation to borrowing funds made these upgrades unlikely or subject to considerable delay (NAO 2003). In the US, public housing has been more successful than is generally acknowledged by the public or by either side of politics (Bratt et al 1998).

In Australia, other concerns have been expressed in relation to the presumed superiority of community provision. Shelter NSW has expressed fears that as community housing providers expand in size, they will lose the focus on the needs of tenants that has most likely contributed to the high tenant satisfaction ratings within the sector (Shelter NSW 2007). A tenant advocacy group in Victoria campaigning against the SHIP report defended public housing's record of community and tenant involvement, pointing out that public housing tenants were responsible for many effective community programs on public housing estates, including playgrounds, security, child care, food cooperatives and social programs, when they were provided with appropriate resources (HAAG 2001). And the argument that community housing provision is cheaper than public provision is also contestable. A review of housing affordability in the ACT found that while ACT Housing faced construction costs almost 50% greater than those faced by community housing organisations and private developers, this was due to the requirement that it comply with the *Government Procurement Act 2001*, which mandates the use of pre-qualified architects and builders for projects valued above a certain amount (Ministerial Taskforce on Affordable Housing 2002). A follow up report in 2004 found that Housing ACT had saved considerable cost and time by tendering to the open market rather than a pre-qualified panel when replacing properties lost in the January 2003 bushfires, and indicated that Housing ACT would in future seek value for money by going to the open market for the construction of stand-alone public housing properties (ACT Government 2004).

Burke argues that the trend towards growing the community housing sector at the expense of the public housing sector is in effect turning the public housing sector into what the community housing sector once was (a provider of housing to people with special needs in a way that integrated them into their local communities) and the community housing sector into what the public housing sector once was (the provider of housing for large numbers of lower income people without complex needs). Burke argues that instead of watering down both sectors, housing policy should focus on recognising and strengthening their specific qualities, returning public housing to a provider of housing for low income families and households without complex needs, while nominated parts of the community housing sector would take on households with complex needs who require specialised support (Burke 2005).

The call for growth in community housing has also had some perverse outcomes. Providing social housing choice has been promoted as a core rationale for the government's focus on expansion of the community housing sector in the ACT (DDHCS 2005) but opposition members have argued that the Government has actually reduced diversity in the community housing sector through its rationalisation of provider numbers (in Legislative Assembly for the ACT 2006). The evidence does seem to suggest that moving towards a growth provider model has the potential to lead to consolidation of the sector. The trend in the UK is to larger housing associations; the largest 60 associations control more than half of the total stock of social housing (Parker 2008). The move towards growth, mergers and consortiums is partly the result of a government preference for concentrating public funding across a smaller number of organisations: between 2004 and 2006, the Housing Corporation directed 80% of its capital grants funding to just 70 of the 2,000 registered housing associations (Pawson 2005). New South Wales has also seen mergers and amalgamations between community housing providers, most recently initiated by providers. As a result, some 5% of providers manage around 70% of the total community housing stock – between 200 and 2,000 properties each (Housing NSW 2007). In the Netherlands, the sector has contracted from 784 organisations in 1987 to 508 in 2005, with many of the mergers driven by the need for greater professionalism (Nieboer and Gruis 2006).

Anglicare strongly supports community housing. The housing and support provided by community housing organisations are highly valued by its tenants (AIHW 2006a). Small community housing providers are able to meet niche needs, are integrated into their local communities and are able to provide tenants with meaningful experience in day-to-day management issues. Larger providers also have a place in adding to supply and creating synergies between themselves and other relevant support services, such as mental health services or the alcohol and other drugs sector, that have real benefits for clients. Anglicare has together with

the Tasmanian community sector previously recommended that the State Government invest in capacity building within the community housing sector to help the sector overcome the challenges posed by skills shortages and strengthen providers' governance and management capability and ongoing viability (Flanagan 2007).

But pursuit of the growth provider model does raise concerns about the fate of public housing. When compared against options such as cash subsidies, schemes to induce the supply of private rental housing and head-leasing, public housing has been found to be the most efficient and effective way to deliver housing assistance to low income earners (Industry Commission 1993). However, Australia's public housing system is struggling. Greater targeting of public housing to people in 'greatest need' means that increasing numbers of public housing tenants are on lower incomes, have complex needs or are coming into public housing out of significant crisis. Overall, larger numbers of tenants are paying discounted rents, leading to a decline in rental revenues flowing to public housing authorities. Targeting has cost the Australian public housing system \$200 million annually since 1990, although this figure could have been higher had housing authorities not responded with increased rents, reduced arrears and lowered vacancy levels. Revenues could be improved by raising rents, but this may be at the cost of the broader objectives of public housing (Hall and Berry 2007). The growing number of tenants with complex problems, such as drug and alcohol issues, family breakdown and physical and psychiatric disabilities, has also led to a growth in demand for intensive support that is integrated with other government services, such as mental health support services, aged and disability care and alcohol and other drugs services (Hall and Berry 2007, Heintjes 2006, Atkinson et al 2007, Jacobs and Arthurson 2004). Housing Tasmania currently lacks the funding to provide this support comprehensively across the system (Anglicare Tasmania 2006). Stakeholders interviewed for a report on the impact of targeting on South Australia's public housing system generally agreed that targeting needed to be eased, a view supported by the research evidence, and even those who supported retention of targeting agreed that significant investment in support services would be required to manage the consequences (Parkin and Hardcastle 2006).

According to the Department of Health and Human Services' 2005-06 annual report, the 2006 value of the Department's rental dwellings was \$1.1 billion, and the Director of Housing retained the title to an additional \$39.6 million worth of stock that was managed by community organisations. The value of freehold housing land was \$446 million (DHHS 2006). Housing Tasmania provides secure, affordable housing to some 24,362 individuals (DHHS 2008). The public housing system represents not only a valuable asset, but also the homes and communities of ordinary people struggling with life on a low income and a range of personal challenges. It should not be allowed to wither and die, yet despite its efficiency – a 98% occupancy rate and high levels of satisfaction among tenants (SCRGSP 2007) – it is chronically under-funded.

The growth provider models being pursued by some Australian states are designed to produce a mix of both social and affordable housing or, in the case of Community Housing Canberra, exclusively affordable housing. 'Affordable housing' in this context is part of what is described in the UK as the 'intermediate housing market' – the part of the market that lies between social housing and open market provision. The intermediate housing market refers to people who would normally be in home ownership or social housing, but are excluded from those tenures by, respectively, inflated house prices and declining availability, and the typical policy responses are affordable housing (rented, but at below market rates), discounted sales, shared equity and shared ownership models (Malpass 2007b). There is no doubt that many people who are not eligible for social housing are still struggling to find housing that is affordable for them, but should they be the priority for government assistance while thousands of people on lower incomes are stranded on waiting lists for public and community housing? Shelter UK has stressed the importance of ensuring that targets for affordable housing included significant proportions of social housing (Shelter 2007), which suggests that there is a risk that a focus on affordable housing development can come at the expense of social housing.

Malpass is highly critical of the emphasis on intermediate housing in UK housing policy, arguing the growing emphasis on ending security of tenure in social housing to push more people through the system and

relying on intermediate housing is a sign of “desperation”, and stating that the current focus on intermediate housing “is merely a modern manifestation of the tendency for governments to react in similar ways to problems in the housing market: first they display a greater concern for the rather better off than for the least well off, and they cast around for new forms of tenure” (Malpass 2007a: 8). In 2001, stakeholders in Queensland were clear about the fact that the Brisbane Housing Company was not intended to be a response to housing need among the homeless, very low income households, people without incomes, young people or households with very high needs (Queensland Shelter 2001). Just like existing public and community housing models, the new model had limitations and would work best if targeted to a particular group of people, in this case, moderate income earners experiencing stress in the private rental market. It was a new strategy responding to an emerging need in the housing continuum, not a replacement for social housing, which responded to a different need. Queensland Shelter raised concerns that social housing funding might be diverted into the new models and commented, “[w]e must not rob those most in need [of] a secure home to assist others who are in some need of marginally better affordable rents” (Queensland Shelter 2001: 22). Anglicare echoes that sentiment.

## 8. The way forward: Anglicare’s recommendations

The issues involved in successfully pursuing a growth provider strategy are complex and careful planning and ongoing consultation with all stakeholders, particularly the existing community housing sector and housing support service providers, will be required to make it work. A new approach should not be implemented just because it is ‘innovative’, but because it will deliver the best possible outcomes for existing social housing tenants and for Tasmanians living in housing stress who need the affordability and security of tenure provided by social housing. In addition, it is important that the more difficult tasks of delivering additional social housing supply, a financially sustainable public housing system and a diverse and vibrant community housing sector are not sacrificed in the pursuit of the more financially attractive and politically palatable option of developing affordable housing for moderate income earners. While many moderate income earners are experiencing difficulty in accessing home ownership or affording private rental, the priority must be those who are most in need: the lowest income earners, the people facing complex challenges like disability, mental illness, drug and alcohol addiction, family violence and financial crisis and the people who are excluded due to their support needs or by discrimination from market housing.

Much of the promotion of growth provision through community housing is based on notions of choice. Malpass argues that the social housing tenure has been residualised to the point that it has become a safety-net for people without any other choice (Malpass 2007a). In Tasmania, many people do not even have access to this safety-net.

In moving forward:

**The State Government must first invest in Housing Tasmania**, with a recurrent funding package that recognises the full cost of delivering subsidised housing to people on low incomes and people with complex needs and provides funding at a level that allows these services to be delivered in a high quality and sustainable way and also provides Housing Tasmania with the flexibility to address the concentration of disadvantage that exists in many broadacre estates through urban renewal and to increase the supply of public housing as required.

**The State Government must also invest in the community housing sector.** Funding needs to be allocated for capacity development to allow the sector to build on its strengths and improve its viability into the future as a meaningful provider of social housing.

**If the State Government chooses to pursue a growth provider strategy – or any strategy that depends on similar elements, such as the leveraging of significant amounts of private finance – the following requirements must be met:**

- rents for low income tenants must be set and maintained at genuinely affordable levels;

- the level of funding and support for existing community housing organisations and providers must be sustained and increased when required, even if they are not explicitly part of the growth strategy;
- a robust, transparent and accountable system of regulation must be established around all aspects of the process and around the ongoing operation of growth providers;
- there must be a guarantee of an increased supply of social housing, linked to specific targets, performance indicators and conditions around eligibility;
- the increase in supply must be commensurate with the investment in the new system made by the State Government;
- the viability and sustainability of the public housing system and its capacity to meet the needs of its tenants must not be undermined; and
- significantly more detail, including modelling on expected growth and information on how all the above conditions would be achieved, must be provided prior to any decisions or commitments being made by the Government.

**In addition to this, any proposal based on stock transfer as the means of establishing growth providers or leveraging finance will need to satisfactorily address the following areas:**

- the transfer must not result in any net loss of social housing stock into the long-term;
- the stock transferred must be appropriate in location, quality and value for the needs of the receiving provider; and
- the model must provide for the protection of the rights, choices and tenancy conditions of any existing tenants.

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