

Reforming social housing asset management in Australia



Based on AHURI Final Report No. 367: Towards an Australian social housing best practice asset management framework

What this research is about

This research examines social housing asset management (AM) in Australia and develops a best practice framework that outlines AM processes and criteria for making decisions; reflects the unique aspects of social housing; is flexible enough to be used by different types of social housing providers; provides metrics to drive organisational excellence; and provides the basis for national regulation and policy making.

The context of this research

Australia's social housing stock of 437,718 dwellings (at 30 June 2019) has been accrued over a period of 75 years, with around 60 per cent of dwellings now more than 30 years old. This is contributing to an aged asset profile with significant liabilities. The 2018 National Social Housing Survey of social housing tenants showed 19 per cent of dwellings had one structural problem, 10 per cent had two problems, and 14 per cent had three or more problems.

The current value of social housing is estimated at \$100 billion. Much of this value is in the underlying land. The cost to replace depreciated housing is in the order of tens of billions of dollars.

The key findings

Social housing is a distinct asset subclass with unique AM challenges. Best practice asset management (BPAM) reflects a life-cycle approach to managing assets, which puts the social housing tenant at the centre of provision. It 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 is 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 environmental, social, economic, political and cultural costs and benefits (see Figure 1).

Renewal

The social housing sector is seriously constrained in its ability to renew and configure stock to meet current and future demand.

Some smaller community housing providers (CHPs) have no plans for renewal of stock and are not making financial provision for the capital expenditure required. SHAs are too reliant on funding renewal via sale of stock and public-private-partnerships. Larger CHPs are well advanced in recycling assets to improve asset performance and meet the needs of tenants and wider social obligations such as environmental sustainability.

Maintenance

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 unacceptable living conditions as well as 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 most states are unlikely to detect problems until a crisis emerges. In the absence of new funding, improved habitation standards may precipitate disposal of properties to fund repairs.

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

Maintenance is affected not just by the dwelling type and its age but also by the nature of the tenant profile. Aged assets inevitably involve higher maintenance costs. The asset profile of community housing is generally younger than public housing, but maintenance is now emerging as a critical issue warranting attention. Service residualisation increases the number of single high needs tenants and as a consequence both reduces rental receipts and increases maintenance costs.

Revenue concerns

The fundamental reason why SHOs are unable to maintain, renew and configure stock to meet current and future demand is inadequate revenue flow. SHO revenue flow is highly constrained by tenant profile and target groups—that is, households in receipt of very low incomes. Revenue from Centrelink payments for pensioners is generally sufficient to meet the costs of maintenance, rates, insurance and administration, but JobSeeker and Youth Allowance payment for example do not. Affordable rents provide insufficient revenue to meet the costs of upgrading, renewal and redevelopment of housing stock.

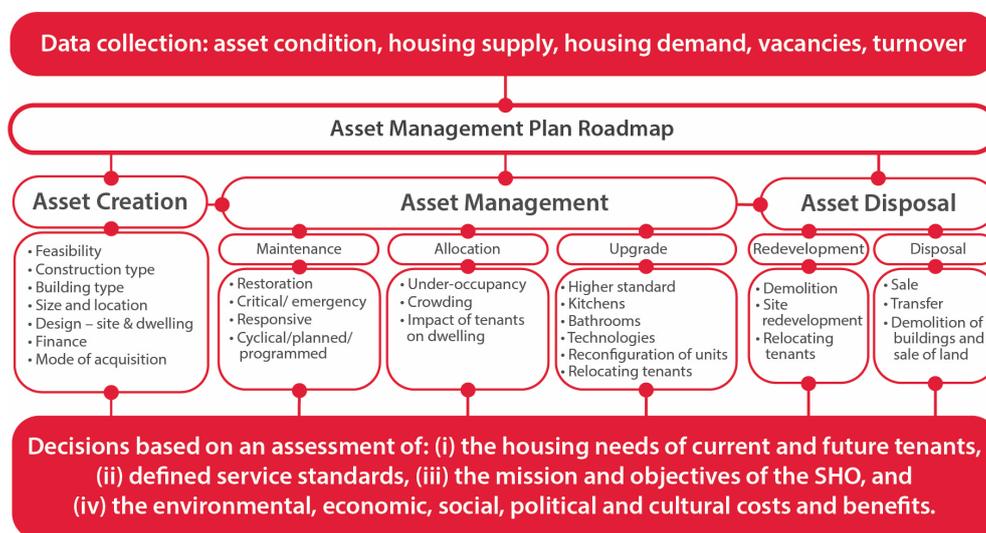
From an AM perspective, inadequate and unstable revenue flow works against long-term planning, maximisation of asset life and equity of service provision.

Community housing

Unlike state housing authorities (SHAs), that provide public housing, CHPs and Indigenous housing organisation (IHOs) are subject to a regulatory system that requires them to meet a broad range of performance outcomes. As they grow and their stock ages, CHPs face more complex asset decisions—such as when to undertake upgrades, replacement and disposal of dwellings—and so their AM capabilities will also need to become more sophisticated.

Maintenance liabilities are being transferred to CHPs via stock and management transfers. The assumption is that by virtue of effectively capturing CRA (which SHAs cannot) CHPs can fund required maintenance. However, CHPs are finding the extent of maintenance backlogs often means this is not the case. Lack of adequate data on transferred dwellings undermines due diligence and state agencies can exercise market power in the setting of conditions. This points to a lack of policy clarity about community housing.

Figure 1: Best practice asset management plan and roadmap



Asset management planning

Many SHOs do not develop AM strategies or, if they do, do not implement them. The community sector is on two trajectories. Larger 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. Some SHAs have developed their own systems. Multiple AM systems and tools are in use and standardisation would be beneficial.

Asset management approaches in Australia

Greatly varying asset management planning, practice and performance are driven by differences in ownership, regulation and financing. The key findings in relation to AM practices include:

- AM is 'inconsistently understood and diversely applied' across jurisdictions in Australia.
- Social housing asset managers tend to learn on the job as education and training opportunities are inadequate.
- Various standards and measures are in use.
- AM practices of SHOs vary considerably and this is complicated by management contracts and stock transfer agreements.
- Mandated levels of service are generally minimal, providing scope for inappropriate cost cutting.
- Many different software solutions are used by SHOs. This has many costs.
- The extensive data and data analysis required for BPAM is challenging for larger SHOs but very difficult for small CHPs.
- Human and technological capacity building is required.

Two polarising approaches to AM need to be bridged to build a viable AM policy and environment:

1. a governance or 'bricks and mortar' approach that seeks to preserve the financial value of social housing assets and where service delivery means the maximum utilisation of dwellings
2. a social policy or housing approach whose focus is on service delivery—the value of social housing assets is in their capacity to deliver services.

What this research means for policy makers

Social housing AM is in need of reform. 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 to be informed by best practice asset management.

Ultimately, all SHOs would adopt Strategic Asset Management Plans (AMPs) based on the international AM standard — ISO 55000. BPAM is the only way by which critical risks can be addressed. A BPAM Framework for social housing can guide such work.

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The Framework conceptualises the processes and tasks required to develop and implement AMPs and ensure continuous improvement.

Other policy options include a recalibration of Commonwealth payments that would ensure the gap between rental revenue and the ongoing costs of providing social housing is closed. On one hand, all Centrelink payments—both pensions and allowances—could be adjusted so that recipients have sufficient income to pay rent 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.

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

Regulation

A genuinely national uniform mandatory scheme for all social housing providers would remove or reduce many transaction costs relating to AM. Greater scrutiny of governance, management and AM systems is needed to ensure maintenance is not unduly deferred and provision is made for renewal. Governments could consider facilitating greater consolidation of the sector.

Governments need to develop a protocol for stock transfer agreements to include data requirements to address the market power of the SHAs, and the costs and benefits of competitive tendering, etc.

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. A habitation standard for social housing is highly desirable.

Measurement standards

The development of common standards and measurement will facilitate sector benchmarking, permitting SHOs to understand their performance against peer organisations. SHAs undertake some degree of benchmarking already, but this could be regularised, and extended and incorporated into a whole-of-sector scheme.

Increasing rental revenue

Policy options for increasing the level of rental revenue are limited. The Commonwealth Government can increase the rental revenue of SHOs by:

- increasing Centrelink payments
- increasing rental assistance and making all social housing tenants eligible for rental assistance.

In addition, the Commonwealth Government could compensate SHOs for housing low-income and very low-income households by providing specific operating subsidies to SHOs based on the long-term costs of providing social housing; this would allow SHOs to meet the costs of upgrading, renewing and redeveloping their stock.

A new sustainable social housing finance system could involve:

- abolishing household rents and moving to a single property rental system based on the costs of providing social housing
- adjusting Centrelink payments and rent assistance so that the key objective of housing affordability is achieved.

A recalibration of Commonwealth payments would ensure that the gap between rental revenue and the ongoing costs of providing social housing could be closed.

In addition to addressing inadequate revenue SHAs need access to borrowings for capital purposes.

Methodology

This research conducted a literature review, workshops with SHO staff, consultants and advocates, a national survey and interviewed SHOs, consultants, advocates, financiers and Housing Registrars.

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