

## EXECUTIVE SUMMARY

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# Towards an Australian social housing best practice asset management framework



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# Executive summary

## Key points

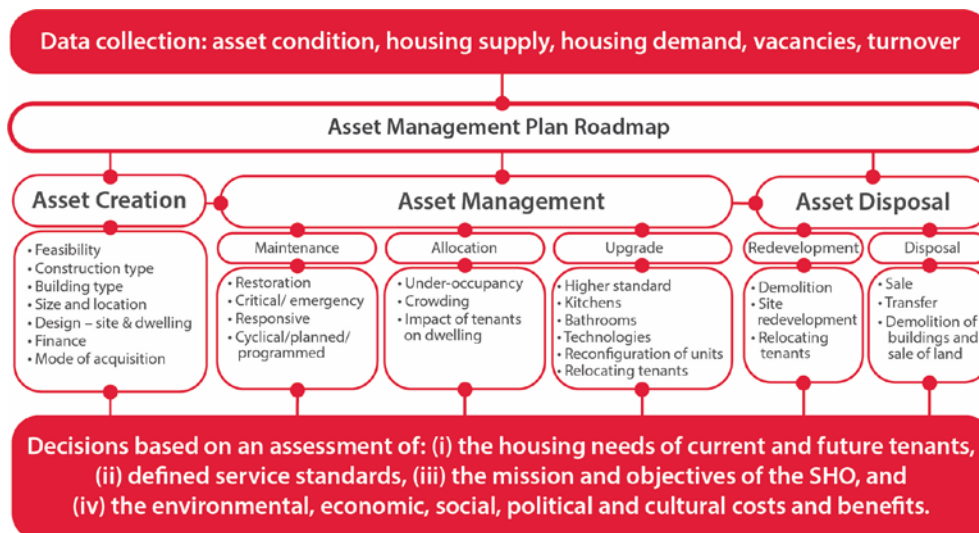
- **Social housing is a distinct asset subclass with unique asset management challenges that necessitate placing the tenant at the centre of provision.**
- **Greatly varying asset management planning, practice and performance are driven by differences in ownership, regulation and financing. Too often the result is substandard housing.**
- **The social housing sector is seriously constrained in its ability to maintain, renew and configure stock to meet current and future demand.**
- **An inadequate and failing social housing finance system is at the heart of the asset management challenges the sector faces.**
- **Aside from the need for adequate revenues, a coordinated approach to building (i) a common asset management framework and standard terminology and measures; and (ii) human and technological asset management capacity, including skills development, training and education, is needed to address current and future asset management needs.**

## Key findings

Social housing is a distinct asset subclass with unique asset management (AM) challenges. Best practice asset management (BPAM) reflects a life-cycle approach to managing assets, which puts the ‘customer’—or in the case of social housing, the tenant—at the centre of provision. BPAM requires a whole-of-organisation commitment embedded through data collection and analysis, integration of systems and continuous improvement.

A life-cycle approach to social housing AM encompasses asset creation, asset management and asset disposal. The process of developing an asset management plan (AMP) and roadmap will be informed by the current and future demand for social housing, and by an assessment of the housing needs for current and future tenants, the service standards to be achieved, the mission and objectives of the social housing organisation (SHO), and the environmental, social, economic, political and cultural costs and benefits (see Figure 1).

Figure 1: Sustainable asset management over the life cycle of social housing



Source: McNelis 2020.

## Asset management planning

SHOs are unable to maintain, renew and configure stock to meet current and future demand. Our research revealed that the varying understandings and practices in the public housing sector identified by Kenley, Chiazor et al. (2010) remain, and are now also recognisable in the community sector. Many SHOs do not develop AM strategies or, if they do, do not implement them. The community sector is on two trajectories. Larger community housing providers (CHPs), largely driven by regulation and private capital finance, are on track to achieve BPAM. Smaller CHPs do not have the same drivers, and there are worrying practices.

To date, little social housing-specific AM guidance has been available to SHOs. Private sector AM has some relevance, but large differences necessitate a specific framework. Multiple AM tools and systems are in use and standardisation would be beneficial.

## Maintenance backlog

Across both public and community sectors, maintenance backlogs are producing unacceptable conditions for many tenants. Some of the backlog is so serious that it results in the premature disposal of assets, financial losses and a reduction in provision at times of growing demand. In the community sector, lack of stringent reporting requirements means Housing Registrars in most states are unlikely to detect problems until a crisis emerges.

The provision of substandard social housing reflects inadequate consumer protection, with habitation standards only recently included in tenancy legislation in some states. In the absence of new funding, habitation standards may precipitate disposal of properties to fund repairs.

## Renewal of existing housing stock

The current value of social housing is estimated at \$100 billion. Much of this stock was constructed between 1950 and 1970 and is substantially depreciated. While much of the value is in the underlying land, the cost to replace the housing are in the order of tens of billions of dollars. In the state sector, renewal is largely premised on selling stock to finance existing operations), stock transfer, public-private partnerships (PPPs) and land sales, but this is insufficient to prevent contraction. The larger CHPs are making provision for renewal—for example, through active recycling programs aimed at intensifying sites and allowing them to simultaneously renew and grow. Worryingly, many smaller CHPs make inadequate financial provision for capital works. Many simply do not have renewal plans.

## Inadequate revenue flows

The fundamental reason why SHOs are unable to maintain, renew and configure stock to meet current and future demand is inadequate revenue flow.

Australia has a unique social housing finance system. It operates a dual rental system:

- a property rental system that determines the maximum rent for each dwelling
- a household rental system that determines the rent for each household, based predominantly upon household income, which is usually 25–30 per cent of household income with adjustments for those tenants eligible for Commonwealth Rent Assistance (CRA).

SHOs are required to meet all their costs from rental revenue and are not compensated for housing very low-income and low-income tenants.

SHO revenue flow is highly constrained by their tenant profile and target groups—that is, households in receipt of very low incomes from social security (Centrelink) payments. While revenue from Centrelink payments for pensioners is generally sufficient to meet the costs of maintenance, rates, insurance and administration, it is not sufficient to meet the costs of upgrading, renewal and redevelopment of housing stock. However, revenue from recipients of JobSeeker and Youth Allowance is even less sufficient to meet maintenance, rates, insurance and administration costs.

SHOs' reliance on household rents deprives them of the funds required to undertake investment in upgrading, renewal and redevelopment of their housing stock. The revenue-cost gap has been worsened by restricting eligibility criteria as a means of moderating demand.

From an AM perspective, inadequate and unstable revenue flow works against long-term planning, maximisation of asset life and equity of service provision.

## Asset management capacity, skills and training

Reflecting much of what is unique about social housing, AM skills are often obtained on the job. External training opportunities are few and typically do not directly relate to social housing. Professionally credentialed asset managers often cycle in and out of social housing, reflecting cultural and remuneration differences between for-profit and not-for-profit sectors. AM knowledge requirements extend beyond those responsible for AM on a day-to-day basis, to senior managers, governance boards, regulators and policy makers.

## Regulation

Despite providing the vast majority of social housing in Australia, state housing authorities (SHAs) are not regulated. SHA performance, including asset performance, is subject only to ministerial oversight and occasional inquiries. The vastly smaller community sector is held to greater account—although this varies according to size and risk profile of the CHP and by state or territory. CHP AM is undermined by inadequate Housing Registrar resourcing and differential treatment of providers according to tier, which enables unsatisfactory performance among smaller providers.

## Indigenous housing

The growth of Aboriginal-controlled housing organisations heralds a changing Indigenous housing landscape. These include:

- Aboriginal Housing Victoria (AHV)
- NSW Aboriginal Land Council (NSWALC) Housing Ltd
- Aboriginal Housing—associated with Community Housing Limited.

These organisations show that self-determination and capacity building are critical for improving AM in Indigenous communities.

## Policy development options

Social housing AM is in need of thoroughgoing reform. However, the issues that need to be addressed are not simply confined to AM. If SHOs are to take responsibility for acquiring, maintaining, upgrading, renewing and redeveloping housing stock and establishing themselves as sound asset managers, then the social housing sector needs a new operating framework. It cannot happen through a piecemeal approach focussed exclusively on AM. It will only happen through a consolidated approach that includes all of the following policy development options.

### SHOs adopt a uniform asset management framework

Ultimately, all SHOs would adopt an BPAM framework based on ISO 55000 from the International Organization for Standardization (ISO). BPAM is the only way by which critical risks can be addressed.

A range of specific policy development options would contribute to the adoption of a BPAM within the social housing sector.

### Financing asset management

The Australian social housing finance system needs radical reform if it is to achieve the twin goals of providing affordable housing for tenants and financial viability for SHOs.

Commonwealth and state government grants provide an essential base for the expansion of social housing, and governments need to undertake greater and substantial investment. The current level of investment will not allow SHOs to meet the current and future demand for social housing. SHOs need access to capital funds for the acquisition of housing stock beyond this very limited source.

Currently, SHAs cannot borrow funds and their borrowing restrictions could be relaxed. CHPs and Indigenous housing organisations (IHOs) can borrow funds, primarily through the recently established National Housing Finance and Investment Corporation (NHFIC) but, despite high levels of equity, their borrowing capacity is severely restrained by their revenue flows.

SHOs need sufficient rental revenue to meet all the ongoing costs of housing provision, including reactive and planned maintenance, rates, insurance and administration, as well as the costs of upgrading, renewal and redevelopment of housing stock.

A recalibration of Commonwealth payments would ensure that the gap between rental revenue and the ongoing costs of providing social housing can be closed. On one hand, all Centrelink payments—both pensions and allowances—could be adjusted so that recipients have sufficient income to pay rents that can meet the costs of reactive and planned maintenance, rates, insurance and administration. These costs are common across all tenures. On the other hand, rent-assistance payments need to meet the depreciation or asset-utilisation cost—that is, the cost of upgrading, renewal and redevelopment of housing stock—as these costs are particular to the rental sector.

A recalibration of Commonwealth Centrelink payments would also facilitate a transition to a property rent system based on the costs of providing social housing. This would ensure the financial viability of SHOs while providing housing affordability for tenants and vertical and horizontal equity among social housing tenants.

With the introduction of a property rent system, SHOs would have the cashflow to service borrowings and could embark on a sustained program of major capital projects to renew and reconfigure their portfolios. If this was accompanied by relaxation of borrowing restrictions imposed on SHAs, it would permit the best utilisation of the government equity tied up in public housing.

## Capacity building

A forum to showcase best-practice asset management, such as a biennial AM conference, would serve to raise the profile of AM and promote knowledge transfer across the social housing sector. This could be accompanied by an online forum and resource repository for exchange of ideas, initiatives, issues and problems.

## Community housing

Peak and industry bodies have important roles to play in facilitating the community housing sector moving towards BPAM. These bodies could:

- lead cooperative efforts to obtain specialist AM software solutions to ensure all CHPs have the most effective systems possible
- engage with training organisations to ensure CHPs can obtain high quality and affordable training to support on-the-job learning (such as through unaccredited short courses) and promote entry into AM Bachelor and Masters degree courses
- establish new AM communities of practice where they do not currently exist
- undertake regular reviews and updates of AM guidance in the Community Housing Standards Manual
- initiate secondment and pro bono schemes in which AM professionals in private and government sectors spend time with a CHP, either on staff or with the board. The number of professionals with AM expertise on CHP boards needs to be increased. These need to be AM professionals rather than property development professionals.

Governments could support these efforts through special-purpose grants.

## Indigenous housing

State-owned Indigenous housing AMPs could be developed as part of a co-design process with Indigenous communities. An outcome of the co-design process would be the development of IHO AM and governance capacity. This, in turn, could have the aim of putting IHOs on a growth trajectory, initially though assuming management responsibility and later through stock transfer.

Capacity-building initiatives could include government funding of Indigenous scholarships for AM training and education; financial support for an Indigenous asset managers network; and secondment or placement of Indigenous AM staff within non-Indigenous housing organisations, and within IHOs overseas.

## Regulation

The ambitions for a National Regulatory Scheme for Community Housing (NRSCH) have only been partially realised.

- A genuinely national uniform scheme would remove or reduce many transaction costs relating to AM.
- The performance of Tier 2, 3 and 4 providers who own assets needs to improve. Greater scrutiny of governance, management and AM systems are needed to ensure maintenance is not unduly deferred and provision is made for renewal. Governments could consider facilitating greater consolidation of the sector.
- Consideration could be given to the role external AM accreditation schemes—for example, ISO 55000—could play in driving continual improvement and reducing regulatory burden.
- Governments need to develop a protocol for stock transfer agreements to include data requirements to address the market power of the SHA, and the costs and benefits of competitive tendering, etc.
- Housing Registrars require greater resourcing to maintain adequate oversight of the risks associated with AM.
- Public housing needs to be included in a uniform national social housing regulation scheme to ensure greater accountability and transparency, and to provide horizontal and vertical equity between tenants and across states and territories.

- Registration of CHPs should be mandatory.
- A habitation standard for social housing could be developed. In the absence of regulation, it could take the form of a voluntary code.
- A process could be established to develop national AM measurement and performance standards, which could take account of the specific building regulation variances between states and territories, as well as variables such as climatic variations or location-specific conditions.
- SHOs need to benchmark their performance against peer organisations to promote continual improvement.

### Planning system-level supply

A multi-provider service system requires a coordination mechanism to deliver rational planning, including:

- an assessment of current and future social housing demand by household type, household preferences and needs, household size and location across each state
- an analysis of vacancies and turnover within social housing
- an assessment of the housing market in view of different modes of acquiring housing stock.

The objective is to coordinate the acquisition of housing stock of specific types and sizes in specific locations across multiple SHOs.

### The study

The aim of this study was to add to our knowledge about social housing AM in Australia and address the emerging issues by developing an BPAM framework that: (i) outlines AM processes and criteria for making decisions; (ii) is suitable to the specific and unique aspects of social housing; (iii) is flexible enough to be used by different types of social housing providers; (iv) provides metrics to drive organisational excellence; and (v) provides the basis for national regulation and policymaking.

The primary question guiding this research was:

#### **What is a suitable BPAM framework for social housing in Australia?**

The research was guided by the following sub-questions:

- What BPAM principles and processes should guide an Australian social housing best practice asset management framework?
- What are the specific and unique attributes of social housing provision that need to be incorporated into an BPAM framework?
- What are the specific and unique features of social housing providers that need to be recognised in the development of an BPAM framework?

The research also investigated the current AM practices of SHOs.

The research utilised three methods: workshops, a survey and interviews. Workshops were conducted with SHO staff, consultants and advocates to identify the unique attributes of social housing provision, and with providers to inform the development of a national survey. Interviews with SHOs, consultants, advocates, financiers and Housing Registrars enabled reflection on the learnings from the workshops and survey. The fieldwork was conducted throughout the last quarter of 2020.





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