



**The crisis and beyond:  
For a stronger and fairer housing system  
Shelter NSW 2 July 2009**

**Community housing and Aboriginal housing – what is their  
capacity to become more than services specified and  
subcontracted by government?**

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The title of this session asks the question what is the capacity of the community housing sector to become more than services specified and subcontracted by government? Assumes that is the current situation and I don't believe that is entirely true. As we found when we did our Mapping Project a few years back, there are a significant number of community housing organisations that are not involved with government at all. They grew out of a community need for affordable housing and have survived without government assistance. Alamanda Housing for autistic adults was founded by parents who wanted secure and appropriate housing for their adult autistic children. Then there are community housing organisations who in addition to properties they manage for state housing authorities have their own properties that accommodate people according to criteria established by the provider. And we have a significant amount of housing operated by church-based organisations that receive no Government assistance and are not part of the traditional social housing protocol, yet serve a vital function providing low cost housing often for those with greatest need.

**Federal direction**

There is a definite desire on part of the Federal government to see a more robust, independent sector. This is evidenced by a number of actions at the Commonwealth level.

- First, there is the heavy emphasis on the not for profit sector in the National Rental Affordability Scheme (NRAS) (which resulted in half of the Round 1 incentives going to community housing providers).
- The COAG reforms articulated in the Nation Building and Jobs Plan, also known as the Stimulus package, included reforms that target the development of the not for profit sector, for example “introducing contestability in the allocation of funds to encourage a range of new providers and create diversification in the not-for-profit sector to enhance the ability of providers to offer housing options to a broader range of client types.”
- Minister Plibersek has publicly noted her strong support for the community housing sector and expressed her view that a significant portion of the dwellings built with stimulus package funds be located in the community housing sector.
- To better foster a rapid acceleration of sector capacity building activities, FaHCSIA has a newly dedicated team in its Housing Branch, the Community Housing Industry Development unit, charged with implementing a range of capacity building initiatives .

So the Federal support is there but the challenge now is how that support can or should be channeled in concrete ways to achieve the goal of viability and sustainability for the community housing sector.

KPMG has been commissioned to do a review of the sector including economic modeling. In response to that review, CHFA developed a discussion paper based on our previous policy positions and discussions with our Board and members. It sets out what CHFA sees as the key issues that must be addressed in order to promote the growth and expansion of the sector. If these issues are ignored, we do run the risk of existing primarily in the realm of government subcontractors.

So my comments today are drawn from that paper which is available on our website (<http://www.chfa.com.au>) and will touch briefly on each of the topics in the paper.

There are currently unprecedented opportunities for community housing organisations to increase their involvement in the

development and management of affordable rental accommodation. The ability to capitalise on these opportunities will depend, in large part, on the growth strategies, funding, regulatory, and policy frameworks that are developed the governments to support this growth. These will pave the way for a strong and viable sector that can continue to deliver housing for an increasing number of low and moderate-income households into the future. I'm going talk to each of these components.

### **Growth strategies (and understanding the business)**

We need a social and affordable housing system that addresses market failure across a continuum of need. This includes responding to homelessness, providing housing and support to tenants with high needs, developing and/or managing rental accommodation for people on low-moderate incomes, and addressing barriers to market access.

To do that, the policy and regulatory environment must support a broad array of providers:

- Those that specialise in meeting specific needs (for example, housing people with disabilities);
- Those who operate in specific markets, such as regional and remote Australia;
- Those operating within specific program areas (for example, NRAS); and
- Those that operate a broader portfolio across a continuum of tenant profiles, program areas, and financing regimes.

To understand growth strategies, one needs to understand the economics of the community housing sector and what it takes to run a community housing business. A 'one size fits all' approach does not provide an adequate understanding of the sector because the business of any community housing organisation will depend on a range of policy positions and organisational priorities. A thorough understanding is necessary because it must underpin any development or adjustment to policy parameters that are designed to support the viability of the sector and minimise risk.

One of the key variables for growth is an organisation's income stream. If we exclude government funding, community housing providers have three main means of raising income:

1. Rental income;
2. 'Maximising' CRA; and
3. Cross-subsidising the cost of housing low income/high needs tenants, either by having a mix of other tenants, including

those on moderate incomes, or conducting other activities (such as property development), the 'profits' from which can be churned back through the organisation.

An organisation's income stream (and any subsidies it might receive) also impacts on its ability to grow and service debt. If a large provider is sustaining a level of service to tenants on very low incomes or with high needs through cross-subsidy only, this will limit the amount of money from rents that can be applied to servicing a debt for growth. An organisation that wants to maximise its capacity to grow has a disincentive to house those who pay less rent or cost more to house if there is no other subsidy attached. I'm talking about situations where there is no government subsidy in the mix and I'll come back to that when I talk about funding.

There is more to the income stream than how the rent is calculated and what a provider's dwelling portfolio looks like. The composition of tenants is just as critical. Organisations that cater for particular tenant groups (or a higher percentage of particular groups within their programs) will have different spending requirements, and differing capacities to service debt.

## **Funding**

CHFA believes that we need a social and affordable housing system that operates on a mix of funding and is better matched to need than the current system. This means full or deep subsidies for those households in greatest need and shallow subsidies in instances where community housing is meeting general market failure. And I'm talking about both internal subsidies—those generated through cross-subsidisation—and external subsidies, such as operating funding and/or rebates from government.

Funding processes need to set distinct outcomes for different parts of the housing market. This approach has been championed by the National Housing Summit Group, which has developed a tiered system that refers to 'bands' of housing. Such bands of housing are aimed at different tenant populations, and are typified by different expectations about government investment, rent structure, and length of tenure, amongst other things.

Ideally, there should be a package of funding that includes:

- Direct public investment of new funds linked to social housing supply, and core capital funding to meet short and medium term

- business plans of community housing organisations, including ongoing operational funding;
- Indirect public investment through the transfer of public housing assets or government land. Stock transfers should be jointly planned with the community housing sector;
  - Government land releases for affordable housing;
  - Investment through the National Rental Affordability Scheme (NRAS);
  - Private investment through debt finance or equity investment;
  - Planning system provisions and concessions, such as the current inclusionary zoning requirements in South Australia whereby 15% of all new housing developments must be affordable housing dwellings; and
  - Charitable tax concessions at all levels of government.

### **Regulation**

A regulatory system should have at its core the goal of enabling the sector—and governments—to achieve their policy goals, including growth targets. We need a nationally consistent regulatory framework that is about regulating an organisation and its business, not its day-to-day activities. Specific outcomes for organisations that receive government funding should be dealt with, but within contractual arrangements, not through a regulatory system. When regulation morphs into process management and contracts become overly specific about the activities that are required to achieve the purpose of the contract, rather than just specifying the desired outcomes, then innovation is stifled.

Furthermore, a national framework should include a 'tiered' system that allows for organisations carrying out different types of business to be assessed separately, as required. The key premise of a regulatory system needs to be based on managing risk, and the key to this is managing risk that is appropriate to the activities an organisation conducts.

A regulatory system needs to create the right settings, be rigorous in assessing organisational viability, focus on outcomes rather than process, and then allow organisations to get on with their business. To that end, CHFA supports a nationally consistent regulatory framework. By that I mean that the same rules apply in all jurisdictions, and that the framework is more than a loose collection of broad objectives whereby each State and Territory operates under separate regulations. Housing organisations shouldn't have to set up

separate entities in each jurisdiction just to satisfy different sets of rules. This is a national growth strategy and it requires a consistent national regulatory approach.

## **Public Policy**

Last, a critical element towards enabling the growth of the sector are policies that reflect and respond appropriately to the way the sector operates. To that end, there are a number of variables that must be considered when developing public policies that are meant to enhance the sector's viability and sustainability.

- **Who the sector will house.** That is, the type of tenancy profile that flows from government targets and funding streams will impact on an organisation's ability to grow
- **What social outcomes the sector is expected to deliver.** Federal policy goals around reducing homelessness will mean an increased focus on providing assistance to people that are experiencing or at risk of homelessness. For many community housing organisations, this will mean continuing their current focus providing stable, sustained tenancies through a 'housing plus' model of support, as well as developing and fostering ongoing relationships with other service providers. Providing skilled tenancy support as well as access to needed support services does have costs attached to it, and some of those costs are 'hidden' in the relationship between the housing providers and support organisations. In short, the type of tenants housed and the desired social outcomes has financial ramifications to an organisation's bottom line.
- **The impact of state and territory government policies.** For example, how stock transfers are achieved will have an effect on sector capacity
- **The type of tenant eligibility criteria and housing allocation procedures that will be used.** These will be key determinants of the cost of providing housing, and the ongoing income stream that organisations will be able to generate.
- **Whether providers will be able to and/or expected to internally cross-subsidise.** The type and size of a subsidy as well as just the ability to cross-subsidise or attract a government subsidy will impact on an organisation's ability to leverage debt and therefore its growth potential.
- **How CRA will be used in calculating tenants' rent.** Using CRA as a defacto housing assistance payment is fraught with

potential risks if it is relied upon for sector viability and sustainability. First, CRA (Commonwealth Rent Assistance) is an income subsidy, not a housing assistance payment, and it is tied to the tenant housed, rather than to a dwelling or its market value. As well, 'maximising'<sup>1</sup> CRA doesn't always deliver the maximum amount of CRA. There is also no assurance that CRA will continue in its present form, that is, allowing tenants of not-for-profit landlords to receive CRA, and those landlords to adjust their rents to allow their tenants to 'maximise' the amount of CRA they receive. Last, there are also tenants (and in particular, many 'key workers', such as single people or couples without children) that are not eligible to receive CRA.

To conclude, I commend the Commonwealth's commitment to building a strong and vibrant community housing sector. We see this as a golden opportunity to grow the sector in a concerted and deliberate manner, rather than in the ad hoc and piecemeal approaches of the past.

The sector has grown and matured over the years and is ready for the challenge of new growth and expansion, taking on new business while continuing to provide quality service through its existing activities.

But reforms and changes need to be done in a manner that is enabling rather than restrictive, that promotes innovation and rewards best practice, and is part of an integrated approach to improve the entire housing sector. The demand for affordable housing is too great to waste this valuable opportunity.

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<sup>1</sup> 'Maximising' CRA is a process employed by many not-for-profit housing providers, and in most jurisdictions. Some jurisdictions strongly encourage or mandate this. It involves setting the rent on a property such that a tenant will receive the maximum amount of CRA that they could be entitled to, and then allowing the tenant to keep this CRA, whilst paying a commensurate increase in their rent. In doing so, providers ensure that tenants are no worse off financially than they would be if they were paying rent using an income-based formula and not receiving CRA, but are able to 'capture' this CRA, which increases an organisation's income stream and acts as a de facto form of operational subsidy.