



*Final Report*

# **Strategies of Australia's leading not-for-profit housing providers: a national study and international comparison**

authored by

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## ACRONYMS

ABS	Australian Bureau of Statistics
ACNC	Australian Charities and Not-for-profits Commission
ACT	Australian Capital Territory
AHURI	Australian Housing and Urban Research Institute Limited
ALMOs	Arms length management organisations
ATO	Australian Tax Office
CEO	Chief Executive Officer
CHFA	Community Housing Federation of Australia
COAG	Council of Australian Governments
CHO	community housing organisation
CSI	Centre for Social Impact, UNSW
DGR	deductible gift recipient
EU	European Union
GFC	global financial crisis
GST	Goods and Services Tax
HA	Housing association
ICR	Interest cover ratio
IT	information technology
NAHA	National Affordable Housing Agreement
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
NFP	not-for-profit
NGO	non-government organisation
NRAS	National Rental Affordability Scheme
NRSCH	National Regulatory System for Community Housing
NSW	New South Wales
NT	Northern Territory
PBI	public benevolent institution
PPP	Public private partnerships
RA	Rent Assistance
SA	South Australia
SHI	Social Housing Initiative
UK	United Kingdom
USA	United States of America
WA	Western Australia

## **EXECUTIVE SUMMARY**

Governments in Australia and internationally have increasingly been turning to third sector (i.e. 'not-for-profit' non-government) organisations to deliver social services including health, education, and community services. This has included placing growing reliance on not-for-profit (NFP) providers to procure housing and deliver housing management services to those whose needs cannot be met by the market. As such a shift marks a fundamental change in the model of housing assistance delivery in Australia, it warrants research that seeks to understand its impacts from an organisational (as well as a public policy) perspective. This is the Final Report of a three-year project which investigated how larger housing NFP organisations in Australia have been developing and positioning themselves for future opportunities and challenges. Understanding development of such entities is of vital interest to governments advancing investment and regulatory strategies for the sector, to private lenders into the sector and to the sector itself.

### **Organisational hybridity and social enterprise**

Two concepts are key to understanding the strategic positioning and organisational development of NFP housing providers: organisational hybridity and social enterprise (Chapter 1).

- Hybrid organisations are defined as those that blend public, community and market goals and modus operandi to achieve their purpose (Mullins et al. 2012). They must achieve social outcomes by continuous trade-offs between the competing rules and cultural norms of market, public and civil society realms (Blessing 2014, 2012).
- Social enterprise has been defined as centring on the creation of social value through applying market methods (Ko & Kong 2012; Peattie & Morley 2008). Social enterprises rely substantially on trading to fulfil their social mission and reinvest any surpluses in pursuit of this mission (Barraket et al. 2010). Characteristically they involve more complex business models and entrepreneurial behaviours than traditional NFP organisations.

### **Research design, questions and methods**

The research had three key components. The first was to provide an up-to-date snapshot of strategic positioning and decision-making among leading organisations in the Australian NFP housing sector in 2013–14. The second was a longitudinal component to compare results with an initial study conducted in 2011–12, also funded by AHURI Limited (Milligan et al. 2013a). Thirdly, we wanted to understand how the NFP housing provider model fares in different political, economic and social contexts, using a comparative approach (Chapter 2).

The study deployed a modified 'Delphi' survey method (Milligan et al. 2013a, pp.9–10) to explore decision-making in 20 larger NFP housing organisations dispersed across all Australian jurisdictions: 14 organisations from the 2011–12 study and six additional organisations selected to reflect the sector's growing diversity.

The selected organisations owned and/or managed over 38 000 dwellings, representing nearly 60 per cent of the total housing third sector and around 9 per cent of all social housing provision. Collectively, we estimated from documentary sources that they owned assets worth \$4.2 billion, had liabilities of \$900 million and annual rent revenues of \$278 million (to end June 2013).

A specialised online survey was administered to the Chief Executive Officers (CEOs) of participating organisations ('the panel'). The Australian Panel Survey (hereafter 'the survey') required each panel member to score scaled questions concerned with the values, drivers of change, strategic positioning, business models, organisational development and operating environment of his/her organisation across three-year retrospective and prospective time

frames. Subsequently, aggregate responses were shared with panellists who were also interviewed in depth about their own responses. The results of the survey (Wave 2) were comparable with those of the previous study (Wave 1) for the (14) organisations that participated in both studies.

Increasing use of NFP organisations to deliver housing assistance programs follows similar developments in countries such as the United Kingdom (UK), the United States of America (USA) and the Netherlands. The international comparative element of the study therefore looked to assess the extent of similarity in the positioning and trajectories of Australian NFP housing providers compared with counterpart organisations in these three other countries and, with the assistance of international colleagues, to develop explanations for the patterns found. The basis of comparison was the Delphi online survey which included a common core of questions for panellists in England, the Netherlands and the USA. However, data from the American survey was not available in time for this report's publication.

## **Findings from the 2013–14 study (Wave 2)**

### *Organisational values*

There was a high degree of panellist consensus on organisational values: by and large, respondents portrayed their organisations as professional, entrepreneurial, setting their own priorities (rather than implementing government priorities) and imbued with a private sector (rather than public sector) ethos. At the same time, however, views were divided between those who considered their organisations 'socially-oriented' and those who self-identified as 'business-oriented' and some who saw these values as needing to be in balance (Chapter 2). Further research would be required to establish whether and how these expressed values are associated with qualitatively different types of organisational behaviour or decision-making.

### *External drivers of organisational change*

The organisations operated in an increasingly complex and difficult policy and market environment in which they had to respond to many important and shifting external drivers (Chapter 3). These included:

- Changes to the housing policies of the Australian Government and state/territory governments, especially the rapid rise and fall of the National Rental Affordability Scheme (NRAS) and the Social Housing Initiative (SHI), alongside often volatile policies on public housing stock transfers to NFP housing organisations.
- Reforms to achieve more integrated human services service delivery systems that were driving service model changes in some jurisdictions.
- Two policy factors outside the housing realm that were becoming of increasing importance: welfare reform which posed a possible risk to rent revenue and the introduction of the National Disability Insurance Scheme (NDIS), which could result in both additional demand and extra resources.
- The evolving regime of national regulation for community housing providers and uncertainty about Australian Government regulation of charities that were especially influencing organisational governance and structuring.
- Challenges arising in the wider housing system, especially the growing shortage of affordable private rental housing, which led to demand pressures; rising land and construction costs; and shorter term lending and tighter loan conditions following the 2008 Global Financial Crisis (GFC).

In response to their environment, the housing NFPs were actively developing new relationships with market organisations through mechanisms such as joint ventures, partnerships and business associations. As well, intra-sector relationships were changing in important ways driven by government tender requirements and competitive processes; 'out-of-state' entities

entering new markets; and new consortia forming in response to public housing transfer proposals.

### *Internal drivers of organisational change*

Significant internal drivers of change included:

- Greatly increased investment in information technology capacity which enhanced business operations and staff effectiveness.
- The aspiration to expand into new markets to promote business scale and manage risk, but also the need to rationalise areas of geographic operation to enable efficiencies in tenancy and property management.
- Changing organisational structures including establishing specific purpose vehicles; 'fee-for-service' businesses to diversify revenue sources.
- Increased use of assets to grow the business.

### *Strategic positioning and adaptation of larger housing NFP organisations*

Australia's larger NFP housing organisations have been striving to diversify their business and become more self-reliant, especially through:

- A strong shorter term focus on business expansion strategies linked to government priorities—for example, in the aged and disability service areas—and on better management of former public housing and supporting its residents.
- Mixed tenure developments that give organisations the opportunity to share in profits from developing and selling market housing, while simultaneously promoting social sustainability.
- Medium term plans to expand into home ownership options and other commercial ventures (Chapter 4).

The major concern for the future was how to sustain growth—to realise scale economies, to warrant future investments in capacity building and, more fundamentally, to address unmet housing needs.

Panellists considered that the most important objectives for the sector as a whole were achieving organisational scale, tapping non-government sources of finance, adding value through the products and services offered, and operating commercially. Unless growth plans could be realised, panellists anticipated that mergers and amalgamations would become necessary to control costs, resulting in further sector consolidation.

## **Comparison over time (comparing Wave 1 and Wave 2)**

There were very few differences between the results of surveys conducted approximately two years apart among the same organisations.

- The mainly professionalist, entrepreneurial, private sector-oriented attitude of these organisations remained largely unchanged across the two waves and there continued to be a spread of views along the spectrum of having a business or a social ethos and being geographically 'footloose' or not.
- The set of most important strategies going forward strongly overlapped between Wave 1 and Wave 2. Across the two waves, highly ranked 'important strategies' included several finance related plans, reflecting participant organisations' continuing search for reduced reliance on government funding, which had retracted over the period (Chapter 5).

There was also evidence that organisations had found some of their aspirations for business diversification difficult to achieve. Examples of unfulfilled strategies identified as prospective in

Wave 1 included the introduction of home ownership products, achieving a more mixed client base, and NFP leadership of urban renewal projects.

## **Comparison with other countries (comparing third sectors in Australia, England and the Netherlands)**

Despite considerable differences in scale, balance sheets and business models between the Australian and the English and Dutch housing NFP sectors, the last few years have seen some common policy drivers of business development across the three countries. Highlighting the significance of the actions of government for this arm's length model of provision, key influences included: slower social housing growth in Australia and England following reductions in government funding; and revenue challenges triggered by government austerity policies in the form of a new levy on housing associations in the Netherlands and cutbacks in tenant social security payments in Australia and England. In all three countries, NFP housing providers have recently faced changes in regulation involving increased scrutiny of financial performance and governance.

Some key differences in business orientation were also apparent.

- Australian providers had a much stronger identification with a 'private sector ethos' than in England or the Netherlands, although the extent to which this translates into differences in modus operandi or strategic directions is an open question.
- The Australian and English panels were positioning themselves for a more diversified client group, in anticipation of reduced government funding and increased need for cross-subsidy within the business. In contrast, Dutch providers were refocusing on low-income households as required by their national government in response to European Union (EU) challenges about 'unfair competition' with private landlords. Dutch panellist views also reflected a recent loss of government and wider community support for the commercialisation that the sector had previously pursued.
- In common with their English counterparts, Australian providers saw themselves as moving away from a prime emphasis on quality of homes and towards liveability of neighbourhoods and tended to expect resident/tenant influence to assume a greater role as a driver of organisational direction. In the Netherlands, by contrast, there had been retreat from a wider role in neighbourhood renewal associated with a general 'shifting back' to core business in response to post-GFC market pressures, changed government rules and increased government scrutiny.
- In Australia and England, panellists saw scope for increased cross-subsidy of social housing from other activities, especially diversification into both market renting and housing development for market sale. However, since few Australian providers had yet engaged in such activities at any scale (in marked contrast to many of their English and Dutch counterparts) the feasibility of such aspirations was, as yet, unproven (Chapter 6).

In general, the Australian housing NFP sector is developing organisations that are more similar to the English ones than their Netherlands counterparts. The experience of English housing NFP providers is thus of particular interest to policy-makers in Australia as a possible pathway. However, given the difference in scale and asset ownership, the Australian sector would seem more vulnerable to changes in government policies.

## **Conclusions and implications for policy**

Organisational adaptations to policy and market changes over a six-year period point to a dynamic process of growth and hybridisation in Australian NFP housing organisations similar to that seen internationally (Chapter 7). These organisations are being propelled through their own initiative and the retraction of government investment towards generating new business

ventures and creative solutions associated with social enterprise models. However, the rise of such activity also poses new challenges:

- Tolerance for the degree of independence from government that these agencies can achieve given both the embedded and fluid nature of the relationships between NFP housing organisations and the state, with the Netherlands example pointing strikingly to some of the limits to this independence.
- The risk that the financial and market imperatives under which these organisations increasingly operate could gradually erode the centrality of corporate focus on those most in need.
- The danger that commercial realities and/or prevailing government priorities may tip the balance away from the influence of community needs and expectations, although the extent to which the Australian organisations are embedded in local communities varies considerably.

The most important implication of the research is that a considered public policy and funding strategy will be required as a framework for guiding the Australian housing NFP sector's future and to help steady the tensions inherent in a hybridised third sector service provision model. Implementing this by way of specialised legislation would be desirable to promote greater certainty and clarity for forward planning. The contemporary importance of developing such a framework is underscored by recognition of the vastly more limited scale and state of development of Australian providers compared to their international counterparts.

- The key thrust of the framework should be to leverage additional resources and stimulate appropriate forms of social enterprise while retaining an emphasis on assisting low-income households.
- Continuity of an appropriate and responsive regulatory regime is essential to assist in ensuring appropriate public accountability, developing performance standards, monitoring financial viability and giving assurance to private investors.
- Effectively utilising this arm's length model to achieve public policy goals will require the development of new enabling skills and capacity within government.
- Joint government and industry investment in further development of leadership and governance capacities in the sector would also be valuable to help optimise its future performance.

To move this agenda forward we nominate four priority areas for immediate policy attention in Australia:

- Provision of integrated financial and planning incentives to support continuity of affordable housing development by large and well-performed NFPs at an agreed scale.
- Development of viable models of public housing asset transfers to NFPs.
- Design of a fit-for-purpose rent regime whereby rent setting and rent subsidies achieve affordability and quality objectives and cover reasonable provider operating and financing costs.
- National facilitation of larger scale, lower cost private fund-raising for the industry (e.g. along the lines discussed in Lawson et al. 2014, 2012).

# 1 INTRODUCTION

Governments in Australia have increasingly been turning to non-government organisations to procure housing and deliver housing services to those whose needs cannot be met by the market, in keeping with wider trends to diversify the range and type of providers in key areas of social policy. A series of policy shifts and associated regulatory reform in recent years has provided not-for-profit organisations (NFPs) involved in housing assistance with new opportunities to grow and diversify their businesses, especially through the Social Housing Initiative (SHI), the National Rental Affordability Scheme (NRAS) and some management transfers of former public housing (with additional transfer of these assets in a relatively small number of cases) (Pawson et al. 2013). A Housing Ministers' commitment in 2009 that the NFP housing sector (also referred to as the community housing sector) would comprise up to 35 per cent of social housing by 2014 was one driving force behind these developments (Housing Ministers Conference 2009, p.18). Other drivers have included constraints facing expansion of public housing under current financial and policy settings (Hall & Berry 2007) and policy-maker endeavours to advance alternative means of financing and regulating the supply of affordable housing.

Although the upper range of the Ministerial target has not been achieved, there has been substantial recent growth in the provision of forms of social and affordable housing<sup>1</sup> by NFPs. While it may not capture all providers and types of housing provision, official data showed an increase in dwellings managed by community housing providers from 46 000 in 2009–10 to over 65 000 dwellings in 2014; the latter number being about 16 per cent of all social housing provision (AIHW 2014; 2011).<sup>2</sup> Additionally, charitable NFP organisations had produced over 11 000 affordable rental dwellings under the NRAS since 2008—amounting to 63 per cent of all output (Australian Government 2014). Growth in NFP housing provision is set to continue via post-2012 publicly-announced transfers of around 62 000 dwellings of public housing to NFP housing organisations across Queensland, South Australia, Tasmania and Victoria that are being planned to take place successively over coming years (Pawson et al. 2013; Victorian Government 2014). If that scale of transfer activity is achieved, and allowing for their own investment activity, the NFP sector is likely to comprise around 35 per cent of social housing by 2020.

To attain such levels of growth and innovation, housing NFPs must be able to mobilise their organisational skills, resources and capacities effectively so as to attract additional investment and manage the consequential risks, while also meeting product and service expectations and developing new products and services. Issues of how housing NFPs manage change are of vital interest to governments that are involved in planning investment strategies for the sector and contemplating large scale transfers of public housing. Sharing knowledge with the sector itself also offers valuable ideas and lessons for its future. In addition, the general community has an interest in the continuing development of NFP organisations in key areas of social policy.

Past AHURI research has shown that the NFP sector can be an effective mechanism for increasing the supply and diversity of delivery of housing for low and moderate income groups for whom the market is not effectively catering (Milligan et al. 2013a, 2009, 2004). Several recent AHURI projects have sought to support the growth of Australia's NFP sector in housing

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<sup>1</sup> Social housing is housing allocated to eligible recipients, generally highest needs households, under terms and conditions similar to traditional public housing. Affordable housing is any form of below market priced housing provided to those on low or moderate incomes who meet criteria for such assistance.

<sup>2</sup> Official data shows that between 2006 and 2012, social housing increased from 409 000 to 423 000 dwellings. However, this represented a decrease in the share of social housing in the dwelling stock as additions to social housing did not keep up with overall dwelling additions. Thus, while social housing made up 4.6 per cent of the total dwelling stock in Australia in 2011, this share had fallen from 4.9 per cent in 2006 (AIHW 2013).

through analysis of regulatory frameworks (Travers et al. 2011), funding models (Lawson et al. 2014; 2012); partnering (Pinnegar et al. 2011) and project delivery (Davison et al. 2012; Wiesel et al. 2012).

With the overall aim of building on that body of research, this study, the second of its kind in Australia (after Milligan et al. 2013a), is concerned with researching the types of NFP organisations that are developing from the perspective of organisational leaders ('an insiders' view'), in particular the relationship between policy and institutional contexts and organisational decision-making and change; and with identifying ways in which policy-making, regulatory settings and housing market and financing conditions and mechanisms can variously act to facilitate or hinder the development of the industry. Building on the findings of the previous research project and replicating its methodology, the study provides both contemporary and longitudinal perspectives on strategic positioning and decision-making in the Australian NFP housing industry. Through collaboration with researchers undertaking similarly designed international studies, cross-national comparison is also presented.

In the reporting that follows, to distinguish the two studies we generally refer to the findings of the first study (conducted in 2011–12) as Wave 1 and those of the latest study (2013–14) as Wave 2.

## **1.1 Findings of the Wave 1 study of leading housing NFPs**

The report of our preceding study (Milligan et al. 2013a) identified the major trends in strategic positioning and organisational decision-making of 14 of Australia's leading NFP housing organisations (comprising about half of the major providers in the sector at the time) over the three years preceding 2011 and examined how their leaders saw future prospects (to 2014). Key findings of that research from the perspective of the participating organisational leaders are summarised below.

### *1.1.1 Values: social purpose and commercial methods*

While all participants in Wave 1 emphasised the social purpose of their organisations, there were differences in views about how social mission is best achieved.

- Some panellists considered that social purpose should never be compromised by business drivers while others emphasised that having a business ethos was critical to optimising social outcomes.

### *1.1.2 Changes in strategic positioning*

Wave 1 research took place after three years of considerable change in the sector which was reflected in important changes in strategic positioning:

- *Expanding the client base.* Most leading providers had extended their client base to include both low and moderate income households. A key driver was the need to achieve business viability as private financing was introduced, with NRAS as a catalyst for further expansion.
- *Securing private finance for housing development.* While leading banks had been lending modestly into the sector since the mid-2000s, the amounts involved had increased but the funding terms and conditions on offer had deteriorated after the 2008 global financial crisis (GFC) and ensuing credit crunch. This situation had resulted in shorter term loans (three to five years) that generated a re-financing risk and more stringent lending conditions, especially higher interest cover ratios (ICRs).
- *Acquiring property assets and revenue seeking.* These were emerging strategies to enable organisational growth. Revenue seeking activities that were being actively explored or implemented were developing housing for sale or market rental (e.g. in mixed tenure developments), offering home ownership products and taking on housing-related fee-for-service activities (e.g. body corporate management and management of privately-owned

NRAS rentals). However, the leading organisations were anticipating that public housing asset transfers would be the main means of achieving future growth.

- *Covering a broader geographic area.* Most of the organisations had extended (or were planning to extend) the geographic area of operations across regions, state borders or nationally. This was partly to develop a sufficient volume of business but also to spread business risks by tapping into growth opportunities in different housing submarkets (e.g. resource towns, remote Indigenous communities) and across state and local government jurisdictions, and to reduce risks arising from adverse policy changes in single state jurisdictions. National regulation, foreshadowed by 2011, was expected to facilitate this form of expansion.

### 1.1.3 Organisational development

Growth and diversification of business activities had led to significant organisational changes for leading NFP providers by Wave 1. Critical among these were:

- *Enhanced organisational governance and executive capacity.* Boards had recruited Directors with skills related to financing, property development, asset management and business development. Chief executives/managing directors had taken on more strategic and less 'hands on' roles and there was a new layer of specialist executives in financing and property development as well as housing services.
- *More sophisticated risk assessment and risk management.* This was driven in large part by the requirements of private financing and greater organisational size and complexity, but also by regulators' requirements to protect jurisdictional-based investments. Half of the organisations had developed or were in the process of developing organisational structures, such as a subsidiary company, to contain or quarantine risk that was associated with commercial activities from their core rental housing business.
- *Managing changes in organisational culture.* A more commercial orientation, coupled with the changes in corporate governance and organisational skill mix, meant that the organisations had had to manage considerable cultural change at Wave 1. They had invested in organisational development, change management and staff development as well as substantial investment in information technology to support project, asset and organisational management and accountability. Investment in information technology remained a priority for some of the organisations going forward.

Overall, the findings from Wave 1 suggest that the Australian NFP housing sector was developing what is described in the literature (Mullins & Pawson 2010; Mullins et al. 2012) as new forms of hybrid organisations that embrace a mix of defining values, characteristics and behaviour of public entities, private firms and the third sector. A different way of interpreting these results is that they are consistent with emerging social enterprise organisational models, although this was not fully explored in Wave 1. We discuss these ideas in Section 1.3.

## 1.2 Purpose and focus of the research

Building directly on the Wave 1 study, this project was conceived with three core aims in mind.

- To provide an up-to-date snapshot of strategic positioning and decision-making among growth organisations in the Australian NFP housing sector. This aspect was approached by applying a similar methodology to that used in Wave 1, updated to reflect the changed 2013–14 policy and market contexts and covering the original 14 organisations plus six additional organisations that had grown their businesses since the previous study, thus reflecting expansion and diversification of the sector.
- Through direct comparison of Wave 1 and Wave 2 survey findings, to offer a longitudinal perspective on the recent development of the sector especially to show how leading organisations manage rapid change and volatility in their environment and the consequences for their businesses.

→ By being one of a set of four international studies being conducted simultaneously using a similar methodology to contribute to a comparative analysis of the contemporary positioning of the housing NFPs in Australia, England, the Netherlands and the United States of America (the USA), with a focus on similarities and differences in organisational structures and businesses and their drivers. This aspect aimed to improve understanding of how the NFP model fares in different political, economic and social contexts.

In keeping with these aims, the questions that guided the research were:

1. How do the interpretations and responses of established housing enterprises to their external environment change over time?
2. What are the forms, purposes and functions of emerging housing NFPs in Australia?
3. How are these new housing enterprises interpreting and responding to their external environment?
4. How comparable are findings for Australian housing NFPs with those in England, the Netherlands and the USA?
5. What do the findings suggest for policy-making and industry development relevant to housing NFPs in Australia?

### **1.3 Concepts and literature**

Recent rapid expansion of service provision in the third sector—resulting largely from the transfer of formerly public services in countries such as the UK—has generated substantial new research into the institutional forms and organisational behaviour of modern NFPs. In the housing sphere this research has been centred on the use of two key concepts—hybridity and social enterprise—to provide insight into how third sector housing organisations operate and how this might differ from provision via either the public or market sectors (Milligan et al. 2013a, Chapter 2).

In this context, hybrid organisations are defined as those that blend public, community and market goals and modus operandi to achieve their purpose (Mullins et al. 2012). Exactly how such goals are mixed and to what effect is an empirical question that studies like this aim to address. According to Blessing (2014, 2012) delivering housing services in this way requires a delicate balancing act, involving continuous trade-offs between the competing rules and cultural norms of market, public and civil society realms with the social outcomes that result depending on how skilfully and vigorously such trade-offs are achieved. Using this framework, a spectrum of achievement from ‘magical’ to ‘monstrous’ housing hybrids has so far been portrayed (e.g. Christophers 2013; Blessing 2012; Koppell 2001), highlighting the contested, dynamic and contingent nature of hybrid performance.

According to Billis (2010) writing in a European context, while third sector organisations traditionally could be expected to identify dominantly with a community ethos (e.g. characterised by having local roots, engaging voluntary effort, providing charity, and promoting the protection of civil society values and institutions), the strength of this distinctive identity has recently been subject to strong state and market-driven counterforces. In the housing sphere, disruption to social outcomes caused by the latter drivers has been demonstrated through the starkly changing roles and performance of English and Dutch housing associations (see, e.g. Mullins & Jones 2014; Nieboer & Gruis 2014a, 2014b; Mullins & Pawson 2010) as, first, the GFC and, subsequently, shifts in state policy and resourcing, have compelled major adjustments to their business models (discussed further in Chapter 6). This development gives rise to a question about how robust and resilient the growing reliance that is being placed on third sector forms of housing provision to meet social housing policy goals will prove to be.

The closely-related concept of social enterprise has also been subject to considerable debate about definition, types and contestation between different and possibly competing state, market

and civil society drivers (Kerlin 2012; Ridley-Duff & Bull 2011). Social enterprise is said to centre on the creation of social value through applying market methods (Ko & Kong 2012; Peattie & Morley 2008). A more detailed Australian definition is that social enterprises are organisations which have a mission with a public or community benefit; trade to fulfil their mission, deriving a substantial proportion of their income from trade; and reinvest the majority of their surpluses in the fulfilment of their mission (Barraket et al. 2010, p.4) In so doing, social enterprises tend to adopt more complex and higher risk business models and entrepreneurial behaviours than have characterised traditional (simpler) civil society organisations.

In the housing field, social enterprise has mainly been pursued through moves of traditional NFP social landlords in several countries into the development of various forms of housing for-profit (market rentals, housing for sale, shared ownership options) and through the introduction of revenue-generating housing-related activities (e.g. property management), welfare services (e.g. care and support services for their tenants and sometimes other community members) and neighbourhood services (community renewal, employment and training initiatives) (Maclennan & Chisholm 2013). Such activities can be regarded as offering synergies with the core purpose and competencies of social housing agencies while also meeting a strategic goal of producing additional resources to enable cross-subsidy of social housing operations and/or enable further growth of various forms of housing assistance. The extent of individual NFP engagement in profit-generating activities for cross subsidy purposes is, however, likely to be contingent on several key factors including their ownership or sponsorship (e.g. corporate sector, state-sponsored, faith-based or member-controlled organisations—e.g. tenant cooperatives—may allow for or encourage differing levels of business autonomy, innovation and risk); state regulations affecting business scope and opportunities (e.g. rules concerning the use of assets, reinvestment of surpluses or targeting of subsidies); and internal capacities (e.g. organisational scale, technological capability, business competencies and revenue streams and balance sheet position).

As demonstrated in our previous study, larger housing NFPs in Australia have moved in recent years towards embracing organisational models that demonstrate some signs of developing greater hybridity and social enterprise. Bearing in mind those concepts, this study seeks to add to our knowledge of how Australia's evolving housing NFPs are shaping their organisations in response to contemporary state, market and community drivers; to investigate what forms of hybridity and social enterprise they are adopting and to consider the policy implications of their evolving positioning.

## **1.4 Research approach and methods**

### *1.4.1 Modified Delphi methodology*

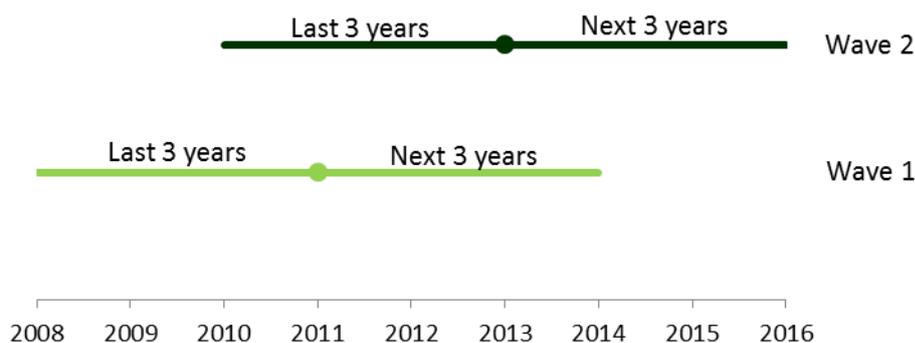
The current study employed the same methodological approach to that of the 2011 (Wave 1) baseline study, which was centred on a modified 'Delphi' survey method.<sup>3</sup> As described in detail in the report of the Wave 1 study (Milligan et al. 2013a, pp.9–10), the Delphi method is a way of exploring decision-making and change that has been adapted for the social sciences from its original application to military strategy. The particular modified Delphi method employed for this series of Australian studies was developed from that used in earlier studies of NFP housing providers in England, Northern Ireland, Eire and the Netherlands (see especially Mullins et al. 2003; Mullins 2006; Nieboer & Gruis 2014a). Claimed benefits of the approach include promoting understanding of developments in the provision of housing services from an organisational (rather than a policy) perspective, learning and promoting 'insider' perspectives on how organisational decision-making and change occurs, and tapping into diversity of viewpoints within an industry (Mullins 2006).

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<sup>3</sup> Ethics approval for the original research was obtained on 26 July 2011 (HREC no.11262 UNSW). This was amended on 30 October 2012 to cover this second stage study.

The Delphi research method used comprised two core components. First, a specialised online survey was administered to panel members selected from leading NFP organisations.<sup>4</sup> This Australian Panel Survey (hereafter ‘the survey’) was designed to probe the values, drivers of change, strategic positioning, business models, organisational development and operating environment of participating NFP housing organisations across three-year retrospective and prospective time frames, as set out in Figure 1. The majority of survey questions employed a seven-point Likert scale.<sup>5</sup>

**Figure 1: Time frames of the Wave 1 and Wave 2 Australian Panel Survey**



Statistical analysis of the survey was used to determine areas of agreement and differences across leaders of the major organisations in the sector (Appendix 1 provides details of the analysis undertaken). Following the survey, panel members received a confidential report on how their individual responses compared to the (anonymised) responses of the other members of the panel. In step two, follow-up interviews were arranged with all panellists to discuss emerging collective views and differences of view.

In the Wave 2 interviews (see Appendix 2 for the topic guide), panel members were asked to explain their positioning on key themes that emerged from the survey analysis by giving specific examples of how, to what extent and for what reasons these key strategies and adaptations to change were being implemented in their organisations (or how likely they were to be adopted in the next three years). This selective and focused approach (which was not used in the Wave 1 study) was chosen to validate the major findings of the survey, to foster a greater depth of understanding about organisational positioning and adaptation, and to assist in countering the ‘aspirational bias’ that appeared to be present in both the Wave 1 and Wave 2 survey results, whereby many panel members had rated a high proportion of the diverse array of strategies and change factors presented to them as being of similar, great importance to their organisations going forward.

To broaden our understanding of the outlook for the industry in Wave 2, panel members were also asked at interview for their views on the sustainability of their business model and the sector as a whole, how they perceived their organisational identity, and their opinions on a social enterprise model.

Twenty organisations were included in the Wave 2 study, expanded from 14 in Wave 1. By expanding the sample size, the Wave 2 research aimed to boost representation of leading players in the industry and to provide a stronger basis for assessment of similarities and

<sup>4</sup> Representation in both the Wave1 and Wave 2 Australian Delphi studies was confined to larger and more diversified housing NFPs that had progressed towards a more complex business with greater business autonomy in recent years (see Appendix 1 and Milligan et al. 2013a, p.11).

<sup>5</sup> A full copy of the Wave 2 survey can be obtained at <http://www.ahuri.edu.au/publications/projects/p71006>. The Wave1 survey can be found at Milligan et al. 2013a, Appendix 1.

differences in strategic positioning and organisational development across organisations with different genesis, business models and operational parameters. As both studies involved a considerable share of the largest NFP housing providers at the time, the findings can be expected to be generalisable to growth providers in the industry as a whole, although not in a statistical sense.

For the Wave 2 study, more detail about variations and adjustments to the methodology used previously and reported in detail in Milligan et al. (2013a) are set out in Appendix 1.

Following from the methods applied in the Wave 2 study, the results have been used in this report in four main ways:

- To deepen our understanding of the nature of the business models and strategic positioning of a significant group of the housing NFPs operating in Australia.
- To enable explanations of differences across the panel that emerged from the survey analysis.
- To compare organisational responses on key thematic issues identified through the survey.
- To illustrate different organisational strategies and behaviours.

#### *1.4.2 Cross-national comparison*

Recent strategic and organisational developments in Australia's leading housing NFPs (see above) reflect to a considerable extent core characteristics and trajectories of comparable organisations in Europe and the USA, albeit that these have resulted from diverse local contexts and under different specific policy settings. This situation offers good potential for application of a comparative research methodology that seeks to contribute insight into the critical factors that influence the scope for the development of NFP housing enterprises in different political, economic and social contexts.

In recognition of the potential for comparative analysis, the original (pre-2011) proposal for the Australian research was developed in collaboration with researchers in England (led by David Mullins, University of Birmingham) and the Netherlands (led by Nico Nieboer, Delft University of Technology), who had previously used similar methodologies to study their housing third sectors. These collaborations provided methodological, empirical and academic benefits to the first Australian study. Some limited comparative analysis of earlier surveys in England and the Netherlands was also presented in our 2013 report (Milligan et al. 2013a, pp.86–91) and in a paper given at a 2012 international housing conference (Milligan et al. 2012).

In a major boost to the value and potential of the Wave 2 Australian study, researchers in England, the Netherlands and the USA agreed to establish Delphi panels along similar lines in their respective jurisdictions commencing in late 2013.<sup>6</sup> The overall aim of pursuing an international comparison was to determine the extent of convergence and divergence in the positioning of contemporary housing NFPs and, with the assistance of international colleagues, to develop explanations for the patterns found.

The national research teams worked collaboratively to establish a robust basis for cross-national comparison by adopting as far as possible consistent approaches to sampling organisations and recruiting panels, and the coverage of the survey instrument. Chapter 6 includes more detail on those approaches.

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<sup>6</sup> Mullins and Nieboer respectively have led the English and Dutch research, assisted by their respective colleagues, Patricia Jones (University of Birmingham) and Vincent Gruis (Delft University of Technology). The US research, led by Janet Smith (University of Illinois, Chicago), has also involved Rachel Bratt (Tufts University, Medford); Larry Rosenthal (University of California, Berkeley); Rob Weiner (California Coalition for Rural Housing) and Sarah Cooper (University of Illinois).

## **1.5 Report structure**

Chapters 2 and 3 provide contextual information for the study. Chapter 2 describes the characteristics and origins of the studied organisations and delineates their place in the third sector housing industry, which partly addresses research question 2. The chapter also discusses the identity of this industry (or sector) drawing on views articulated by panel members. Chapter 3 gives panel member views from the Wave 2 study on the key change factors affecting their organisations and places these in the context of the prevailing industry environment in which they operate—covering policy, regulation and housing market aspects (research question 3). Further amplifying the response to research questions 2 and 3, Chapter 4 provides new findings on the strategic positioning of the leading housing NFPs, as conveyed through the Wave 2 survey and subsequent interviewing of invited panellists from the participating organisations. Chapter 5 presents a longitudinal viewpoint on change in the industry (research question 1) using survey findings and associated interviews in Wave 1 and Wave 2 with those panellists drawn from the original 14 sampled organisations. Chapter 6 provides the international comparison of survey findings across three similarly designed national panels of NFP experts each of which was surveyed in late 2013 (research question 4). Implications of the study's findings for industry policy and practice in Australia (research question 5) are discussed in the concluding chapter. Quotations placed throughout the report are verbatim statements made during interviews with panel members.

## 2 RESEARCH PARTICIPANTS

In this chapter we present information and metrics obtained from company documents and websites, the survey of and interviews with panellists, and previous research to profile the 20 organisations that took part in the study and to relate their characteristics to what is known about the industry as a whole. Because of ethical and methodological requirements for participating organisations to be anonymous, the information provided is not identified by organisation.

### 2.1 The not-for-profit housing sector

Non-government organisations providing non-market housing services in Australia are generally known as community housing organisations (CHOs). Community housing, which had its origins in various community-based initiatives, such as the cooperative movement, was expanded across Australia from the late 1970s under a variety of state and, after 1984, national programs under which provider organisations were contractually bound to deliver supplementary forms of housing assistance to public housing (Bisset & Milligan 2004). In the last two decades the largely niche role of CHOs (e.g. steered to supporting the housing of people with special needs or those target groups who were underrepresented in public housing) has been gradually transforming. Major changes have resulted from the impact of intentional government policies (e.g. pertaining to regulation, capital investment priorities and rent setting) and sector-initiated restructuring processes that have been directed to creating larger providers with the scale, capacity and resources to operate a business model that was more independent of government—for example, by attracting private financing and adopting a more commercial orientation (Gilmour & Milligan 2012).

Official data shows there were over 700 registered CHOs providing social housing in June 2012 (AIHW 2013). The structure of the industry is bifurcated, having a large number of small organisations and a small number of large organisations. In the most recent government industry survey only 5 per cent of organisations managed 200 or more dwellings and 45 larger organisations managed 63 per cent of tenancies (AIHW 2011; Australian Government 2010).

In order to explore the cutting edge roles of Australian housing NFPs, the members of the panel who were surveyed and interviewed for this research were drawn from the largest and most entrepreneurial organisations in the field.

Panel members were the current CEOs of the selected organisations (for reasons explained in Appendix 1). Of the original panel of 14, 11 had remained in their position and continued on the panel for the Wave 2 survey. All three of the departing CEOs had moved within the industry. Of the nine new members on the expanded Wave 2 panel, five had been recruited from the private sector, two of those from within the housing industry; and four had prior positions within the NFP sector. Having one-quarter of members with senior commercial/for-profit experience signified a shift in the overall profile of the Wave 2 panel compared to that of Wave 1 (see Milligan et al. 2013a, p.20 for details) and may be connected with the increasing commercial orientation of organisations that we discuss later in the report.

### 2.2 The participant organisations

#### 2.2.1 Foundations and organisational pathways

Organisations had to have been established for a minimum of three years prior to the survey date to be included in the sampling frame for this or the previous Delphi study. However, most organisations or their predecessors had been operating as housing providers for longer, the majority for more than two decades and all but three for around a decade.

Applying a classification developed by Gilmour and Milligan (2012), three types of organisations comprised the samples for the 2011–12 (Wave 1) and 2013–14 (Wave 2) Delphi studies based on their foundations and historical development (see Table 1).

**Table 1: Types of organisations in 2011–12 (Wave 1) and 2013–14 (Wave 2) studies**

Type of organisation	2013–14	2011–12
Community housing	13	11
Special purpose	4	2
Welfare services	3	1
Total	20	14

Source: Author classification following Gilmour and Milligan 2012

In both waves, the dominant type (reflecting the history of the industry) was the well-established traditional CHO that had followed a pathway of gradually expanding from locally-based service provision to having a larger scale business involved with housing procurement and asset management, as well as tenancy and, in some cases, other social services. Growth for those organisations historically had been driven largely by mergers with other similar organisations, through expanding into new markets and/or by being beneficiaries of targeted government growth strategies.

A second smaller category was that of special purpose organisations (‘enacted hybrids’) founded in the previous decade or so by governments, or privately, to meet or respond to government incentives aimed at using arm’s length delivery models that have been designed to help overcome barriers, such as political impediments and borrowing limits, to direct government provision.

The third type was that of the broad-based welfare agency that had moved into the provision of housing services, largely as a response to government incentives but also in keeping with their existing broad social and/or faith-based mission.

Having increased representation of all three types in the 2013–14 study (Table 1) was considered important to reflect the growing diversity of the industry. However, some other known classes of organisations—financial intermediaries, specialist suppliers of housing for the aged and Indigenous-run organisations—were not covered for reasons explained in Appendix 1.

### 2.2.2 Governance and ownership

NFP housing organisations are generally established to pursue a social mission and are legally bound not to distribute profits (Blessing 2012). They may also be beneficiaries of tax concessions and other cost savings that arise from having charitable status.

Under incoming national regulation of community housing providers, it will be a requirement that Tier 1 registered NFP housing providers in Australia (those operating at large scale and conducting development and investment functions) be incorporated as either a company limited by shares or a company limited by guarantee under the *Corporations Act 2001* (NRSCH n.d.).<sup>7</sup> In our sample, 16 organisations were constituted as the former—where the liability of

<sup>7</sup> Under the NRSCH (n.d.), housing providers are registered in one of three tiers:

- Tier 1: housing providers with asset procurement and development functions (and the ability to grow social and affordable housing supply through construction, purchase or acquisition) and/or complex tenancy and property management functions that operate at scale.
- Tier 2: housing providers typically involved in moderately complex asset and tenancy management activities.
- Tier 3: housing providers typically involved in small-scale tenancy management activities.

Directors and members who own the company is limited to a nominal amount—and two as the latter<sup>8</sup>—where Director and shareholder liabilities are limited and dividends are not paid. Two other organisations in the sample were not formed as independent entities but were controlled by a parent company. In both cases incorporation as a separate company was under active consideration with a view to Tier 1 registration under the National Regulatory System for Community Housing (NRSCH).

### **Organisational structure**

An increasing number of organisations in the sample had structured themselves to be a group of two or more incorporated entities or to use separate subordinated entities for special purposes. At the time of the 2014 interviews, such arrangements applied to eight organisations (up from six in 2011) with another five indicating they were contemplating creating additional entities. Explanations for this trend included accommodating rules for charitable organisations (see Section 3.2.2) or particular state regulatory requirements, securing assets acquired under specific conditions, protecting tax benefits and managing risk across social and commercial operations.

### **Boards**

The companies in our sample typically had skills-based Boards of less than 10, mostly non-executive Directors. Areas of expertise required on Boards are specified in constitutional documents. Development of Board skills and expertise continued to be an important driver of change in Wave 2 (see Chapter 3, Tables 6–8).

Low to modest levels of remuneration (annual fees or sitting fees plus ‘out-of-pocket’ expenses) were being offered to Directors in half the sample, with a couple of others contemplating the introduction of payments. Several organisations had recently reviewed remuneration rates and moved to benchmark their fees to other NFP or public sector practice. Introducing or increasing remuneration had been contentious for several organisations and a minority of CEOs remained opposed to remuneration or it was prohibited under their organisation’s constitution.

### **Roles of members and residents**

An important question for third sector hybrid organisations is how community values are brought to bear on organisational decision-making, for example, through membership or board directorships. As discussed above, Boards in this sector are typically established with regard to a set of specified skills requirements and organisations seek to ensure they have an appropriate range and balance of social and commercial skills represented among their Directors. However, unlike for some similar types of organisations in other countries,<sup>9</sup> while residents could be elected to Boards on merit, only three organisations in our panel had designated places for tenant/resident Directors. More typically, tenant input into organisational decision-making was being achieved via advisory groups, focus groups or Board sub-committees comprised of applicants and/or residents. Several panellists argued that the development of tenant skills and experience through such mechanisms was a prerequisite for increasing resident involvement in more formal roles, such as Board directorships.

Membership of NFPs usually comprises individuals and/or organisations who apply to join under rules set out in an organisation’s constitution. Typically members provide for general

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<sup>8</sup> In the shareholding companies, shareholders were stakeholders in the housing system. They operated as a community- and industry-based sounding board for development of the plans of the company and could also have limited decision-making powers, such as appointing Directors or approving the organisation’s strategic plan (Milligan et al. 2013a, p.15).

<sup>9</sup> Arms Length Management Organisations (ALMOs) established in England to take over the management of council housing must have boards that include residents, appropriately skilled independent members and government appointees (Pawson & Mullins 2010). Similarly, many community land trust models have mandatory resident directors (Crabtree et al. 2012).

oversight of the organisation and may engage in specific activities such as electing or otherwise appointing the Directors in accord with company policy. Membership arrangements that applied in the sampled housing NFPs are set out in Table 2. Twelve organisations had provisions for open membership (by individuals and/or organisations) but member numbers (as reported in interviews) varied considerably: one had none, several had fewer than 10 (typically historic associates of the organisation), and four had membership levels that exceeded one hundred, including one organisation of predominantly tenant members. Most of these organisations had not been actively seeking members. Organisations that were not community founded (e.g. founded by governments or parent entities) tended to have membership that was limited to Directors, company shareholders or nominees of the founding entity.

**Table 2: Ownership of primary organisation sampled**

<b>Membership</b>	<b>No. of organisations</b>
No members	3*
Directors only	4
Organisational members only	4
Organisational and/or individual members	9
<b>Total</b>	<b>20</b>

\* Two of these have shareholders; one had opted not to appoint any members.

Source: interviews with panel members, company documents.

Overall, across the sample of organisations there was considerable diversity in how actively community and tenant engagement was being practiced depending on organisational foundations and rules and the attitudes of current Directors and CEOs. While recognising the need for accountability to their broad support base and community alliances, open membership was seen as a risk by several CEOs, although some were committed to building up and engaging their membership.

### 2.2.3 Organisational missions and values

Analysis of the published missions of the 20 organisations sampled disclosed their shared central purpose as being to provide forms of high quality, well managed affordable and secure housing for those on low and/or moderate incomes.

Additional commitments that were highlighted in mission statements of more than one organisation included:

- Being a leader, innovator or entrepreneur in their field—seven organisations.
- Contributing to social sustainability (or reducing social and economic disadvantage) for their residents (e.g. by providing additional human services and personal support)—seven organisations.
- Contributing to community development, liveability and place-making—five organisations.
- Ensuring the organisation achieves good governance and financial sustainability—three organisations.

Overall, the content of mission statements showed a high degree of alignment in the commitments and core social purpose of these organisations, which are focused on providing affordable housing and helping to reduce social, economic and community disadvantage. Mission statements were in the main functionally oriented, however, a number of organisations also emphasised ways of workings—such as in an enterprising and innovative fashion, or to ensure robust financial performance.

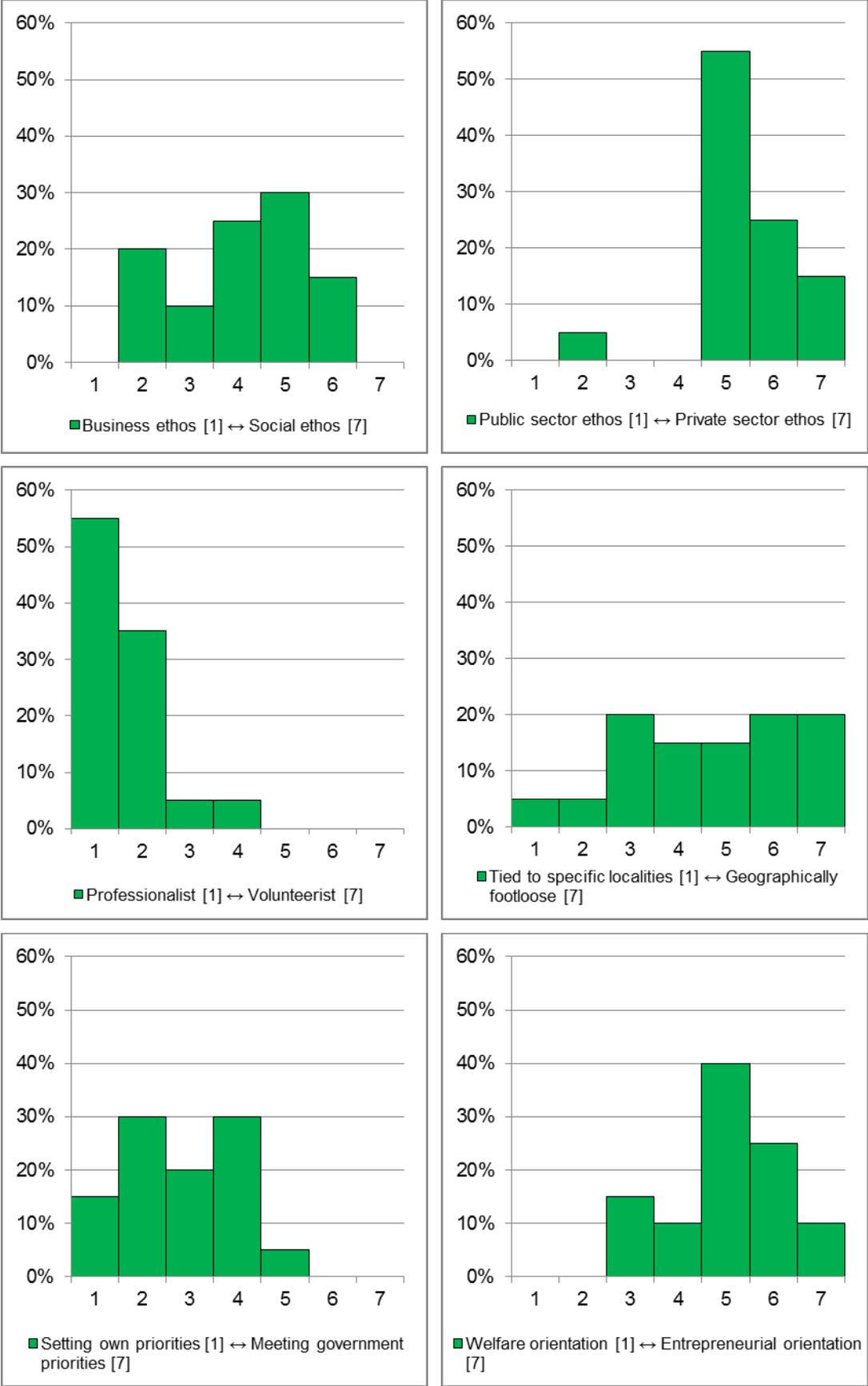
In order to compare how organisations consider certain specific value propositions broadly associated with the third sector, the Wave 2 survey (in common with that in Wave 1—see Chapter 5) included a series of paired value statements that were designed to reveal the relative importance to each panellist of one or other pole.

Figure 2 below presents scoring on six matched pairs that resulted from the Wave 2 Australian Panel Survey. In Chapter 5 we examine whether and how these value positions have shifted since 2011 (i.e. Wave 1 survey), and in Chapter 6 these results are compared with those for the other countries surveyed.

Australian panel assessment of several of the value propositions displayed a high degree of convergence of views. Most sector leaders regarded their organisations as professional in outlook, entrepreneurial in the ways of operating, oriented to setting their own priorities (rather than implementing government priorities) and identified more with having a private sector (than public sector) ethos. The latter two results show that these expanding organisations are striving to differentiate themselves from government to whom they have been closely tied historically. On the measure of whether leaders saw their organisations as being geographically anchored or footloose, views were more spread, although half were inclined to a position away from having a traditional local community base and another three were neutral. This is consistent with trends in the reach of their operating domains, discussed later.

There was a stronger division within the panel on identification with having a business or a social ethos. While the large majority of organisations (nine) favoured being regarded as socially oriented, six presented as being business oriented and five saw these values as needing to be in balance.

**Figure 2: Matched pairing of organisation values**



Source: 2013 Australian panel survey

### 2.2.4 Business activities

The business of the sampled organisations has been grouped into five broad types according to core functional roles (Table 3). While all organisations engage in housing tenancy and property management and most have directly procured some housing (e.g. specialised projects for nominated target groups or NRAS-funded supply) and taken on private debt, the classification offers the research team’s categorisation of their dominant mission, role and service model as operating currently, based on the research findings. However, the small sample size for this study has limited the scope for analysing the survey results by business type. This could be a fruitful area for future research into how the different business orientations influence organisational values, business development and strategic positioning.

**Table 3: Core business of sampled NFP housing organisations**

Core business	No. of organisations
Provision of a range of social and affordable housing services, including housing development, asset management and tenancy services	9
Client-centred housing and wrap around services for social housing clients	4
Housing development and development facilitation	3
Integrated housing and homeless services	3
Rental housing management and related community services	1

Source: Analysis of annual reports, supplemented by interviews with panel members

### 2.2.5 Business metrics

Table 4 below provides key indicators of the business scale of the participating organisations at the end of the 2012–13 financial year. Collectively, the 20 organisations in the sample owned or managed over 38 000 dwellings, which represents a sizeable share of the total industry.<sup>10</sup> The average dwelling portfolio was just below 1900 dwellings, with individual organisations having between 350 and 4000.

**Table 4: Business dimensions of sampled NFP housing organisations, end June 2013**

Dimensions	Total (n=20)	Average (n=20)
Assets	\$4.2b	\$210m
Liabilities	\$899m	\$45m
Rent revenue	\$278m	\$14m
Tenancies*	38,000	1,898

\* Estimate of long-term social and affordable housing tenancies under management. Note that organisations do not report tenancy numbers on a strictly consistent basis.

Source: Calculated from annual reports, supplemented by advice from CEOs

They owned assets (mainly dwellings) valued at \$42.2 billion, an average of \$210 million per organisation. There was, however, a wide difference in the level of assets owned. This situation reflected both different organisational histories and differences in state government

<sup>10</sup> The total size of the industry is not known because official data only records dwellings managed by CHOs as social housing.

policies with regard to whether organisations have been given title to properties in which government had provided equity.

Compared to the metrics reported for the 14 organisations surveyed in 2011 (see Milligan et al. 2013a, Tables 1 & 2), there has been a small increase in the average value of asset holdings (up from \$187 million) of larger providers, a reduction in average liabilities (down from \$55 million) and modest increases in both average ‘rent revenue’ and ‘tenancies under management’ (up from \$10 million and approximately 1600 dwellings respectively).

### 2.2.6 Geographic areas of operation

The organisations in the study had their home base in all of the Australian states and territories apart from Tasmania and the Northern Territory. Expansion of organisations into new market areas beyond their founding bases was a major aspect of the Wave 1 findings, as explained in Section 1.2. As shown in Table 5 below, by 2013 only three organisations operated their business over a single contiguous area, although this could be quite large—for example, covering several local government areas. The majority of organisations nevertheless continued to operate in a single state jurisdiction with six doing business in more than one jurisdiction. However, following the introduction of national industry regulation in 2014 and public housing transfer tender opportunities being open in three states (Queensland, Tasmania and South Australia—see Chapter 3), several more organisations were positioning to extend interstate. A few had some experience operating or ambitions to operate overseas.

Although there was a trend for organisations to have multiple operating districts, several CEOs expressed a preference to cluster their management responsibilities in specific localities to achieve cost efficiencies and encourage local responsiveness.

**Table 5: Geographic spread of business of sampled organisations**

<b>Core business location</b>	<b>No. of organisations</b>
More than one (non-neighbouring) region in one jurisdiction	11
Multiple jurisdictions	6
Contiguous local areas/sub region of one jurisdiction	3

Source: Interviews with panel members

## 2.3 Broader organisational positioning

In this section, we explore how panellists position their organisations in the context of an increasingly broad range of relationships with government, market and civil society organisations. This is pertinent to the ways in which they may experience organisational hybridity internally and the ways in which they present themselves to a range of stakeholders externally.

The organisations were selected on the basis that they were leading NFP housing providers, defined in terms of the policy and regulatory context within which they operated. However, when questioned at interview about the sector they belonged to,<sup>11</sup> only eight of the panellists described their organisation in this way, with the broader NFP sector and the broader housing sector/industry being the other most common responses. Only two panellists considered that their organisation was part of the broader welfare sector, and then as a secondary affiliation, with several explaining why it was inappropriate to consider their organisation in this way. There were also other individual responses which reflected the foundation and enduring values

<sup>11</sup> The question asked was: ‘What sector is your organisation part of (e.g. housing not-for-profit sector, not-for-profit sector, church sector, welfare sector, cooperative sector, housing development sector, other)?—in answering this question we are interested in primary and other affiliations.’

of the organisations. Most panellists described their organisations as part of more than one sector.

The reason for variation in responses, and multiple responses, can be explained by the different stakeholders that the organisations have to deal with, the importance of these stakeholders to their business functions, and learning about the types of commercial and other relationships that would enable them to achieve their social mission.

Organisations that were involved in housing development/construction articulated the importance of presenting to private sector organisations as a commercially astute enterprise in a context in which the private sector did not know about, or understand, the NFP housing sector:

We are a real estate property manager and developer and a charity, with every dollar going back to the organisation for housing people in need. We would not use community housing, not-for-profit or welfare sector.

Other panellists were aligned primarily with sectors that accorded with their underlying social mission:

We straddle the homelessness sector and the community housing sector but don't see ourselves as part of the commercial housing industry; although our activities overlap, our purpose doesn't.

Nine of the organisations considered that they were social enterprises.<sup>12</sup> Their view of social enterprise applied to their core activities and was a means of balancing their social mission with their business activities and operating context. There was little variation in responses as to what constituted a social enterprise:

[A social enterprise] is a business organisation that gets its revenue from commercial activities but exists for a social purpose.

Six of the organisations positioned themselves as a business rather than a social enterprise; although in each case there was additional explanation as to the type of business such as 'social business' or 'profit-for-purpose'. A number of reasons for not considering themselves a social enterprise were given, including a lack of understanding of social enterprise in the Australian context, an understanding that the origins of the term were associated with welfare and church-based organisations; and a view that they had to operate in a business-like way in a market context with profits reinvested in the company.

For me [social enterprise] is a bit of an alien term. We're a 'profit-for-purpose' company.

Three of the organisations had a different view of social enterprise as an activity which was desirable in developing people's skills and opportunities but which was ancillary to their main business. The type of activities seen as social enterprises were giving clients the opportunity to undertake jobs in gardening, cleaning and car detailing rather than contracting these out or supporting a coffee shop run by unemployed young people. These were organisations which saw themselves as having a key welfare role or as having parent organisations which has this role and which they could connect with.

We're a facilitator of social enterprise rather than a provider.

In summary, there appears to be some diversity in broader positioning within the sample of larger housing NFPs. While government remains important to all the organisations, some sought to maintain their strategic positioning with civil society organisations while others

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<sup>12</sup> Panellists were asked at the post survey interviews: 'What do you understand by social enterprise? Do you see your organisation as a social enterprise?—What have you done as a social enterprise? If not a social enterprise, how would you categorise your organisation?'

positioned themselves more as a business. Differences appeared to centre on strategies to maintain legitimacy with existing stakeholders or to achieve legitimacy in their dealings with new ones. All had to manage their relationships with government, civil society and market organisations.

## **2.4 Chapter overview**

This chapter has provided the key organisational attributes and business metrics of the 20 NFP housing organisations that are the subject of this study. The information in the chapter provides the backdrop for a more detailed examination of how the CEOs of these organisations assess the underlying drivers of their business decisions and determine their business and organisational development strategies.

Constituting many of the largest and most developed organisations in the housing NFP sector, the profiling presented gives a general indication of governance models, business functions and the scale of business operations that pertain to large NFP housing providers across Australia. Organisations in the sample are dedicated to developing and managing social and affordable housing for low and moderate income clients and helping to reduce social, economic and community disadvantage, although they are quite diverse. Key differences concern scale, functional mix, geographical reach, and the sector that they identify with: housing NFP, general NFP and housing industry/sector. Some of these organisations see value in positioning themselves as a social enterprise while others emphasise their capacity as a business with a social purpose. In pursuit of their missions, the leading players have experienced modest business growth since the Wave 1 survey in the context of fluid levels of government support and continuing high demand for affordable housing, as we discuss next.

## 3 INDUSTRY AND ORGANISATIONAL ENVIRONMENTS

In this chapter we discuss the broader environmental context in which the surveyed organisations operated at the time of the Wave 2 study and in the preceding three years. The purpose is to determine the most important factors influencing organisational strategic positioning and decision-making. The chapter covers both their external environment—concerning policy, regulatory and market contexts—and changes and developments in internal (organisational) operating environments. It starts by examining what panel members identified in the Australian Panel Survey as the most important changes to the external environment surrounding their industry and those of most significance within their organisations over the last three years. It then elaborates on the circumstances and considerations behind these identified major drivers of change, using a combination of panel member views elicited at interview and supporting documentary evidence.

### 3.1 Panel views of drivers of change in their organisations/industry

Section 3 of the Delphi survey asked our panellists to rate the importance of changes in the external and internal environments in which they operated and to assess the significance of these change factors to how their organisation fulfilled its tasks over the last three years.

Of the 39 change variables identified in the survey, across the panel 18 were scored highly (median scores 5 or greater) on both their importance and on the changing nature of their influence. Another five factors, while also rated as very important influences (median scores of 6), had not been subject to such significant change over the period (median scores of 4). In other words, their influence was ongoing. The factors impacting most on organisations fell into three distinct clusters related to the policy environment (five factors), market conditions and behaviour (nine factors), and the internal workings of the organisations themselves (nine factors). The three groupings of ‘most important and influential’ change factors that emerged from the survey analysis are presented in Tables 6 to 8. In the follow-up interviews respondents were asked to elaborate on how these factors had impacted on their organisations.

Ranking and discussing with panellists the significance of diverse factors that were impacting on the business of housing NFPs has provided a clear picture of the key external and internal influences on organisational strategies. Below we discuss their viewpoints derived from the post survey interviews and place these in broader context. The factors included below are those that were selected by panellists to expand on at interview and thus do not cover all those in Tables 6 to 8.

### 3.2 Important policy drivers

#### 3.2.1 *State and Federal Government policies*

Commonwealth and state government housing and social security policies and the availability of public capital (or in-kind) subsidies were identified as critical systemic influences across the panel (Table 6).

Follow-up interviews with panellists revealed that, specific program opportunities notwithstanding, public resources to support growth in the sector continued to be elusive and policy reform was an ongoing core consideration, presenting both threats and opportunities. Given that governments remain the sector’s biggest funders this situation was contributing to a volatile business environment and uncertainty about future growth.

Below we review briefly what happened over the period since the last study to the major government initiatives driving industry growth and increasing the capacity of housing NFPs to invest in additional affordable housing. This covers NRAS, the SHI, the transfers of former

public housing to the sector and other recent policy developments (within housing and beyond) that were identified by panel members as being important.

**Table 6: Most important policy factors driving organisational behaviour**

	Importance of factor (median score)	Degree of change over three years (median score)
Change in influence of the Federal Government*	6	4
Change in influence of state governments*	6	4
Change in rules governing housing allocations*	6	4
Change in social security policies*	6	4
Increased government regulation of organisational governance	5.5	5

\* Very important factors assessed as having an enduring impact on organisations.

Source: 2013 Australian panel survey

### **National Rental Affordability Scheme (NRAS)**

Ninety per cent of the surveyed organisations had participated in NRAS by 2013, although several had initially been cautious about participation. NRAS (initiated in 2008) offered NFPs the opportunity to directly invest in, or to manage on behalf of private investors, new rental housing that was financed with a mix of public and private funding.

Charitable organisations have been major participants in NRAS delivering 63 per cent of all NRAS-enabled dwellings by December 2013 (Australian Government 2014). The organisations sampled for this study had received nearly 17 per cent of all incentives offered under the scheme and had directly delivered about 20 per cent of all tenanted NRAS-supported dwellings (calculated from Australian Government 2014).<sup>13</sup> These figures accentuate the prominence of the organisations that we surveyed within the industry.

An important development in the models by which the NFP sector delivers NRAS dwellings took place in 2013. This concerned new rules that enabled approved NRAS participants that are charitable organisations to convert their NRAS cash payment to a tax credit, which then makes it attractive to a private investor. The rule change triggered the introduction of sale and leaseback procurement models in the NFP sector, operating alongside ‘develop and retain’ and ‘fee-for-service’ management models. The new procurement approach enabled the sector to tap into alternative sources of private finance to bank loans, especially private equity from individual or corporate investors.

In the May 2014 Commonwealth Budget the Coalition Government announced that NRAS Round 5 (involving allocation through a competitive bidding process of around 10 000 incentives) would not proceed. As NRAS-linked development and management featured significantly in the forward plans of the majority of providers in our sample, this decision can be expected to impact adversely on the business development paths and growth potential of those organisations, as we discuss later in the report.

### **Social Housing Initiative (SHI)**

The organisations had been hugely affected by the SHI through which over 19 600 dwellings were added to the supply of social housing between 2009 and 2012 as a key part of the Australian Government’s economic stimulus measures after the GFC (KPMG 2012a). In their 2012 evaluation of the SHI, KPMG reported that 50 per cent of SHI-funded dwellings were

<sup>13</sup> Four sampled organisations had not bid directly for NRAS incentives but two of those managed NRAS-funded dwellings on a fee-for-service basis for other incentive holders (interviews with panel members, annual reports).

destined to be owned in the NFP sector and 80 per cent to be managed there on medium to long-term leases. The role and contribution of NFPs varied across jurisdictions depending on state/territory government policy. For instance, in Queensland, Victoria and Western Australia significant amounts of the new supply were procured directly by NFPs (rather than being transferred on completion). This was particularly significant in developing the capacity of organisations in those states relative to a 'build and transfer' model that operated elsewhere. Boosting the third sector in these ways had resulted in a number of benefits in the sector, especially improvements in organisational scale economies, capacity development, and a foundation to leverage future growth.

However, by the time of the Wave 2 survey, the impacts of the SHI on sector development and growth were largely concluded. With the consequential return to pre-2009 funding levels for social housing under the National Affordable Housing Agreement (NAHA) and the closure of NRAS for the time being at least, growth paths for NFPs were expected to become shallower and less predictable.

### **Public housing transfers**

Panellists expected the primary source of growth for housing NFPs in the foreseeable future to come via state policies to transfer to their management larger volumes of established public housing tenancies (Pawson et al. 2013 has more detail on this strategy). From 2012, four states—Tasmania, Queensland, South Australia and Victoria—had announced plans for the transfer of the management or, in the case of Victoria, ownership of up to 65 000 public housing tenancies to CHOs. Selections of new NFP landlords for around 9000 of these dwellings were active in 2014.

Other state government housing strategies under development may lead to more transfer opportunities in the medium term, depending also on the stance taken on future transfers (and their underlying financing mechanism—Rent Assistance) by the national Coalition Government elected in September 2013.

Over half the organisations in this study had submitted tenders or partnered with others who tendered for current transfer offers. Several organisations had withdrawn transfer bids or had sponsored unsuccessful bids. Others remained watchful for suitable opportunities. Involvement in tender processes had generated considerable organisational learning and repositioning. While some panel members found this healthy, other panellists were concerned that increased competition was expensive and sending the wrong signals—for example, changing the performance culture of the organisation to meet contractual obligations rather than to continuously strive for better performance.

### **Other housing policy developments**

As noted by many panellists, other aspects of housing policies applying directly to the growth and development of the community housing sector have been in a state of flux in some, but not all, jurisdictions in recent years. This hiatus has developed from changes in government in several jurisdictions and the slowing of national housing investment since the completion of the SHI and the National Partnership on Social Housing. The current standing of the 2009 Ministerial commitment for up to 35 per cent of social housing to be managed by CHOs by 2014 was not known in the sector.<sup>14</sup>

More broadly a raft of reforms to the delivery of human services and homelessness service sector reforms (e.g. in the two largest states of NSW and Victoria) were also expected to impact on CHOs in ways that at the time of the research were still unclear. A key aspect of these reforms is the search for better integrated and more effective and flexible models of

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<sup>14</sup> In 2011 sector shares varied between 18 per cent in NSW and 5 per cent in the Australian Capital Territory and the Northern Territory (Pawson et al. 2013, Table 7).

supporting high needs clients in whatever rental tenure—public, community or private. Respondents to our sample involved in housing high need clients were looking strategically at how to engage with this reform direction.

A summary of prevailing policy settings in each jurisdiction that are of most significance to the medium term prospects of the NFP sector is given in Appendix 3. However, as many of the announced strategies were, at least partly, contingent on the continuation of NRAS, their further implementation is likely to be subject to change.

Two other policy factors, outside the housing realm, that were considered by panel members to be of increasing importance were changes to social security policies and to disability support, as discussed briefly next.

### **Welfare reform**

Panellists were concerned about the ongoing revenues needed to sustain their business, most of which are heavily dependent on rent payments by tenants. Under prevailing income-related rent setting models for social housing, changes to welfare payment levels and entitlements directly impact on CHO revenues.

The greatest concern in the sector is with possible major changes to Rent Assistance (RA) entitlement and design as a result of the current government's welfare reform plans. Under reforms to social housing rent setting over the last decade, RA payment levels have increasingly been built into rent charges, thereby providing significant additional revenue to NFPs. This in turn has boosted the capacity of NFPs to meet their operating costs (staffing levels, maintenance etc.) and to service debt on borrowings while maintaining a high share of tenancies for low-income tenants. RA is now described as a vital subsidy in the sector (Community Housing Peaks Policy Network 2014), although it was not intentionally designed for this purpose.

A discussion paper on welfare reform released in July 2014 ('the McClure report') suggests a wide range of changes to welfare payments, which at the time of writing is subject to community consultation. The proposals include a review of RA with a view to addressing inadequacies in current payment levels and 'moving away from the current system of income based rents towards the use of Rent Assistance as the preferred rent subsidy scheme across both private and public tenures' (Reference Group on Welfare Reform to the Minister for Social Services 2014, p.9). While such a review has the potential to address long standing rent subsidy anomalies in the Australian housing system, changes could also jeopardise current NFP provider business models unless these are carefully implemented. This latest arena of policy reform has further increased the level of business uncertainty being experienced in the sector.

### **National Disability Insurance Scheme**

The panellists were all aware of the potential importance to their business of the National Disability Insurance Scheme (NDIS) being introduced in stages from July 2013.<sup>15</sup> Under the scheme, the housing needs of clients will be addressed through a combination of referrals to existing programs and services (e.g. public and community housing, rent assistance and NRAS dwellings), family investment and dedicated capital or recurrent funding for housing from the National Disability Insurance Agency (NDIA), which will flow from 2015.<sup>16</sup> When it becomes fully established later in the decade, the capital fund earmarked for housing is estimated to be worth about \$500 million per annum in 2014 dollars (Bonyhardy 2014). It is anticipated that

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<sup>15</sup> NDIS is a new, innovative seven-year funded national program to provide individualised support for people with permanent and significant disability, their families and carers (<http://www.ndis.gov.au/>). The scheme is partly funded by a levy on Australian taxpayers.

<sup>16</sup> A discussion paper on housing and the NDIS, originally expected before the end of 2013, remains in preparation (Bonyhardy 2014).

much of that capital, along with any family equity contributions, will be channelled to community-based housing options for people with a significant and ongoing disability who currently do not live independently. Those funds could be leveraged by community housing providers who wish to procure or modify housing and provide tenancy and property management services for this client group. As discussed in Chapter 4, this opportunity was of strong interest to the NFPs in our study, several of whom have experience working with disability service providers, typically as a development/property/tenancy management partner.

### *3.2.2 Increased influence of government regulation*

Across the panel, regulation and, particularly, the evolving regime of national regulation was considered to be one the most important and influential external changes that was impacting on their organisations (see Table 6 above).

National regulation aims to promote a more consistent approach to industry development (than was occurring under diverse state-based systems) and to enable providers to operate more easily in multiple jurisdictions (by providing common rules). Having a single uniform system was also considered desirable to attract major lenders to the sector (Milligan et al. 2013b). Following extensive consultation about a discussion document released in 2010 (Australian Government 2010), Housing Ministers agreed in 2013 to a phased introduction of a National Regulatory System for Community Housing (NRSCH). Full implementation of the system began on 1 January 2014, following six months of testing and evaluation with a small number of providers nationally.<sup>17</sup>

Regulation and regulatory change was involving the organisations surveyed in greater compliance activity (and associated costs) and it was promoting widespread governance and structure reviews with a view to improving management systems. Interviews revealed that national regulation was also expected by some to drive a further round of sector restructuring and consolidation, which in turn could offer growth opportunities for larger, geographically diversified organisations. The high rating of this change factor was enhanced by those organisations that were subject to registration for the first time; some others with prior experience of state-based regulation considered the move to a new national system of less significance (or in the case of Victorian and Western Australian NFPs were not subject to it).

### **Charities definition and affordable housing suppliers**

A specific regulatory issue of concern to housing NFPs as they broaden their remit to provide housing to a mix of low and moderate income groups is the preservation of their charitable status. Their recent moves into providing new forms of housing (e.g. under the NRAS) had brought under scrutiny whether the provision of 'affordable housing' and the pursuit of other commercial activities fell within the definition of charitable purpose. Uncertainty about the regulation of charities had contributed to moves by several organisations in this study to establish more complex governing entities especially to quarantine their commercial operations from the application of charities law (as discussed in Section 2.2.2). Over several years a sector peak body (the Community Housing Federation of Australia—CHFA) has also pressed for clarification of this matter. In September 2014, the regulatory agency, the Australian Charities and Not-for-profits Commission (ACNC), issued an exposure draft of new guidance on the provision of housing by charities (ACNC 2014), which if adopted could be expected to offer greater certainty and reassurance to providers about their remit (CHFA 2014).

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<sup>17</sup> Prior to implementation, each jurisdiction has to adopt state or territory legislation based on a model law. In 2014 state laws had been passed in five jurisdictions. Two jurisdictions—Victoria and Western Australia—had decided not to pass a new law for the time being. However, these jurisdictions have committed to achieving stronger alignment between their pre-existing state regulatory systems and the national code (<http://www.nrsch.gov.au>).

### 3.3 Major housing market and industry influences

The second set of external drivers of organisational development assessed in the study concerned how conditions in the housing market and in the housing and finance industries had influenced CHO performance and behaviour. Nine market factors were rated as among the most important and changing drivers of organisational behaviour and decision-making (Table 7 below).

With regard to market-based pressures, panellists saw high housing demand and achieving affordable housing development in high cost housing markets as ‘industry constants’ or ‘operational realities’. However, in combination with declining levels of government capital funding over the last three years (discussed above), several panellists considered that it was becoming more difficult for new projects to ‘stack up’. Thus organisations reported looking hard for new business opportunities that might enable them to derive cross subsidies and to expand without additional government funding.

To put these assessments in context, below we review prevailing conditions in the light of the significance attached by panel members to housing market pressures and the terms and conditions for obtaining housing finance. This is followed by illustrations of the increasing significance of industry and market engagement to leading housing NFPs.

**Table 7: Most important market factors driving organisational behaviour**

	Importance of factor (median score)	Degree of change over three years (median score)
Increased pressure in housing market operating environment	6	5
Increased housing demand	6	5
Increased land prices	6	5
Increased collaboration/partnering with not-for-profit housing organisations	6	5
Increased collaboration/partnering with non-housing private sector organisations	6	5
Increased opportunities to cross-subsidise social housing from commercial activities	5.5	5
Change in cost and terms of finance*	5.5	4
Increased competition among not-for-profit housing organisations	5	5
Increased collaboration with for-profit housing developers	5	5

\* Very important factors assessed as having an enduring impact on organisations.

Source: 2013 Australian panel survey

#### Housing market conditions

There is general recognition among agencies monitoring the Australian housing market (including the Reserve Bank, the (former) National Housing Supply Council, the Australian Bureau of Statistics and various industry bodies) that market conditions have been difficult over the period since our last study, although not as problematic as for markets in Europe and North America in the same period (see Chapter 6). New supply in particular has been sluggish due in part to constraints on bank lending for residential development. This situation has intensified long standing demand pressures arising from population and household growth and a shortage of supply of rental housing affordable to those on lower incomes. The shortage of rental housing affordable to private renter households with incomes in the lowest quintile of all Australian incomes increased from 138 000 dwellings nationally in 2006 to 187 000 dwellings

in 2011. Further, when occupation of affordable stock by households on higher incomes was taken into account, this shortage for lowest income households increased to 271 000 dwellings in 2011 (up from 211 000 in 2006) (Hulse et al. 2014, p.2). The greatest shortages are in Sydney and Melbourne with metropolitan areas generally having greater shortages than non-metropolitan ones. However, shortages of affordable rentals for low-income households increased in some major non-metropolitan centres particularly those affected by the resources boom (Western Australia, Queensland and the Northern Territory) (Hulse et al. 2014, p.3). These shortages put additional pressure on the NFP housing agencies in this study.

Over the period between the two survey waves, there was also evidence of rising investor demand for residential property (especially in the established housing market in major metropolitan areas) which, in the context of a volatile share market, is perceived to be less risky than equities (Kent 2013; NHSC 2013). Fuelled by investment activity, demand-supply imbalances appear to have contributed to surges in house prices, especially in inner and middle-ring metropolitan areas and regional growth hubs, after several years of low house price growth. Thus, long running housing affordability problems persist, despite historically low interest rates.

Tenure patterns also appear to be changing. Particular attention has been drawn recently to the decline in home ownership rates among younger households (Yates 2011) and lack of first home buyers in the market, with their participation rates reportedly at historically low levels (Wade 2013). Partly as a result of such blocked home ownership pathways, the rental market is expanding but showing greater signs of affordability stress, with rents steadily increasing (faster than earnings) and vacancy rates remaining low (NHSC 2013; Stone et al. 2013). There was an 18 per cent increase in private renter households during 2006–11, double the percentage increase in all Australian households (9%) (Hulse et al. 2014, p.18 Table 2). There is also evidence that households are renting for longer periods, including families with children (Stone et al. 2013). Affordability problems for renters extended further up the household income scale during 2006–11, particularly in metropolitan areas and some regional centres (Hulse et al. 2014, p.39, Figure 17b). These conditions help to explain the continuing strong demand for housing assistance from low and some moderate income households being experienced by NFPs.

In this market context, the delivery of NRAS product by both NFPs and for-profit companies added over 17 600 dwellings directly to affordable rental supply between 2009 and December 2013, as discussed earlier. However, NRAS outputs have been well below the number of incentives offered, suggesting that other factors, such as land costs, securing planning approvals and the availability of finance, may have inhibited affordable housing providers.

### **Private financing**

To date, housing NFPs have relied exclusively on bank lending to provide private financing of their development and modernisation projects. Lending from the banking sector, while reportedly readily available, is priced at commercial rates and has been on short terms since the GFC (Lawson et al. 2014). Research and advocacy around achieving new expanded sources of lower cost finance for the supply of affordable housing, especially the options for attracting large scale institutional investment, intensified in the aftermath of the GFC-induced credit crunch and worsening bank lending conditions. Significant AHURI-funded research published since our last study has included a proposal for an Australian housing supply bond (Lawson et al. 2012), an industry-informed strategy for attracting institutional investment (Milligan et al. 2013b, 2013c), and an examination of the potential role for government guarantees and a specialised financial intermediary, drawing on international examples (Lawson 2013; Lawson et al. 2014). In 2013, several housing NFPs were reported to be working in collaboration with a major bank to investigate the feasibility of a residential asset-backed bond issue to raise finance for their development programs (Milligan et al. 2013b,

p.31).<sup>18</sup> NRAS has also catalysed establishment of financial intermediaries in both the for-profit and NFP sectors. These organisations specialise in raising finance from diverse sources for investment in affordable housing. Cancellation of unallocated NRAS incentives is likely to be a major setback to these financing developments unless alternative government support is forthcoming. Obtaining appropriate forms of private finance remains a key issue for NFPs if they are to continue their housing development role.

### **Industry relationships**

Accompanying their more business-like approach, a marked shift in the opportunities for competition and collaboration in NFP ways-of-working had emerged in the last three years. All survey questions concerned with the importance and intensity of intra-sectoral alliances and industry relationships scored highly across the panel (see Table 7 above) and these changes were widely discussed in follow-up interviews. The main developments of this kind identified by panellists included:

- Greater competition within the NFP sector itself, driven by government tender requirements for resource allocations, especially NRAS and public housing transfers, and the emergence of a national market.
- Competitive tendering, in turn, was behind moves by several organisations to establish new cross-jurisdictional alliances. For example, interstate players were partnering with local service providers in their bids to sharpen their competitive edge by offering a two-way exchange of skills and local knowledge.
- Larger scale transfers with multiple goals (asset renewal, redevelopment etc.), such as the 5000-dwelling transfer announced for the Logan area in Queensland, were also behind the emergence of new consortia of private and non-profit groups, typically involving major development firms, financiers and their intermediaries, support providers and community builders along with CHOs.
- Organisations themselves had initiated diverse business associations: for example, with Aboriginal organisations and local governments seeking professional property services; public and private property owners with development-ready sites; support providers able to attract funding for development (especially in the disability sector); and joint ventures with private developers (looking for assured take out from developments).

These new or expanded ways of intra-and inter-sectoral working, illustrated above, were some of the key means by which the CHOs studied were upskilling their organisations and pursuing growth through alternatives to government funding; strategies we discuss in more detail in the next chapter.

### **3.4 Internal drivers**

The third set of drivers of organisational change that panellists considered important were internal ones (see Table 8 below). These were areas over which the organisations had substantial control, unlike the policy drivers and market factors discussed above. Below we discuss four of those factors which panellists chose to elaborate at interview. These concerned IT, operational reach, organisational structures and asset utilisation. Corporate factors concerned with governance and organisational capacity and skills also continued to be emphasised as important drivers. Changes in their influence were discussed in detail in our earlier report (Milligan et al. 2013a, Chapter 5).

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<sup>18</sup> This direction is consistent with recent successful moves into bond issues by housing associations (collectively and individually in England) as well as housing association-led negotiations for private placements by pension funds into the sector there (Milligan et al. 2013c).

**Table 8: Most important internal factors driving organisational behaviour**

	Importance of factor (median score)	Degree of change over three years (median score)
Change in investment in IT	6	5
Change in geographical area(s) of operation	6	5
Change in organisation's financial competency	6	5
Change in organisational structure	6	5
Change in board priorities	6	5
Change in board skill sets	6	5
Change in executive leadership	6	5
Change in use of IT to enhance dialogue with tenants	6	5
Change in use of assets to develop the business	5.5	5

Source: 2013 Australian panel survey

### Increased investment in IT

In the more reflective space of the interviews, more panellists talked about the importance of increased investment in IT than any other internal driver. Their organisations had invested heavily in IT systems over the previous three years, implementing, or planning to implement, integrated systems covering the range of their business systems, or replace 'legacy systems' which had become inadequate. The main reasons for this investment were to accommodate increased scale of their operations, a greater range of functions (e.g. including asset planning and management activities), compliance requirements and positioning themselves for future growth in operations—for example, through anticipated transfers of public housing stock in some jurisdictions.

We are seeing this investment will provide us with the organisational infrastructure for significant growth and cost effectiveness.

There was not a choice but to make this investment as the business was at risk as it grew.

New, integrated systems were also expected to provide more strategic and management information for boards and executives, including 'dashboards' showing how the organisation was tracking against key targets. It was also anticipated that although investment in such systems was expensive, there would be subsequent cost reductions in terms of removing multiple data entry and data integrity for compliance purposes, at least in theory.

Some of the organisations had been early adopters; others wanted to be 'behind the curve' and see what happened with other organisations first. None of the organisations were yet at the stage of being able to assess the cost effectiveness of their investment. The panellists saw investment in IT as essential to the management of their business, but were often aware that such systems required careful management in terms of business processes and job roles.

The focus is often on the technical aspects of the project, but really it has to be on the human aspects.

The survey results indicated that the panellists saw use of IT to improve communication with tenants as an important internal driver of their business and one which they expected to increase in importance. Few specific examples were given during the interviews of what form this would take other than IT driving efficiencies in business systems that would enable more

transactions with tenants through the IT system, such as tenants being able to check their rent payments through an 'app' much like the private sector.

### **Change in geographic area of operation**

Many of the panellists elaborated upon the importance of change in geographic area to their businesses. Expansion through greater geographic coverage was a strategy to grow their business and spread the risks associated with operating in one housing market or even one jurisdiction. From a business point of view, expansion in this way could add to the economies of scale and decrease expenditure per property. However, the panellists were well aware that this may not eventuate and that having a small number of units in scattered locations added to cost pressures.

There was increasing acknowledgement of the need to consolidate stock for management purposes. Some of this stock was acquired in anticipation of wide-scale stock transfers which had not yet eventuated or during the quick roll out of the SHI, but there were insufficient numbers of stock in an area to manage in a cost effective way. A further factor was changing of state government boundaries for service delivery—for example, in Victoria, which led to a rethinking of the geographic areas covered by organisations. One response was to partner with other organisations to address the problem of scattered stock. This could include partnering with other organisations which had a local presence and which could undertake tenancy and sometimes property management or seeking to increase their activity in an area through managing stock for other owners on a fee-for-service basis. These types of operational decisions had implications for staffing structures.

[It is] leading to thinking about whether you can have things like a team leader based in one location but their staff operating in another.

Some of the organisations made a strategic decision to partner with other organisations to establish their legitimacy when moving into new areas. Others, however, had no ambitions to expand interstate and this was not required.

### **Changing organisational structure**

An important internal driver nominated by some panellists was the process of structuring their organisation as it changed and grew. The precipitating factors were a broader range of products and services in the drive to grow revenue, such as the development of fee-for-service businesses (e.g. management of NRAS properties for a private owner, facilities management, body corporate management and looking at other possibilities such as managing student housing) and the development of in-house specialist areas (e.g. marketing, finance and IT).

Panellists were well attuned to potential risks to their charitable and tax exempt status. They were implementing structures such as subsidiaries to manage this risk (e.g. for their fee-for-service operations). Some panellists talked about changes to their organisational structure to provide more accountability to their business units, including clearer information on their revenue types and expenditures. As several commented, the organisations were becoming mid-size organisations and required skilled executives who could be responsible for specific business units. For a few of the organisations, this process was complex due to their relationship with a parent body.

I am of the firm view that housing entities should stand alone.

Not everyone agreed that changing organisational structure was an internal driver of the business, viewing it as the way in which businesses adapted to external factors.

There is a difference between something that drives your business and something that you need to react to in your business.

### **Increased use of assets to develop the business**

The final internal driver that evoked discussion in the interviews was increased use of assets to develop the business. This was, in part, recognition that with the end of the SHI, there was no government strategy for growth in the sector.

The light bulb has gone on that our business model for growth involved capital funding from government and this doesn't exist and may not exist in the same sense for a long time, if ever, and we need to look at creating a new business model for growth.

Many of the organisations gave examples of the way in which they had used the asset, for example they had met leverage targets under the SHI. However, some of the assets transferred to them in that process (some states) were considered poor quality and suitable for sale/disposal and reinvestment of the funds in more suitable stock or redevelopment. Several of the panellists were already engaged in recycling some of their assets on a small scale. In this process they hoped to reap a capital benefit that could be reinvested in newer stock. This type of small-scale redevelopment was important in providing a short-term development 'pipeline'. Other organisations judged that they had no more 'headroom' in using their assets.

### **3.5 Chapter overview**

This chapter has provided an overview of the environment in which the major housing NFPs are operating. Aspects highlighted are related to those factors assessed by organisational CEOs to be the main temporal and systemic influences shaping their organisations' positioning and performance over the last three years, as set out in Tables 6 to 8.

With regard to the external environment, among key factors constraining organisational development have been cessation of recent capital subsidy programs, continuing uncertainty in the housing policy environment, and the high cost of housing procurement. At the same time, there has been increased demand due to a shortage of market housing for low-income households and a growing shortage of affordable housing from households further up the household income scale. Organisations have recognised market pressures and responded to increased demand through pursuing new and different opportunities for business development especially through forging inter- and intra-sectoral partnerships and competing for public housing transfers.

The panellists highlighted four internal drivers that were of most importance to their business: increased investment in IT, changed geographic areas of operation, changing organisational structure and increased use of assets to develop the business. They had more control over these factors but all required investment which could be expensive, particularly in the context of an increasingly uncertain external environment.

Next we consider how leading Australian housing NFPs are developing and adapting their businesses and organisations in response to these state and market drivers and their internal goals, resources and capabilities.

## 4 STRATEGIC POSITIONING AND ADAPTATION IN LEADING AUSTRALIAN NFP HOUSING ENTERPRISES

This chapter draws on the main findings from the 2013 (Wave 2) Australian Panel Survey and follow-up interviews to show how panel members depicted the business activities and strategic directions and adaptations of their organisations over the last three years and those that are in process currently. In the survey, panellists responded to common questions concerning their views of their organisations' strategic priorities and anticipated future business directions. Follow-up interviews were designed to illustrate these self-assessments in more depth, to probe the reasons for the positions taken by individual panel members and to develop explanations for evident similarities and differences across the panel. The chapter concludes with a discussion of panel member views of the medium term future both for their organisation and for the industry as a whole.

### 4.1 Balancing strategic priorities

In Section 2 of the survey, panel members were presented with 16 pairs of possible strategic trade-offs facing housing NFPs. For each pair they were asked to consider which strategy took greater precedence in their organisational strategy at the time of the survey (now), looking back over three years, and looking forward three years.

Grouping the strategies into two categories—those concerned with business activities and those with business methods—Figures 3 and 4 respectively present the array of median scores on past, present and future strategic priorities for all pairs of priorities that were presented to respondents.<sup>19</sup> High median scores (5–7) indicate that panel members as a whole gave greater priority to the strategy listed on the right-hand side of the graph at each particular time (three years ago, now and in three years' time). Low median scores (1–3) indicate greater priority for the strategy listed on the left-hand side. Median scores of 4 indicate that one strategy did not take precedence over the other across the panel as a whole.

Below we discuss the most significant choices and trade-offs that that organisations are making and the main trends in business adaptation that are evident from their responses.

#### Business activities

Considering first those matched pairs of strategic priorities concerned with the choice of products and services that organisations offer (Figure 3), the survey showed that a gradual shift was occurring in the emphasis on diversifying products and services. Some degree of relative priority at present was accorded to concentrating on social rental for low-income households rather than being involved in a wider range of rental products and, correspondingly, serving low-income households to greater extent than having a mix of low and moderate-income households.

Follow-up interviews and a review of organisational data on clients and services indicated that the typical client mix at present is around 80 per cent social housing clients and 20 per cent other low and moderate-income households. Putting this situation in context (Chapter 3), the current business mix can be explained by several factors including: where government resources have been targeted; the community housing sector's self-designated social purpose centred on offering housing to low-income clients, and the history of many of these organisations in developing the core skills and competencies to provide such services.

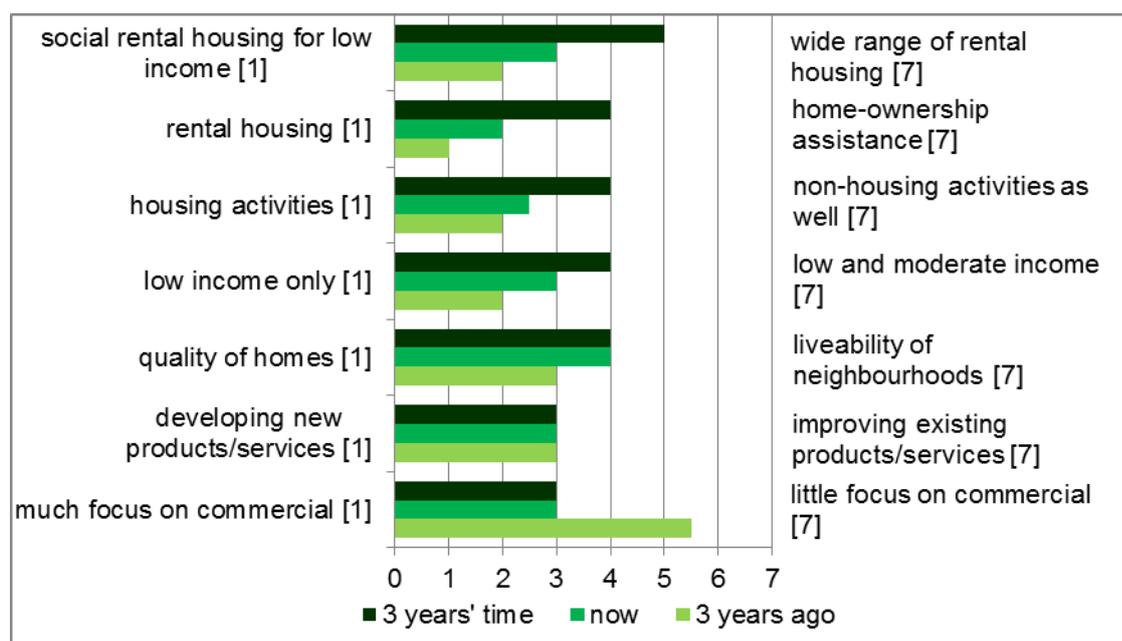
These influences notwithstanding, answers in this section showed that panellists were anticipating significant shifts in their business mix in the near future. Various forms of business diversification—a shift in emphasis from rental products to being involved in offering assistance

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<sup>19</sup> The median score represents the value (between 1 and 7) that scores by half the panellists were at or below and half were at or above.

with home ownership; offering a wider range of rental products than social housing; becoming involved in non-housing activities; having more rather than less commercial focus, and broadening the localities in which their services operate, all scored more highly than the matched alternatives in the next three years (Figure 3). Almost universally panellists expected their organisations to give greater priority to home ownership assistance and new rental products and having a more commercial outlook. However, there was more divergence in views (not shown) about the future priority to be given to geographical expansion (some organisations remain geographically bounded) and involvement in non-housing activities. In the next section we will consider further how and to what extent such shifts in business focus could be brought about using examples provided by panel members.

**Figure 3: Positioning on matched pairs of business activity priorities in 2013 and looking back and forward three years (median scores)**



Source: 2013 Australian Panel Survey

### Business methods

Among the business methods probed, two were consistently strongly weighted in one direction over six years. Developing housing (rather than purchasing housing in the market) and having internal development capacity and skills (rather than outsourcing) were given more predominance by panellists as a whole over the six-year outlook covered by the survey (Figure 4).

Over the preceding three years to 2013, there were several marked shifts in the weighting of matched pairs of business strategies across the panel. These included: having an increased focus on financial performance compared to social return; more emphasis on managing assets for others; and growth through stock transfers rather than by other means (Figure 4). In the next three years, there is also a growing expectation of private rather than public or philanthropic financing. Looking at this set of results suggests that while the business activities may not have changed much in the last three years, business methods have been steadily evolving. The trends observed align with the greater financial and asset responsibilities that organisations have taken on recently; growth paths that were driven by both public housing management outsourcing and fee-for-service management for private NRAS investors; and expectations that organisations will obtain private finance to support their housing development activities.

**Figure 4: Positioning on matched pairs of business method priorities in 2013 and looking back and forward three years (median scores)**



Source: 2013 Australian Panel Survey

## 4.2 Past and future importance of particular strategies

In Section 4 of the survey, panel members were asked to score the importance to their organisations of a wide range of strategies (41 in total) firstly, as ways of adapting to changes they had experienced over the last three years and secondly, as anticipated responses to changes they were expecting in the next three years. The overall picture that emerges from the results is given in Appendix 4, Figure A1. This picture gives rise to a couple of general observations about organisational strategy. First, almost half (20) of the strategies presented were scored as somewhat to very important across the panel over the last three years (median scores greater than 4). This indicates that, in trying to position their organisations, CEOs grapple with a large number of strategies in an environment of considerable uncertainty and there is still work to be done in settling on core business. Also to some extent, it may reflect differences in needs and opportunities across jurisdictions. Second, there is a clear trend for strategic options to be seen as more important into the future than in the past. Only six strategies on the list were not scored as being important into the future and only two were scored less important in the future than in the past.<sup>20</sup> This may indicate that CEOs have an optimistic (or unrealistic) view of what can be achieved in the near future.

In order to ground truth the survey results from this section, panellists were asked in follow-up interviews to choose among those strategies identified by the panel as a whole to be

<sup>20</sup> Unimportant strategies (those with the lowest median scores) concerned organisational restructuring, mergers and partnerships.

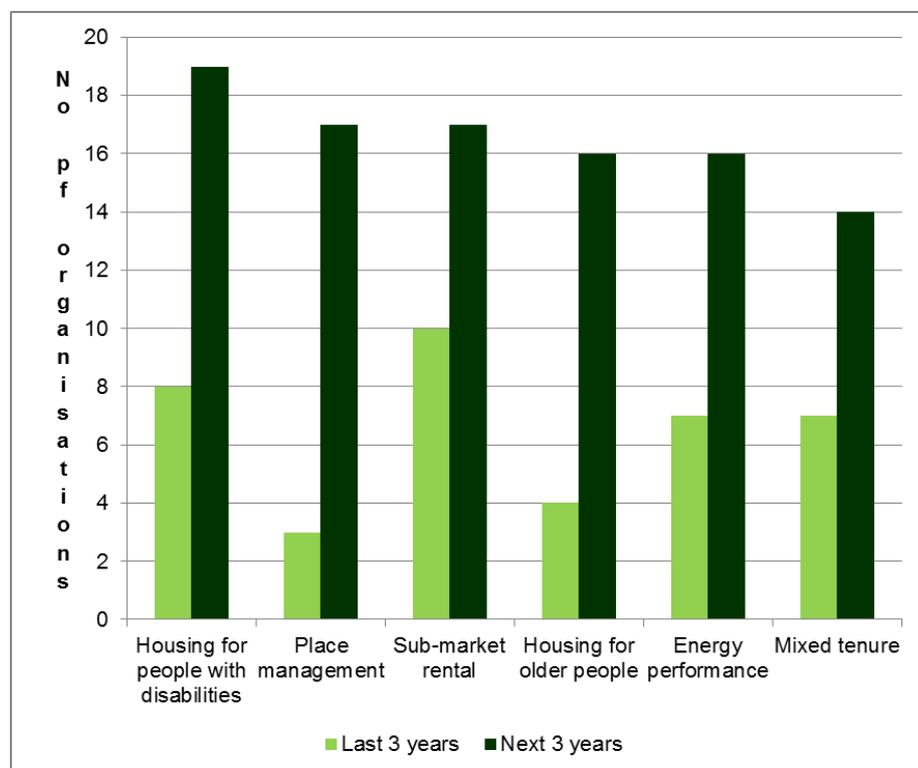
important,<sup>21</sup> specific examples of how, to what extent and for what reasons their chosen strategies were being implemented in their organisations and/or how likely they were to be adopted in the next three years. Panellists were also invited to comment on which strategies they considered most important for the sector as a whole in the future, as discussed in Section 4.3.

The discussion in the remainder of this section focuses on information that emerged from the interviews about the implementation of some of the most important strategies identified via the survey. We have grouped the presentation of the outcomes of these discussions into three types: strategies concerned with product development and changes to service delivery; financing; and organisational processes and relationships.

#### 4.2.1 Product and service delivery strategies

In line with the general aspiration among participating organisations to achieve greater business diversification, the survey asked panellists to rate the importance to their organisations of a wide array of product and service strategies that could be proffered by their organisations. Across the 17 strategies of this type presented, at least 70 per cent of panellists emphasised the importance of six in the next three years, as shown in Figure 5 and discussed below. Other strategies, such as those concerned with offering home ownership products, non-housing products and services, commercial activities, and products for identified groups other than the aged and disabled, while very important to some, were not rated as being of high importance as consistently across the panel. The finding that in effect CEOs generally were focused on comparatively few strategies (of the many nominated) could be taken to be an indication of either those that are most widely sought and/or those that are considered more feasible to implement in the near future.

**Figure 5: Most frequent product and service delivery strategies, next three years compared to last three years**



Source: 2013 Australian Panel Survey

<sup>21</sup> The strategies which panellists were invited to expand on were those which most (14 or more) had rated as important into the future in the survey.

## **Developing and adapting products and services to meet the needs of people with disabilities**

While less than half the organisations had been involved in this strategy three years ago, it was given almost universal high importance for the next three years (Figure 5).

Those NFPs that were already involved in this field had become so in one or both of two main ways:

- By providing tenancy management services in collaboration with specialist service providers to people with disabilities. This was well-established business for several organisations.
- By developing specialised housing primarily using capital available to disability service providers from state and Federal Government initiatives designated for this client group. For some in our study, this had presented a key opportunity to utilise their development capacity in the last three years.

[organisation] has become a leader in this sector, having won two supported accommodation innovation fund projects from government ... Now [we] have other service providers wanting to partner with [organisation] to develop similar developments and become innovative leaders in the field.

With only one exception, organisations were expecting these activities to present growth opportunities in the near future, especially as the NDIS (see Section 3.2.1) was rolled out, and they were actively considering how they should respond. Nevertheless, lack of clarity around plans for NDIS (and, within those, for funding additional housing) was making business planning difficult and several CEOs, while willing to become more involved in this service area, expressed wariness about how much of a growth opportunity for them it might prove to be.

## **Providing place-management services**

Looking back and looking forward there was a large movement in the number of panellists placing high importance on coupling place management services with housing services (Figure 5).

This reflected widespread recognition across the panel that this activity will inevitably emerge as a requirement following the outsourcing of public housing management.

I call this community renewal. I see this as our key strategy if we can get it to work. It's what governments are really looking for. More than just someone who comes in and collects the rent and does the maintenance.

For some, this strategy was also an essential part of successfully developing and managing mixed tenure housing developments (see below).

For those organisations currently involved in public housing transfers, place management approaches were already established. Others were closely considering how to develop these skills in their organisations or their options for partnering with place management specialists.

For one organisation that was heavily involved in place management, an unintended but welcomed outcome had been growth in employment of residents.

We have created an environment where people are living and working and managing their environment.

## **Developing sub-market rental ('affordable') housing**

Development of sub-market rental housing was expected to become a significant activity for a growing number of organisations over the next three years (Figure 5). To a large extent moves in this direction had been driven by the availability of NRAS funding for the provision of affordable rental housing (see Chapter 3), but other government programs were also

influential—for example, various transfer schemes in Queensland, NSW and Tasmania that included opportunities for the development of affordable housing and set aside for the inclusion of affordable housing in major developments that applied in several states.

Two CEOs stressed that diversifying rental products to improve rent revenue would be essential to business success across the industry.

If people don't do that they'll go broke.

Many organisations were also strongly interested in achieving product mix in individual housing projects, as discussed next.

### **Developing and adapting products and services to meet the needs of older people**

Responding to the needs of older people seems to be a key area where new investment will be needed, but the sector has been slow to recognise [this] and take [it] up.

Drivers of anticipated expansion into this area indicated by different organisations included:

- The need within the existing tenant population for adaptations or for rehousing to more suitable accommodation.
- The need for more specialised rental supply as the population ages.
- The need to reconfigure public housing portfolios and offer smaller accommodation for older tenants living in large houses. This need was not being met by public authorities because of their lack of access to capital. However, using public land for redevelopment and private borrowing for construction was considered to offer a feasible model for NFPs.
- Opportunities to partner with market or NFP suppliers of retirement living developments to include more affordable/social rental supply, subject to development capital being available.

A couple of organisations, now offering generalist housing services, were anticipating growing the provision of affordable rental housing for older people into a key element of their core business.

### **Improving the energy/environmental performance of your housing stock**

While not a core activity, 80 per cent of CEOs were well disposed to improving the environmental performance of their housing stock in the next three years and several described their attempts to adopt a more structured approach to reducing their organisation's environmental footprint.

We are doing an environmental strategy and are conscious of utility costs for residents into the future. We want to try and improve what we do. We are funded for a program to put insulation in our properties because that has been identified as a way of improving performance.

Motivations for initiatives that had already been taken were to reduce operating costs (e.g. by having energy efficient systems in boarding and rooming houses run by the organisation) and to assist tenants (e.g. by using high energy efficiency project designs or offering energy saving devices at wholesale rates).

### **Developing successful models of mixed tenure housing**

Various ways of delivering mixed tenure housing had been tried by the leading NFP development organisations and 70 per cent of organisations expressed strong interest in pursuing this model in future (Figure 5). There was hope that by taking a more commercial approach and exploiting profitable housing markets, NFPs could develop, or partner in the development of, projects that offered a mix of market and sub-market housing forms, thereby achieving both social and financial benefits.

As perceived by one CEO, mixed tenure was ‘a means to an end’ that had become a more significant financing strategy, albeit a risky one, because of the scarcity of development capital in the sector. However, another emphasised its social benefit.

This model is exploring the idea that you can infuse this sort of thinking in private developers without necessarily affecting their profit return, but what you actually end up selling is the idea that you are creating a cohesive, long-term community.

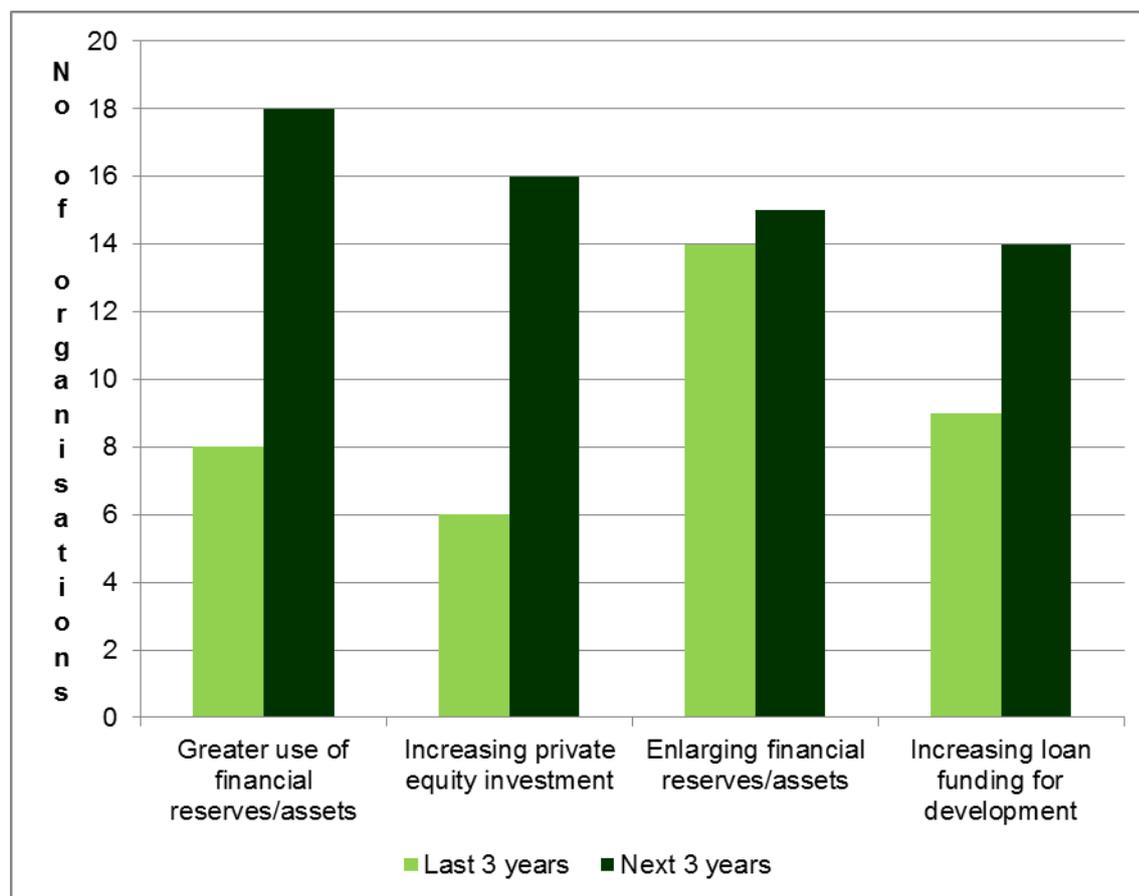
#### 4.2.2 Financing strategies

The survey and interviews revealed an intensifying search by all organisations for new financing options being driven by the downturn in the availability of government capital. As one participant conveyed (quoting a conference presenter):

If your business model for growth is government capital and there is no government capital funding then you don’t have a business model.

Figure 6 below illustrates the recent change in importance of various financing strategies that organisations rated of critical importance to their future growth and development. These concerned: enlarging and making better use of their own resources; attracting a new class of investors; and being able to access and use loan finance on appropriate terms.

**Figure 6: Most frequent financial strategies, next three years compared to last three years**



Source: 2013 Australian Panel Survey

#### **Making greater use of financial reserves and assets to fund housing development**

Ninety per cent of the surveyed organisations considered that making greater use of their own resources would be of high importance to their future expansion, up from 40 per cent looking back three years (Figure 6).

You've got to make the assets sweat.

This shift in positioning is likely to reflect the greater financial and asset capacity held by the larger organisations in the sector that has resulted from recent growth. Nevertheless, organisations had different prospects for growing their business through this means depending on the scale of their asset holdings, the extent to which their existing assets were already leveraged, and the degree of autonomy surrounding the use of the assets they managed or held title to.

While government was not the main driver or risk taker under this strategy, government decision-making remained crucial for many organisations: for instance, via its responsiveness to proposals for asset sale or reuse or through the terms surrounding prospective transfers of public housing.

[Organisation] keeps putting forward proposals but government responses are very slow.

### **Increasing private equity investment (e.g. sales and leasehold products, partnering with developers/institutional investors)**

The cost of mortgage finance and the difficulties experienced after the GFC in obtaining longer term loans, alongside the decline in government capital investment, had prompted a lot of interest in identifying different types of investors whose investment needs better suited the affordable housing business model. Eighty per cent of panellists stressed the importance into the future of increasing investment from private equity players and institutional investors and several were working on specific proposals. However, while a group of organisations was actively pursuing new domestic and international financing options (and had committed scarce resources to this task), several panellists expressed scepticism that this could ultimately be achieved without government leadership and backing, such as via a national fund raising mechanism and some form of government guarantee (the case for which has been explored in Lawson et al. 2014).

I think governments in Australia need to be more entrepreneurial. I don't see any other way [than guarantee-backed finance]. I don't think there's been enough review of Defence Housing and the way government has supported that.

### **Increasing loan funding for housing development/redevelopment**

Raising loan finance had become normal business in recent years and more organisations in this survey had taken on loans or established a line of credit since the last survey or were poised to do so, after making necessary constitutional changes. Some longer terms deals (eight to 15 years) were reported. The main limitations on this strategy that were discussed related to: the risk appetite of Boards for higher levels of gearing; not having the capacity to service additional debt at the current operating scale of the organisation; and short loan terms.

We need a tenure of debt that reflects the asset; we have 30 year assets and should have 30 year debt.

### **Enlarging financial reserves and surpluses**

In recognition of their growing long-term asset responsibilities, most organisations had been moving steadily over the last three years to increase reserves for longer term maintenance. Building cash reserves via revenue seeking was also highlighted as an important strategy by most organisations. Having larger reserves and surpluses gave organisations access to working capital for development ventures without relying on expensive loan funds or high levels of pre-sales.

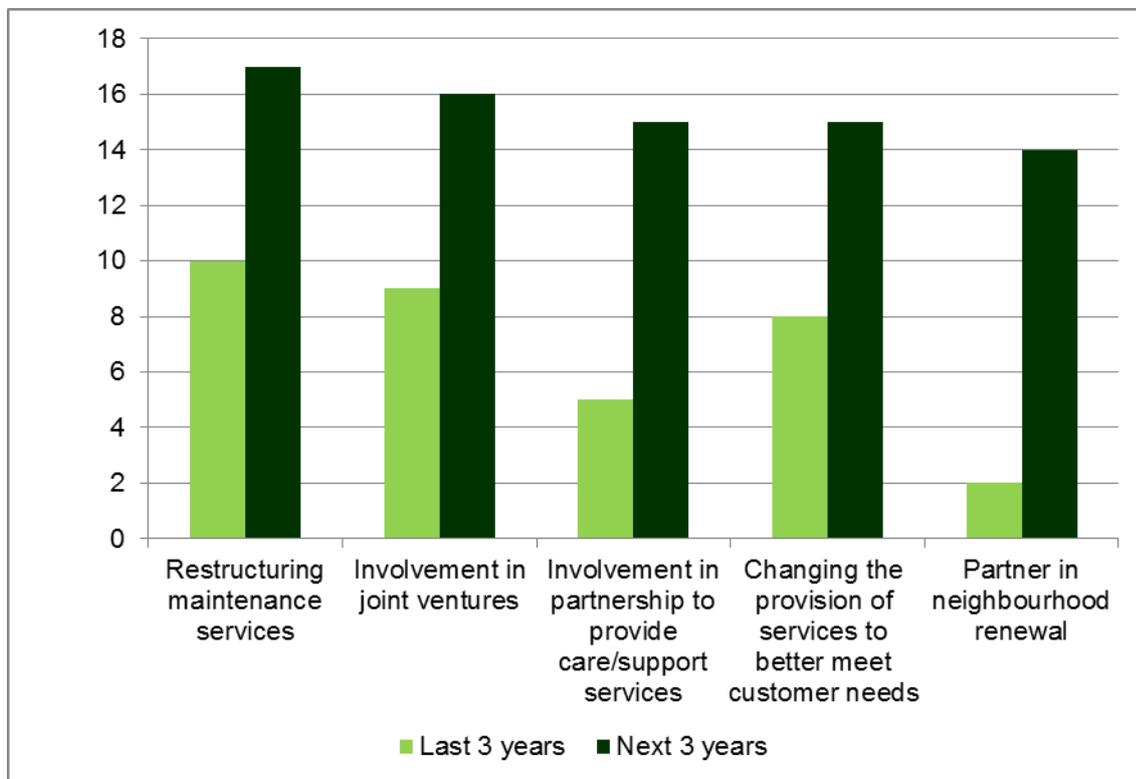
This [our surplus revenue] is really building now. That gives us strength—we can invest this how we wish...it is not quarantined.

With different types of people on the board, [organisation] is now thinking about how we use these funds more creatively—do we need to have millions sitting in term deposits.

### 4.2.3 Operational strategies

Among the strategies of greatest importance to the majority of panellists in the next three years, five were broadly concerned with the development and adaption of operational processes and relationships: restructuring maintenance operations; investment in joint ventures with private sector partners; changing the provision of services to better meet customer needs; being a partner in neighbourhood renewal; and being involved in a large number of partnerships and coalitions concerning care and support services for tenants. Figure 7 compares the number of panellists rating these strategies of high importance in the last three years and in the next three years. Below we describe how panellists talked about the importance of these issues.

**Figure 7: Most frequent operational strategies, next three years compared to last three years**



Source: 2013 Australian Panel Survey

#### **Restructuring of maintenance services**

With the rapid expansion of tenancies and properties under management in the sector it was unsurprising that organisations were increasingly focusing on how maintenance services were delivered. Recent growth had provided organisations with the opportunity to adopt more efficient models of property management. Also a major benefit of the large IT investments that had occurred (see Section 3.4) had been a move to more automated systems that reduced labour costs and provided more reliable information.

The reasons given by panellists for emphasising this strategy included:

- Reducing costs, especially through having more efficient systems.
- Maintaining tenant satisfaction.
- Preparing for public housing transfers.

→ Informing long-term decision-making about assets.

The dispersion of stock as a result of the implementation of the SHI and some stock transfers had highlighted problems with maintenance services and it was difficult in some cases to drive economies of scale through master contracts. Where local tradespeople and multiple local suppliers were used, this was considered to add to costs. A further challenge for some organisations was the changing nature of stock, in particular, an increase in multi-unit development where facilities management and maintenance was an issue, not only unit maintenance.

We need to get much smarter and much cleverer at maintenance.

Discussion of this issue made it apparent that there were diverse approaches to property management across the sector and best practice was not yet well evidenced.

### **Investment in joint ventures with private sector partners**

Partnering with private partners was rated highly as a future strategy by 80 per cent of panellists (see Figure 7). Many organisations had embarked on their first joint venture project in the last three years, such as by using their NRAS allocations, with a view to receiving a share of development profits to enhance their reserves and potential for independent growth. While these were commercial arrangements, they appeared to be in the main, small scale. Some concerns were expressed about the risks if such joint ventures were to be scaled up.

The structure of that deal worked well at small scale but at a larger scale it would expose us to an unacceptable level of risk.

### **Being involved in a larger number of partnerships and coalitions concerning care and support services for tenants**

Reflecting the continuing practical challenge of sustaining tenancies, this strategy was becoming increasingly important.

The missing ingredient for us at the moment is an effective model of support focused on sustaining tenancies for high needs people coming into public housing and community housing—to have an effective, flexible model of support—focused on keeping people housed.

A trend to developing more strategic partnerships with a smaller number of organisations also emerged in discussions with panellists.

### **Changing the provision of services to better meet customer needs**

Many panellists discussed the importance to their organisations of being able to offer additional services to their tenants and create pathways for them to improve their lives and their independence.

We are not focused necessarily on adding more houses but what we do with the individuals inside them.

Several organisations had earmarked specific funds for community engagement activities or were tapping into philanthropic sources of funds, and several active attempts to develop sector-sponsored shared ownership schemes were discussed. However, the question of how to fund more of this kind of activity was also raised.

It is very important to do these things and not become inert. So we are now asking the question: How could we do more of these things and afford it? Certainly it will not be sustainable if we don't find financial efficiencies—for example, through scale.

## Being a partner in neighbourhood renewal

An aspiration to being a partner in neighbourhood renewal was much more common among panellists now than three years ago (Figure 7). A key driver of this shift was expectations arising from conditions of transfers of former run down public housing. However, a second but perhaps less widely acknowledged reason was organisations coming to recognise the need to be proactive about their future plans for existing assets already under their management that currently achieve poor financial and social outcomes and are not viable for the medium to long term. Several organisations indicated that they had portfolios that may provide small scale redevelopment opportunities (in contrast to recent approaches to large sites, e.g. the PPP model adopted for the Bonnyrigg estate in NSW) that could be attractive to governments (the owners) and could be undertaken at arm's length by NFPs using private finance.

## 4.3 The longer term future

Questions to the panel about their organisation's and their industry's longer term future were included in the survey and interviews to sharpen the focus on the most critical adjustments facing the NFP housing sector and its leading agencies. Views of the future were probed via an open survey question concerned with anticipated strategic decisions, interview questions concerned with aspects of longer term business sustainability and a further question about what strategies would be most important to the future of the sector as a whole. Results for each of these indicators are discussed in turn below.

### 4.3.1 Major anticipated organisational decisions in the next five years

**Table 9: Classification of anticipated decisions in next five years**

Type of decision	No. of cases
Generating new business, e.g. home ownership options, social enterprise options, market priced housing, private rental management, commercial residential development	10
Organisational restructuring/capacity building; partnering/alliancing	9
Engaging in public housing transfers and taking a lead in associated neighbourhood renewal	8
Expansion into new areas	7
Developing housing options for people with disability	6
Diversifying funding sources	5
Other, not classified	14

Note: Panellists could nominate up to three decisions per organisation

Source: 2013 Australian Panel Survey

In the survey, panellists were asked to identify three critical decisions that their organisation faced in the next five years. While specific decisions cannot be reported, a classification of the types of decisions being faced has been made—as set out in Table 9 above. Decisions concerned with moving into new business areas dominated the set of anticipated decisions that were recorded. Specific business development areas that were nominated included offering home ownership options, developing social enterprise options, developing market priced housing, becoming licensed for and taking on private rental management and, for six organisations specifically, whether and how they could work with the new NDIA (see Section 3.2.1) to offer a new or expanded service option for people with disabilities.

Another critical decision for eight organisations concerned whether to participate in public housing transfers and on what terms. Recent transfers and outstanding tenders have offered recipient NFP landlords quite different business opportunities. While some only concerned

transfer of the management of dwellings and (for estate based dwellings especially) surrounding neighbourhoods, others involved property upgrading, redevelopment opportunities and/or supply of land for additional house building. Also varying has been the extent to which asset control passes to the new landlord and government requirements for leveraging assets passed over and/or surpluses generated after transfer. The specific terms of transfer, therefore, directly shape the business activities that NFPs can develop subsequently.

Following the introduction of the NRSCH (Section 3.2.2), seven organisations were facing decisions about moving into new geographic areas and/or becoming a national provider as a means of scaling up—decisions to expand geographically would maintain the trend to an industry dominated by large national providers that was highlighted in the previous study. Organisational development strategies (e.g. new business structures, mergers or new alliances) and adoption of new financing strategies also featured among the major decisions anticipated in several organisations.

#### 4.3.2 *Business sustainability*

Panellists were asked to comment on the longer term (beyond five years) sustainability of their businesses and what they saw as key barriers to business sustainability across the sector. Specific information about reliance on NRAS going forward and the size of development pipelines was also sought.

While answers to questions about sustainability were discursive (reflecting the varied origins and different scales and types of organisations included in the study), a number of general points emerged as follows:

- Social rental housing businesses are sustainable in the medium term. This meant that operating positions could be maintained and projected obligations (e.g. maintenance of existing assets and debt loads) could be met for the foreseeable future. Major factors contributing to this situation included the revenue benefits from including RA in rents and the scale benefits that have arisen through past organisational mergers, the acquisition or transfer of SHI dwellings and other targeted government investment into the sector. Prospective changes to RA were, therefore, cited as a key risk factor.
- While organisational and business systems development were important strategies going forward, adequate governance, organisational capacity and business systems (with supporting IT) were in place to support current operations.
- The major area of concern for the future was with sustaining growth—to achieve scale, to warrant future investments in capacity building and, more fundamentally, to address unmet housing needs. While there was enthusiasm across the panel for sourcing new funding and business opportunities (as discussed in Section 4.2), specific barriers to growth that were highlighted included: lack of funding for social housing; an inadequate framework for attracting private finance at scale; and ‘stop start’ policies of government. Nevertheless, some in the panel considered that parts of the sector were too locked in to ‘business-as-usual’ and reliance on government.<sup>22</sup> This reflected an underlying tension in the dialogue with panellists about the extent to which future growth was in their own hands or relied on whether government assistance was provided. One CEO summed up this tension in terms of the likely outcomes as follows:

Without government capital funding, housing associations will bust their guts to get growth, but it won’t be growth in housing for people who need it the most—it will be for the people who can pay 74.9 per cent of market rent.<sup>23</sup> There needs to be incentives for community

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<sup>22</sup> Observations like this were aimed at the NFP housing sector as a whole rather than at the leading edge organisations.

<sup>23</sup> Maximum rent charged by charitable organisations supplying affordable housing.

housing providers to house people who can't access the private rental market—people on the lowest incomes.

Turning specifically to reliance on NRAS, it was apparent that most organisations had a wary outlook and had factored in uncertainty about the continuation of the scheme following a change of government (see Section 3.2.1). At the time of the interviews in March-April 2014 about half the organisations in our sample had outstanding round five bids—most were modest but a few were sizeable—and others were anticipating additional NRAS management opportunities if the original 50 000 dwelling target was retained. Nevertheless, it was generally reported that while a reduction in the scale of the NRAS program would impact organisation growth targets (and ambitions for scaling up) it would not affect core business viability. For NRAS-funded projects that had already been delivered or were in the pipeline, specific plans were in place for the expiry of the scheme's 10-year subsidy and compliance period. These plans involved a variety of strategies including paying down debt, refinancing, increasing rents and sales to tenants or on the open market.

A further perspective on future outlook was given by considering development pipelines—that is, dwellings approved or under construction. While dwelling numbers varied, pipelines were reported to be smaller than in the growth period of the second half of last decade, which was stimulated by the SHI and other government investment. The largest pipeline involved around 220 properties; more typical sizes were 50 to 150 dwellings (Table 10). Pipelines typically comprised a small number of small projects—that is, yielding from five to 20 houses each. Financing sources included: organisational reserves; approved NRAS incentives; specific deals with state governments (in some jurisdictions only)—for example, to build on surplus government sites; joint ventures with private partners (some with government investment) and specialised supply contracts. Sustaining a continuous pipeline of development and achieving larger projects were identified as significant challenges, unless and until a policy breakthrough on transferring public assets for renewal could be achieved.

**Table 10: Estimated dwellings in delivery pipeline by organisation**

Dwelling pipeline	No. of organisations
None	3
<50	4
50–100	3
100–200	8
>200	2

Source: estimates derived from interviews and annual reports

#### 4.3.3 *Most important adaptation for sector as a whole*

At interview, panellist views were sought about which adaptation, of those they had collectively rated as of high importance to their organisations (Section 4.2), would be most important to the success of the sector as a whole. The most frequent type of response to this question concerned organisations having greater scale with a view to achieving cost economies and greater traction in the market place and with governments. If forward growth plans could not be achieved, panellists predicted that mergers and amalgamations would become necessary to control costs, resulting in fewer players than now.

[The most important strategy is] making sure you have the capacity and sophistication to control costs and to do that you need scale. You have to invest in your future but you have to get there—you cannot sustain growth without scale.

A second group of responses concerned achieving the suite of financing strategies discussed in Section 4.2.2 so that organisations could enhance their financial capacity, create business opportunities and achieve growth independent of government.

The financial strategies are critical...this includes making use of reserves and assets, sale of assets, joint ventures and trying to create financial reserves and surpluses.

Another shared response to this question was that future success lay in what products and services the sector offered—examples given by different panellists included good place management services, specialised supply (e.g. for older people and people with disability) and mixed tenure developments that are successful in the marketplace. As explained by one panel member, demonstrating value through mixed tenure was at the heart of what would be required.

For the sector ... if we want to be taken seriously by key decision-makers we need to demonstrate that we have a capability to solve various problems and not just to replicate public housing that has concentrated disadvantage. As a sector, we have to show that we have created products that the market will purchase as well. Cross subsidise the social housing—good for social mix; good for government; builds a capability in the sector. Then good place management so that those projects are successful—held up and promoted. In addition to new developments that are mixed tenure and thriving and then to be able to tackle neighbourhood renewal—redeveloping poor public housing into mixed tenure and thriving projects.

Finally, in a critical reflection, one panel member nominated industry capability and transparency as being important to future success.

Unless agencies operate commercially they will not get the assets. The [...] Government does not think the sector has the capacity so they still have things to prove as an industry—understanding why they do things, the profitability of business elements, commercial discipline...

Across the panel, therefore, the most important strategies could be summed up as achieving organisational scale, having alternative sources of finance to government, adding value through the products and services offered, and operating commercially.

#### *4.3.4 Chapter overview*

A clear picture of the strategies that leading NFP housing providers are engaging in or plan to engage in in the near future has emerged from surveying and discussing in more depth with panellists their organisation's (and sector's) strategic positioning. In the face of uncertainty about government directions and a desire for greater independence, organisations have been striving to diversify their business and become more self-reliant. They have also been searching for alternative funding strategies and sources of finance (to government) but with limited success so far.

In the immediate future, organisations seem to be strongly focused on a small number of business expansion strategies mostly linked to government priorities—for example, in the aged and disability service areas—and on better management of former public housing and supporting its residents. Mixed tenure developments that give organisations the opportunity to share in profits from developing and selling market housing, while also promoting social inclusion, were also highly rated. In the longer term continuing business diversification—for example, into home ownership options and taking up more commercial activities—was also rated as important by many.

Business-as-usual scenarios for individual organisations appear to be sustainable. However, the ability to increase the current level of services for low-income households without further government support was questioned. Attention to organisational and business systems

development over the last three years has meant that organisations believe they have the capacity for and are well prepared for further growth. For the sector as a whole, leading CEOs are of the view that sustained growth strategies and achieving larger scale entities are necessary to leverage organisational capacities, improve efficiency and to promote the sector's potential to government and market partners.

## 5 A LONGITUDINAL VIEW (2008–13)

This chapter addresses the question: ‘How do the responses of established housing enterprises change over time?’ by comparing responses for Waves 1 and 2 of the Australian Panel Survey. As described elsewhere in this report, the two survey waves, completed in 2011–12 and 2013–14 respectively, followed the same methodological design (Section 1.4 and Appendix 1).<sup>24</sup>

This timing has enabled us to monitor the positioning of leading housing NFPs during a period of significant expansion and rapid change and to assess how they are responding to significant changes in the policy environment and in respect to performance expectations. The analysis presented is centred on the results of the two surveys using those survey items that were common to both. However, it is important to emphasise that the scope for statistical analysis with this data is limited, as (1) it is derived from a small (though strongly representative) sample (14 organisations) and (2) the data is ordinal in nature, meaning the intervals between points on the scale cannot be quantified. Only brief findings are presented below because we found little change in results across the two survey periods. A set of supporting figures and tables are included in Appendix 4.

### 5.1 Continuity of values

In terms of values, the mainly professionalist, entrepreneurial, private sector-oriented attitude of these organisations did not change significantly over the two years between the two waves and there continued to be a spread of views along the spectrum of having a business or a social ethos and being geographically footloose or not. In the main, this result signifies that panellists had a very stable ‘self-image’ of organisational values across the two waves.

The value position that most differentiated panellists in Wave 1 was whether a business or a social ethos or a balance between the two prevailed in their organisations (Milligan et al. 2013a, p.38, Figure 5). A spread of views around this value dimension was repeated in Wave 2 (among the original panellists) resulting in a neutral median score. However, examination of individual scores (not shown) showed some movement by individual panel members (excluding cases where the panellist had changed). While half the original panel had not shifted their position, two continuing panellists have moved more towards seeing their organisations as a business (as it developed) and four saw it as becoming more socially oriented.

Wave 1 and Wave 2 positions on matched pairs of values are presented in Appendix 4, Figure A2.

### 5.2 Trends in strategic positioning

In both Wave 1 and Wave 2 the anticipated future strategic positioning of the NFP housing sector on matched pairs of strategic trade-offs tended towards a broader range of clients (rather than low income only); a wider geographical scope to operations; and more of an emphasis on home-ownership, liveable neighbourhoods and non-housing activities rather than rental housing exclusively.

The longitudinal analysis enabled us to examine whether Wave 1 predicted changes of priorities over the next three years were realised in terms of *actual* change experienced between the two surveys, a period of about two years. Actual changes in organisational strategy recorded in Wave 2 that did not reflect earlier ambitions included the introduction of products and services other than rental housing, having a more diverse client base and moving

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<sup>24</sup> While the longitudinal analysis covers the same organisations at the two separate time points, there were three instances of different panel members responding in Wave 2 to Wave 1. In other words, while we report the results for a matched sample of organisations, it is not a fully matched sample of individuals.

away from a focus on specific localities. Appendix 4, Table A1, compares anticipated positioning at the time of the Wave 1 survey with the actual positioning at the time of the Wave 2 survey for 13 matched pairs that were common to both surveys.

Examination of future predictions in Wave 2 (not shown) shows that organisations intended to 'stay the course' on most of their planned strategies, but the evidence from the last two years suggests strategic shifts may take longer to achieve than first anticipated.

### **5.3 Change factors and their importance over time**

The role of change factors, both in terms of the extent of change experienced and in terms of their importance as drivers for change was similar across the two waves. The influence of the national and state/territory governments, investment in IT and geographical area of operation were business drivers perceived to be undergoing the most change. They were in the main also highly ranked as continuing important drivers for change in the way organisations operate. Lowest and highest ranked change factors and their importance in Waves 1 and 2 are compared in Appendix 4, Tables A2 and A3.

Across the two survey periods a significant shift can be observed in how panellists rated the importance of qualitative housing demand which moved from being one of the least important change factors in Wave 1, to being ranked among the top six ranked factors in Wave 2 (Table A3). This suggests that organisations are coming under growing pressure to meet housing demand. Changes in market conditions (see Section 3.3) and the growing scale and profile of the larger housing NFPs (those represented in this study) could be postulated to be contributing to this effect.

### **5.4 Shifts in adaptation to changes**

The list of particular strategies that were nominated across the original panel as most important in adapting to changes over the next three years was also strongly overlapping between Wave 1 and Wave 2. Table A4 in Appendix 4 compares the eight most important strategies for the next three years at the time of each of the Wave 1 and Wave 2 surveys.

The most important persisting strategies were finance related, including increasing private equity investment and making greater use of financial reserves and assets and increasing revenue from joint ventures and sale of homes; that is, sourcing finance from elsewhere to government.

In both Wave 1 and Wave 2, panellists indicated that most strategies presented to them would, by and large, increase in importance from the last three years to the next three years (details not shown). Of the 32 strategies listed in Wave 2, there were 26 significant increases in importance and no significant decreases in importance from the last three years to the next three years.<sup>25</sup> This is further evidence that panellists aspire to adoption of diverse strategies and continue to wrestle with how best to grow and expand their businesses, as also discussed in Chapter 4.

### **5.5 Chapter overview**

In overall terms, there were very few differences between the results of Waves 1 and 2 of the surveys conducted among the same organisations. This has arisen despite the period covered being one of rapid change for organisations and fluidity in the external environment. The continuity of most of the positions taken by the original participating organisations could partly be related to the short time period between the two studies. However, it could also be an indicator of the reliability of assessments made by panel members using the Delphi methodology.

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<sup>25</sup> Changes in significance were measured by comparing average scores on a strategy for each of the two survey periods.

The overall findings of the longitudinal analysis also lend support to our overall interpretation of the Wave 2 findings and documentary evidence of the environment in which the sector has been operating (Chapters 2 to 4). Our findings are also consistent with the hypothesis that the leading NFP housing organisations are continuing to evolve as hybrid organisations with a mix of behaviour 'traits' from public entities, private firms and the third sector.

## 6 A COMPARATIVE VIEW

The Wave 2 survey was undertaken in parallel with similar research on NFP housing sectors in England, the Netherlands and the USA (see Section 1.4). Building on a more limited comparative analysis presented in our previous study (see Milligan et al. 2013a, Section 7.2), this has provided the opportunity to further appraise the form, role and strategies of Australian NFP housing providers by comparison with counterpart entities in other countries. This chapter directly compares the Australian Wave 2 findings with results from the first two of these international studies. Unfortunately, because of delays to the American fieldwork, analysis relates only to Australia, England and the Netherlands.

The country comparisons presented below are based largely on NFP housing provider responses to the 2013 parallel Delphi panel surveys, rather than on the associated interview data.<sup>26</sup> For international comparability, a core set of common questions was included in each national survey which, for each country, also included additional questions addressing local issues.<sup>27</sup> This chapter draws on the resulting databank and on commentary provided by each national research team on possible explanations for the observed similarities and differences. Findings presented here are limited to survey items where the results showed either strong similarity or contrast in scores between panels. These are presented under the headings of values, strategic positioning, organisational drivers and future strategies. As certain relevant questions were asked of respondents in only two, rather than all three, countries direct comparison has sometimes had to be limited to two cases.

First, however, to help in interpreting the comparisons that follow we briefly compare and contrast the NFP sectors of the three countries and their recent experience in terms of policy and economic contexts. Crucial to interpretation of these highlighted comparisons is recognition that the Australian sector is far smaller and more recently established than either its English or Dutch counterpart.

### 6.1 Not-for-profit housing industries in Australia, England and the Netherlands

#### 6.1.1 *Sector size and profile*

Australia, England and the Netherlands differ substantially in terms of housing systems and institutions. By comparison with Australia, the NFP providers (or housing associations (HAs)) operating in the other two countries work on a far larger scale and are much longer and more securely established. At around 31 per cent of all dwellings in the Netherlands (Boelhower & Priemus 2014) and 10 per cent in England (Perry & Wilcox 2014), housing associations' share of the national dwelling stock is considerably greater than in Australia where the comparable figure remains under 1 per cent (AIHW 2013). Moreover, the English and Dutch housing associations are comparatively asset-rich operators, unlike in Australia where NFP management of a state-owned asset remains the dominant model. In England, for example, the national stock of 2.3 million housing association (HA) properties was valued at some £70 billion (Aus\$125 billion) in 2011–12 (Perry & Wilcox 2014, Table 71).

Not only is the NFP housing sector considerably smaller in Australia than in England and the Netherlands, but individual providers typically manage much smaller portfolios. In Australia the average number of tenancies managed by CHOs is estimated to be well below 100,<sup>28</sup> although by 2013 there were 20 organisations with more than 1000 properties in management (some

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<sup>26</sup> As the coverage and approach to interviews in each country diverged—this qualitative material was used to inform national explanations rather than to make direct comparisons.

<sup>27</sup> Of the 101 questions in the Australian survey, 55 were also included in both the English and Dutch surveys.

<sup>28</sup> Authors' calculation based on published data (AIHW 2013; 2010).

owned),<sup>29</sup> with these landlords responsible for over 40 000 homes—some two-thirds of all sector-managed dwellings. In England, by contrast, the average stock size in 2010 was 1800, while the largest 100 providers (those with at least 5000 homes) controlled 73 per cent of all sector stock, and four entities each owned more than 50 000 homes (Pawson & Sosenko 2012). In the Netherlands, the average size of HAs had risen to 5600 by 2008, having almost doubled since 1997 (van Bortel et al. 2010).

### *6.1.2 Business capacity and diversification*

Unlike the majority of their Australian counterparts, most larger housing associations in England and the Netherlands have long experience of housing development—often on a major scale. Operating under systems where capital investment is substantially underpinned by both private finance and public subsidy, many associations in these countries are highly geared in terms of debt-to-income ratios and therefore exposed to significant financial risk. Given the need to effectively manage such risk, as well as to engage with increasingly complex ‘investment products’ they have necessarily developed highly sophisticated business planning capacity.

In Australia’s relatively youthful NFP housing sector, provider interests have recently been extending beyond social housing (Milligan et al. 2013a). In part, such moves have been stimulated by the cessation of government investment programs (see Chapter 3). Both in England and the Netherlands, however, such a direction of travel is both profound and long-established. In England, almost half (46%) of homes funded for construction by social landlords in the period 2008–09 to 2010–11 were designated for ‘intermediate rent’ or low cost sale (Pawson & Wilcox 2013, Table 2.4.2). More latterly, post-GFC, some large providers have switched their emphasis away from housing for sale and towards market rental housing (development and management). Likewise, responding to government signals and the absence of public funding for social housing, Dutch housing associations focused largely on development of market housing in the period from 2002 (Boelhouwer & Priemus 2014).

While Australia’s NFP providers aspire to move beyond their core interest in rental housing activities in the future (Chapter 4), housing associations in both England and the Netherlands have been diversifying into other realms for many years (Nieboer & Gruis 2014a; Pawson & Mullins 2010). In a process ongoing since the 1990s, many of England’s housing associations have sought to transcend their social landlord identity, transitioning into broader-based social enterprises—for example via the development of cross-subsidy-generating businesses such as aged care provision and management (Harris & Marshall 2005). More generally it has involved initiating or supporting ‘community projects’ and services to embody the slogan ‘In business for neighbourhoods’ (NHF 2012). Indeed, in 2010–11, England’s housing associations were documented as investing almost £750 million (Aus\$1.35 billion) in delivering over 9000 neighbourhood services and providing or maintaining 1500 community spaces (Harris & Marshall 2005). In this realm, English HAs have reportedly been much more active than their Dutch counterparts which, by comparison, ‘operate a far leaner operation’ (Rickard 2014, p.1).

### *6.1.3 The contemporary policy and economic climate*

In the wake of the GFC, NFP housing providers in all three countries have experienced more volatile and demanding conditions. In England and Australia while public funding was initially ramped up through stimulus investment programs, these proved short-lived. In Australia (see Chapter 3), the one-off \$6 billion boost provided by the SHI had run its course by 2013 and (subsequently confirmed) cancellation of any further allocations of 2008-announced NRAS incentives was already anticipated. By 2012–13 government grants to housing associations in England had been cut by 75 per cent on the peak figure just three years earlier (Perry & Wilcox 2014, Table 59). However, with capital subsidy per dwelling cut from £51 000 under the 2008–

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<sup>29</sup> Figures drawn from CHO annual reports and registrar websites supplemented by estimates for missing data.

09 to 2010–11 program to just £19 000 under its successor, the scale of development output has been largely maintained. But under this regime, development comes at the price of a substantially heavier debt burden and the associated need to charge rents at up to 80 per cent of market levels rather than the 44–50 per cent typical under the former regime (Perry & Wilcox 2014, Table 72).

Moreover, especially in England and the Netherlands, HAs have had to contend with revenue challenges triggered by government austerity policies—especially in the form of increased tax exposure in the Netherlands (Boelhouwer & Priemus 2014) and deep cutbacks in tenant social security payments in England under the government’s ‘welfare reform’ program (Power et al. 2014; Wilcox 2014). In both these countries, the post-GFC housing market slump also imposed considerable financial stress on many housing associations—especially those with devalued stocks of unsold homes built for disposal under cross-subsidy programs.

While compounded by the GFC and by associated government austerity measures, the recently embattled state of the Dutch housing association sector also reflects some largely unrelated political and societal challenges. First, associations have faced increasingly negative public sentiment triggered by criticism of ‘high salaries, arrogance [and] fraud’ (Boelhouwer & Priemus 2014, p.225). Second, and partly connected with the above, confidence in the Dutch sector has been badly shaken by the Vestia affair—the €2 billion (Aus\$4.3 billion) in losses sustained by one of the country’s largest housing associations through fraudulent trading in financial derivatives (Boelhouwer & Priemus 2014). Third, Dutch providers have needed to respond to the 2005 European Commission ruling against their ‘unduly privileged’ status (Priemus & Gruis 2011). Accused of benefiting from ‘illegal’ state aid enabling them to compete unfairly with private landlords, housing associations were obliged, from 2009, to narrow their allocations policy by designating as their ‘target group’ households receiving annual incomes of less than €34 000 (Aus\$49 000) (Boelhouwer & Priemus 2014). In response to such pressures, the sector’s response (as characterised via the 2010 Dutch Delphi study) has amounted to ‘shifting back’ towards ‘defender’ strategies (Nieboer & Gruis 2014a).

Another dimension of the changing policy context in common across the three countries has been sector regulation. Since 2007, Australia’s CHOs have been subject to a rapidly evolving regulatory framework, requiring compliance with an increasingly well-defined set of regulatory criteria, mainly focused on competent governance and organisational viability (see Chapter 3). The Australian direction has to some extent converged with the post-2010 focus of HA regulation in England, where provider finances and governance (rather than housing service quality) have formed the central regulatory concern (HCA 2012). This accords with a contention that social housing governance should be recast such that ‘landlords are accountable to their tenants, not to the regulator’ (DCLG 2010, p.7) and a proposal that ‘tenant panels’ should play a key role in this. Meanwhile, consistent with their ‘embattled status’ (see above), Dutch providers have also recently found themselves needing to contend with much increased government scrutiny and direction (Boelhouwer & Priemus 2014).

#### *6.1.4 The panels*

In considering how far the results compared in this chapter fully ‘represent’ the NFP housing provider sector of each country, awareness of panel constitution is also important. While panel recruitment followed a broadly consistent approach there were some important differences to reflect national contexts, sector structures and regulatory and funding regimes.

In Australia (see Section 1.4 and Appendix 1), the selection approach ensured that the panel represented that element of the sector composed of larger and more diversified providers. In England, panel selection was stratified by geographical focus, organisational size and type. Hence, the cohort contained roughly equal numbers of smaller (under 5000), medium (5000–20 000) and large (over 20 000 homes) organisations, and represented landlords operating at national, regional and local scales. The sample of 31 participating organisations also included

local authority Arms Length Management Organisations (ALMOs)—entities set up to run council-owned stock on a contractual basis (and with housing association-type governance structures). As in Australia, preferred survey respondents were CEOs.

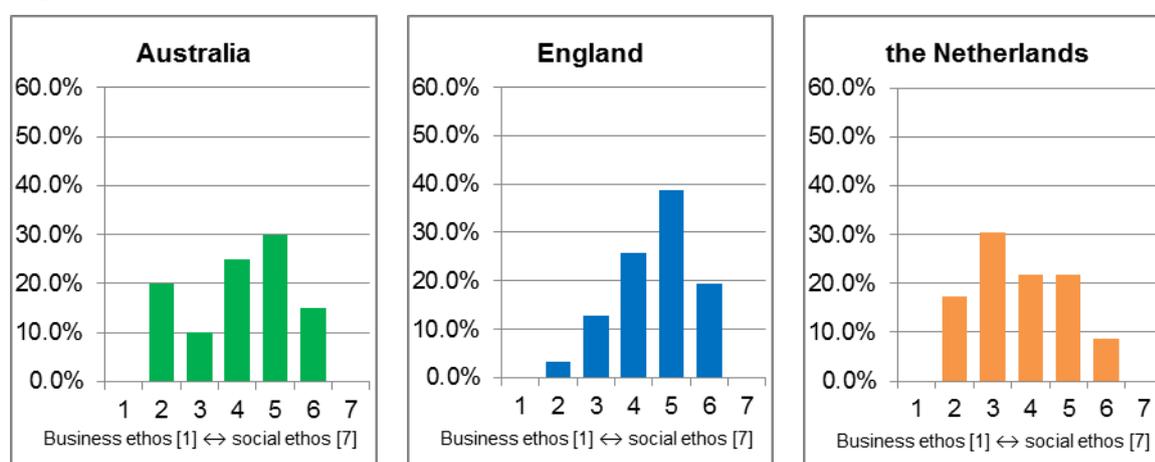
In the Netherlands, eligibility for panel membership was limited to HAs with their own policy staff and those that had been organisationally stable for at least two years (i.e. not subject to mergers). Thirty one associations participated in the initial 2010 panel. For the 2013 panel, first wave respondents were invited to participate once more, with 23 of those agreeing to do so. While again over-representing larger associations, the achieved sample was largely reflective of sector profile in terms of geographical distribution, financial situation and investment obligations. Unlike in Australia and England, survey respondents were not restricted to CEOs.

## 6.2 Values

This section considers two primary value propositions presented to all three panels.

First, in their positioning on the spectrum between ‘business ethos’ and ‘social ethos’, there was a more diverse set of ‘self-images’ among Australian CHOs and Dutch HAs than among English HAs (see Figure 8). This is perhaps a particularly notable finding given that English panel recruitment was structured to ensure representation (see above). Respondents in the Australian and Dutch panels had a wider spread and were more likely to define themselves as ‘business-oriented’. Thirty per cent of Australian providers and 45 per cent in the Netherlands were towards this end of the spectrum compared with only 15 per cent in England. The outlier position of English panellists here could reflect a number of ‘heritage factors’. It is still within living memory that the sector badged itself as the ‘voluntary housing movement’ with strong traditions of welfare provision. Further, for a significant proportion of England’s NFP landlords there are municipal roots which may mean there are lingering remnants of a local authority ‘welfarist’ culture. Lastly, the strongly ‘social’ ethos of sector regulation until 2010 is likely to have some continuing resonance.

**Figure 8: Business ethos versus social ethos<sup>30</sup>**



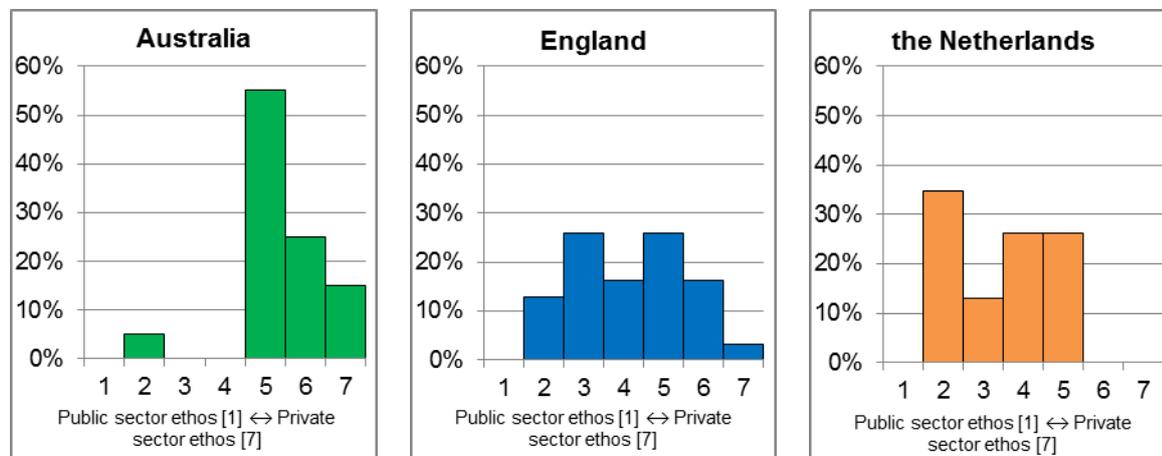
Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

Second, the Australian sector stood out as having a much stronger identification with a ‘private sector ethos’ than in either England or the Netherlands (see Figure 9). Follow-up interviews (in 2011 and 2013) suggest that the leading Australian CHOs were striving to differentiate themselves from the remainder of the community housing sector (comprising many small organisations) that has been ‘close’ to government—that is reliant on funded programs and contractually bound by them. Perhaps partly in response to their travails of recent years (see

<sup>30</sup> For all figures in this chapter, the y-axis represents the percentage of all organisations on each national panel. Scores on the x-axis represent how survey respondents positioned themselves on a seven-point scale.

Section 6.1.3), Dutch participants were the most strongly positioned at the public sector end of scale despite more than 15 years of clear separation from state funding. An alternative reading of these findings might be that the stronger ‘private sector ethos’ reported by Australian CHOs reflects the private ownership domination of Australian housing as a whole.

**Figure 9: Public sector ethos versus private sector ethos**



Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

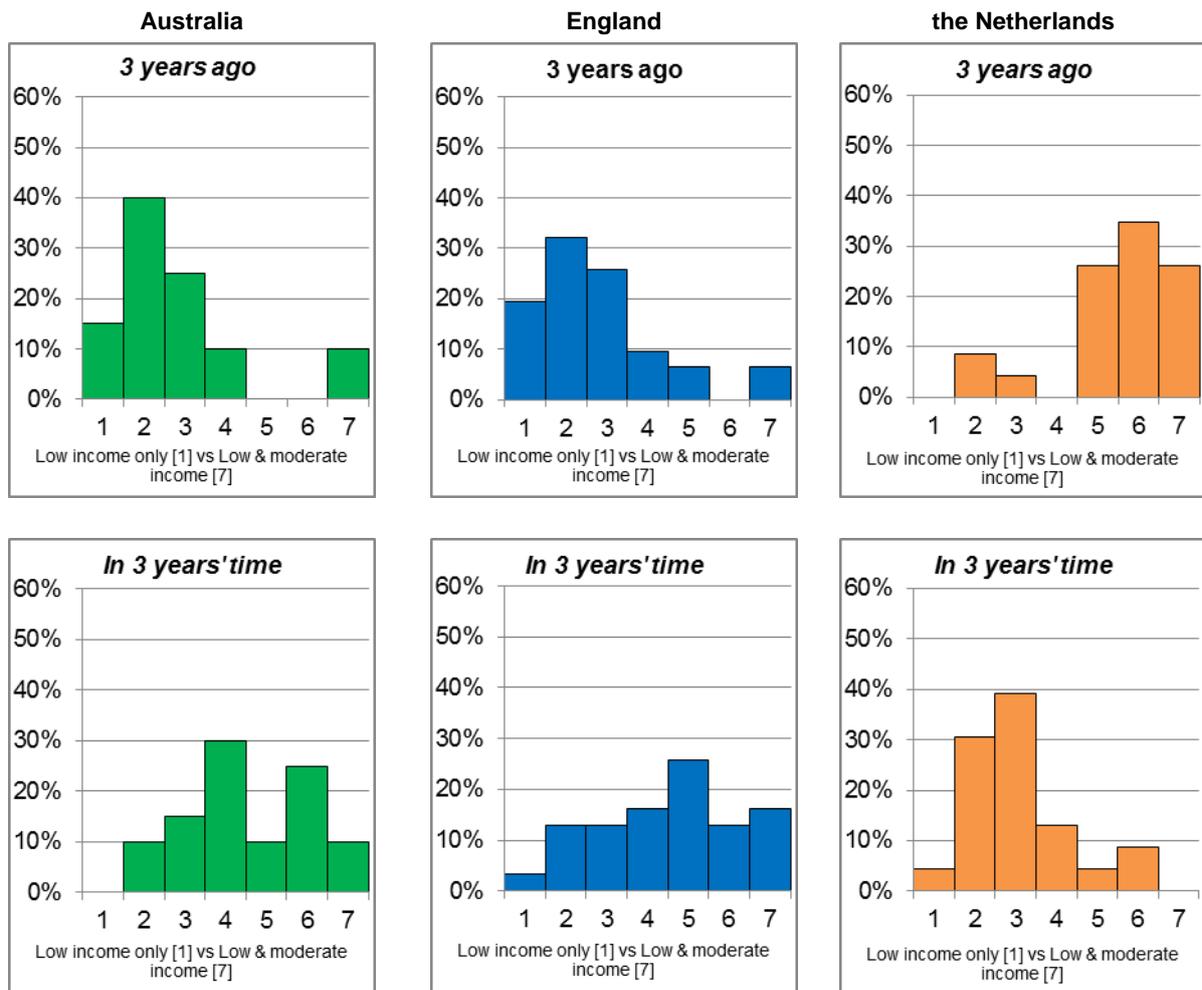
### 6.3 Strategic positioning

The comparisons in this section relate to the *business focus* adopted by Australian CHOs as compared with those of NFP housing providers in England and the Netherlands.

Across the six-year period covered by the survey, a tendency common to Australia and England was a move away from a focus on low-income groups and towards a more diversified client group (Figure 10). This could reflect actual and anticipated diversification in response to reduced government funding and an increased need to cross-subsidise provision for low-income groups—such as through growing involvement in ‘intermediate’ and market rental provision.

The different trajectory of the Dutch sector in terms of client mix (Figure 10) probably reflects refocusing on low-income clientele as required by the Dutch Government in response to European challenges about ‘unfair competition’ with private landlords in catering for middle income households (see Section 6.1.3). It may also reflect political priorities for achieving responses to growing affordable housing shortages and the more limited investment capacity of Dutch housing associations following the GFC and increased taxation that may have made them more risk-averse (Nieboer & Gruis 2014a).

**Figure 10: Focus on low-income groups versus focus on both low and moderate-income groups**

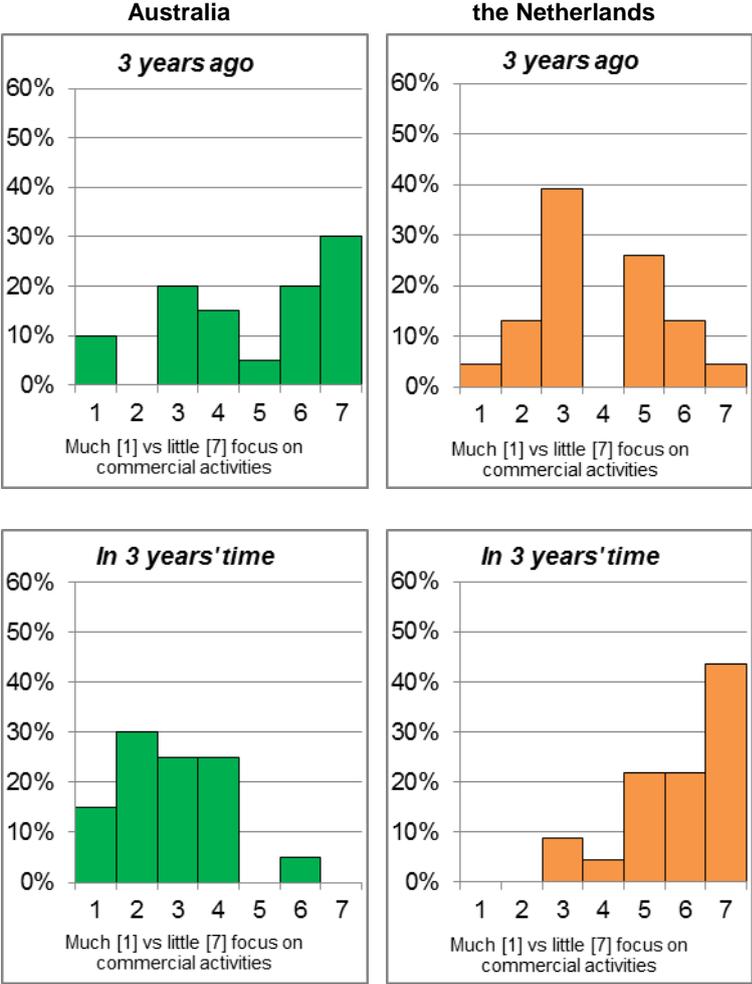


Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

There appears to be a sharp contrast in experience and expectations between Australian and Dutch NFP providers on the extent of engagement in commercial activities (see Figure 11). While the Australian panel expected to place growing emphasis on such activities, the Dutch panel anticipated their decline. This latter trend could be consistent with other changes in the Dutch panel's direction of travel, as providers have looked to reduce risk and to retreat to a focus on the 'core business' of providing for lower income households.

However, we need to keep in mind the vastly different sizes of businesses in the two sectors and recognise that these questions focused on changes rather than absolute positions. Thus the Australian trajectory could be interpreted as suggesting greater ambition for diversification in a much less mature sector.

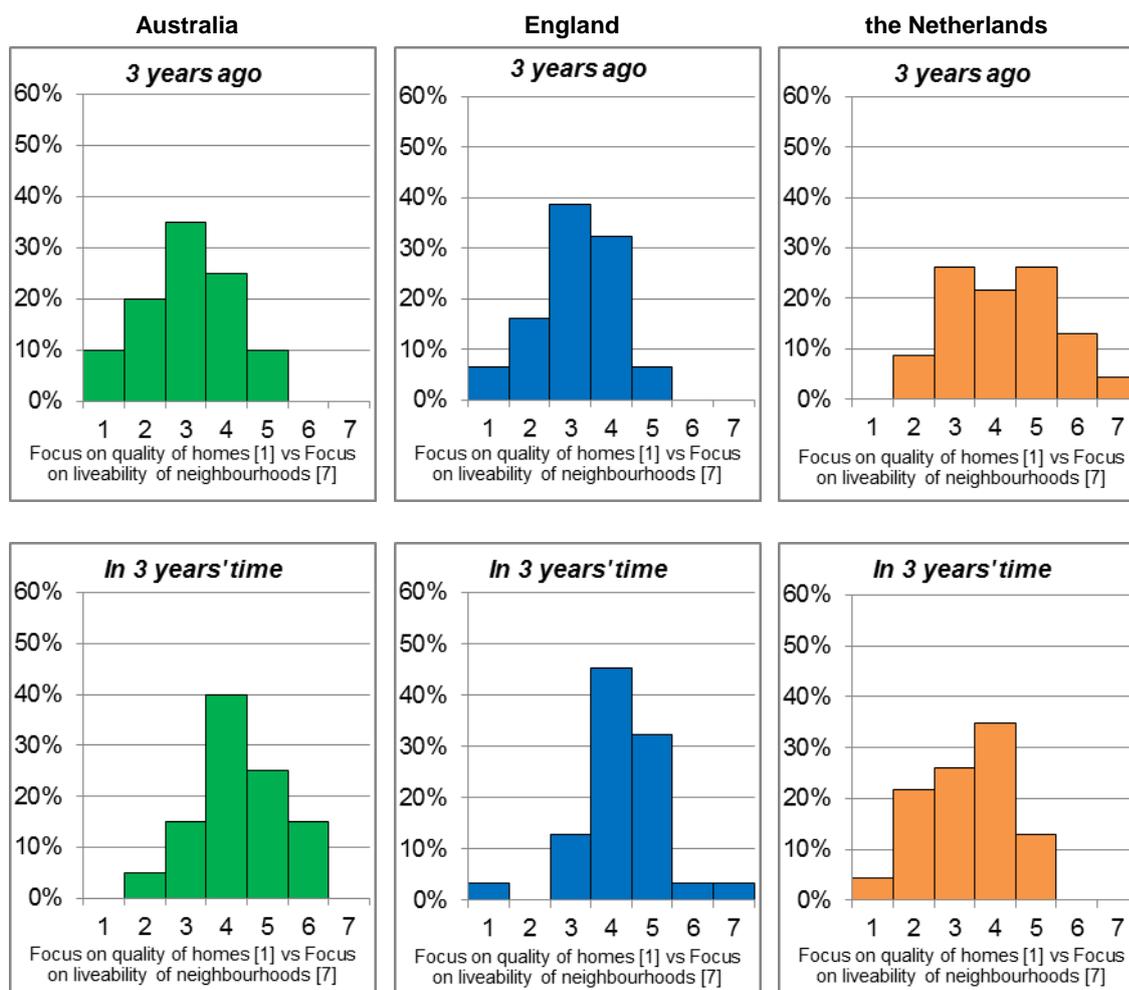
**Figure 11: Much versus little focus on commercial activities**



Note: Equivalent question not included in English survey.  
 Source: 2013 surveys of sampled organisations in Australia and the Netherlands.

In both Australia and England, survey results indicate a tendency to move away from a prime emphasis on quality of homes and toward liveability of neighbourhoods (Figure 12). In Australia this may reflect criteria for public housing transfer tenders. In England it could be part of a wider move to diversification and community investment. The opposite pattern seen in the Netherlands could be interpreted as connected with the sector’s retreat from a wider role in neighbourhood renewal associated with a general ‘shifting back’ in response to the GFC and housing associations’ loss of legitimacy (see above).

**Figure 12: Focus on quality of homes versus focus on liveability of neighbourhoods**



Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

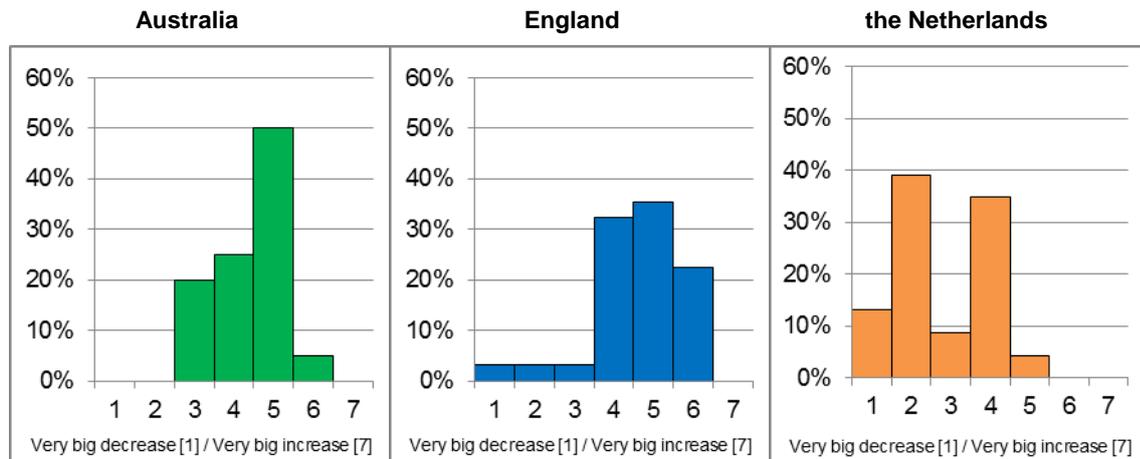
## 6.4 Drivers of change

In this section we select from provider responses to questions about the *perceived degree of change (increase or decrease) in various external factors* in driving organisational strategy and operations in the previous three years.

In Australia and especially in England, most respondents saw opportunities for cross-subsidising social housing from commercial activities as having recently increased (Figure 13). For Australian providers this may reflect increased (or newly initiated) involvement in 'affordable housing' provision for working households (e.g. through NRAS). Results for English HAs could reflect growing diversification into market rental provision (see Section 6.1.2) and a strong requirement for cross-subsidy to compensate for falling development grants (see Section 6.1.3). Moreover, more than four out of five Australian respondents and two-thirds of English participants considered this an important or very important driver of recent strategic and/or operational direction (detailed results not shown here).

Again, the markedly different profile in the Dutch sector could reflect the Dutch Government's response to the European Commission competition ruling requiring providers to re-focus on catering for low-income households (see Section 6.1.3).

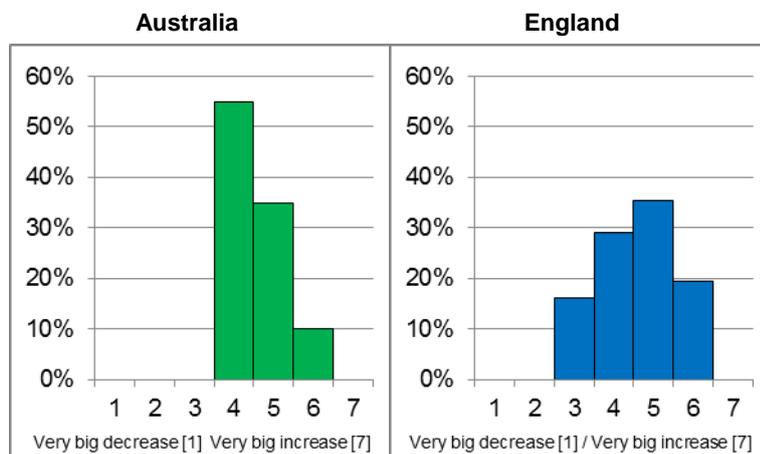
**Figure 13: Perceived change in opportunities to cross-subsidise social housing from other activities**



Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

In both Australia and England around half the panel reported recently increased scope for resident/tenant influence (see Figure 14). In England this might reflect the stepped-up regulatory emphasis on tenant panels under the post-2010 regime (see Section 6.1.3). Nevertheless, for over half of Australian panellists this had remained unchanged. And for 15 per cent of the English panel, the scope for resident/tenant influence had reportedly declined. Moreover, even among landlords claiming enhanced scope for resident/tenant influence, follow-up interviews revealed little interest in community asset transfers (Mullins & Jones 2014). However, in both countries most respondents asserted growing resident/tenant influence to be an important factor driving organisational change (detailed results not shown here).

**Figure 14: Change in scope for resident/tenant influence**



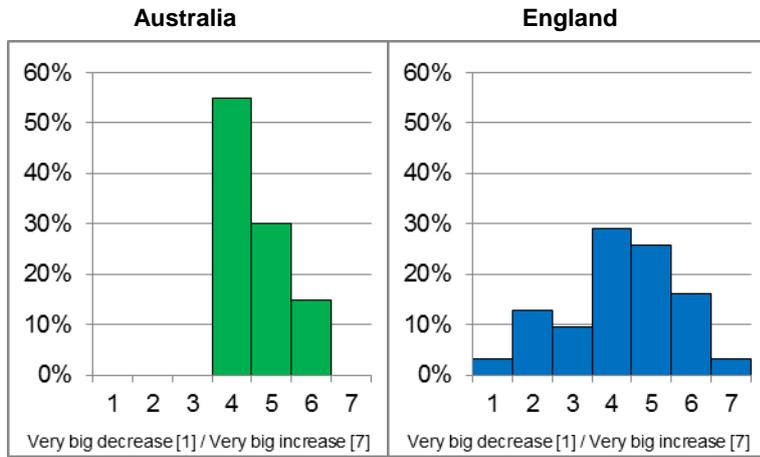
Note: Equivalent question not included in Dutch survey.

Source: 2013 surveys of sampled organisations in Australia and England.

Comparing Australia and England, there was a marked contrast in perceptions of recent changes in the extent of regulatory oversight (Figure 15). In Australia while organisations already subject to regulation expected little or no change, increased regulation was anticipated by others, as adoption of statutory regulation by more jurisdictions impacted on them. Views were much more diverse in the English panel, with around one-quarter of the panel reporting that regulation of business activities had recently declined, while 45 per cent considered that it

had increased. While this might appear paradoxical, it is potentially consistent with the recent regulatory changes outlined in Section 6.1.3.

**Figure 15: Change in government regulation of business activities**



Note: Equivalent question not included in Dutch survey.

Source: 2013 surveys of sampled organisations in Australia and England.

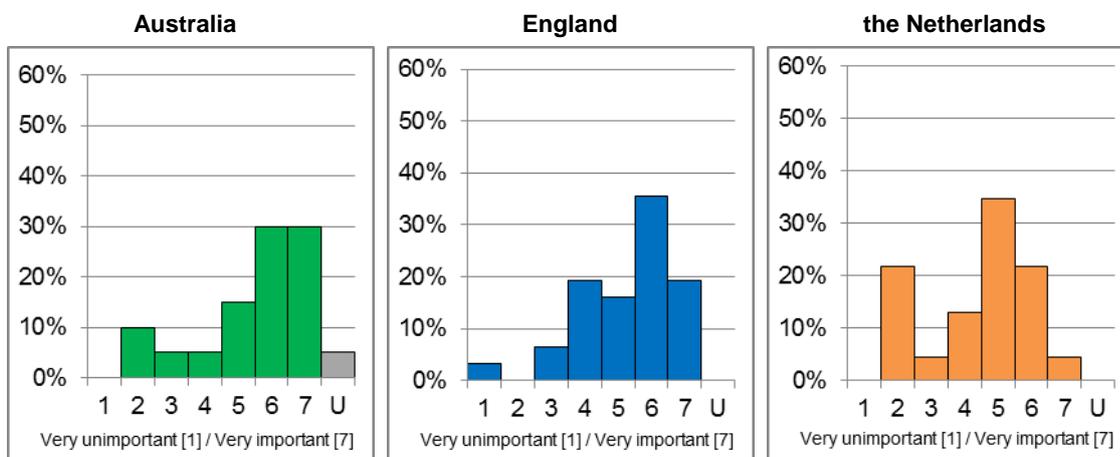
Perhaps of greater significance is that 70 per cent of Australian respondents considered recent change in the extent of regulation to be an important or very important driver of recent strategic and/or operational direction, while this was true of less than 50 per cent of English respondents (detailed results not shown here).

## 6.5 Future strategies

This section draws on questions about recent and possible *future organisational strategies* on the part of surveyed organisations.

There was a trend to convergence between the three panels in regard to the future importance of user involvement in service delivery (see Figure 16). Three quarters of panel members in both Australia and England and well over half of Dutch panellists expected that increased involvement would be an ‘important’ strategy over the next three years. This seems consistent with responses on ‘strategic drivers’ as shown in Figure 14.

**Figure 16: Expected future importance (over next three years) of increased service user involvement in how services are delivered**

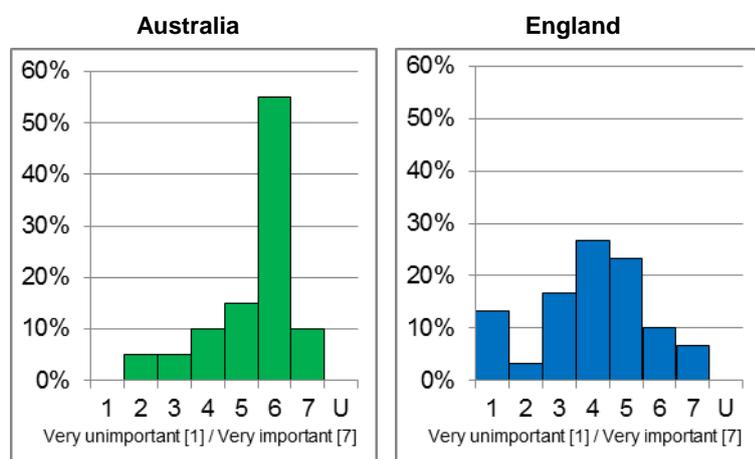


Note: ‘U’ indicates uncertainty.

Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

As shown in Figure 17, three quarters of Australian respondents planned to change allocation and tenant mix over the next three years—moving away from an exclusive focus on the lowest income groups to boost rental income. Among English panellists such expectations were much less evident.

**Figure 17: Expected future importance (over next three years) of enlarging income by changing allocation/tenant mix**

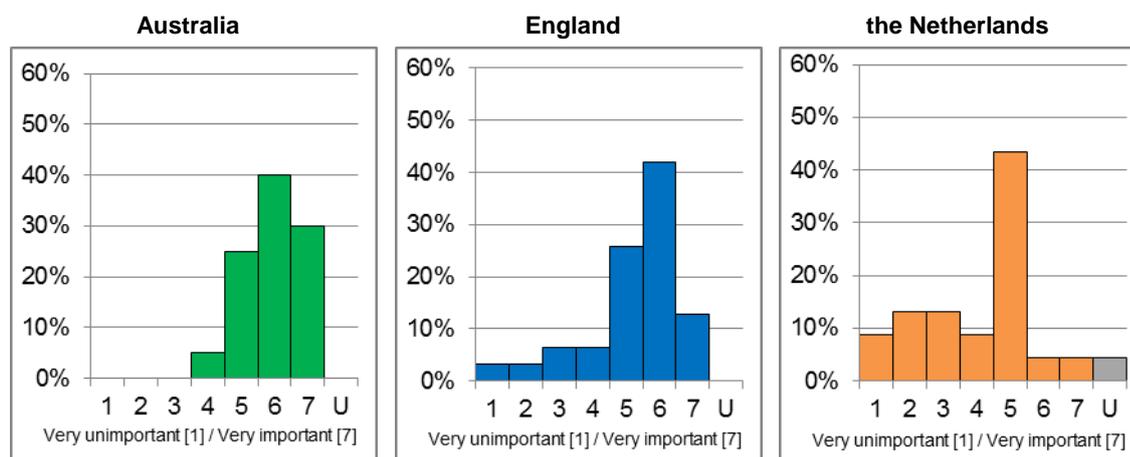


Note: 'U' indicates uncertainty. Equivalent question not included in Dutch survey.

Source: 2013 surveys of sampled organisations in Australia and England.

Most panellists across all three countries anticipated increased diversification into new housing products in the next three years (see Figure 18). However, while almost universal in Australia, this view was substantially less common among Dutch participants. In Australia, more than in the other two countries, this represented a significant shift from the previous three years (detailed result not shown).

**Figure 18: Expected future importance (over next three years) of diversifying into new housing products and services**



Note: 'U' indicates uncertainty.

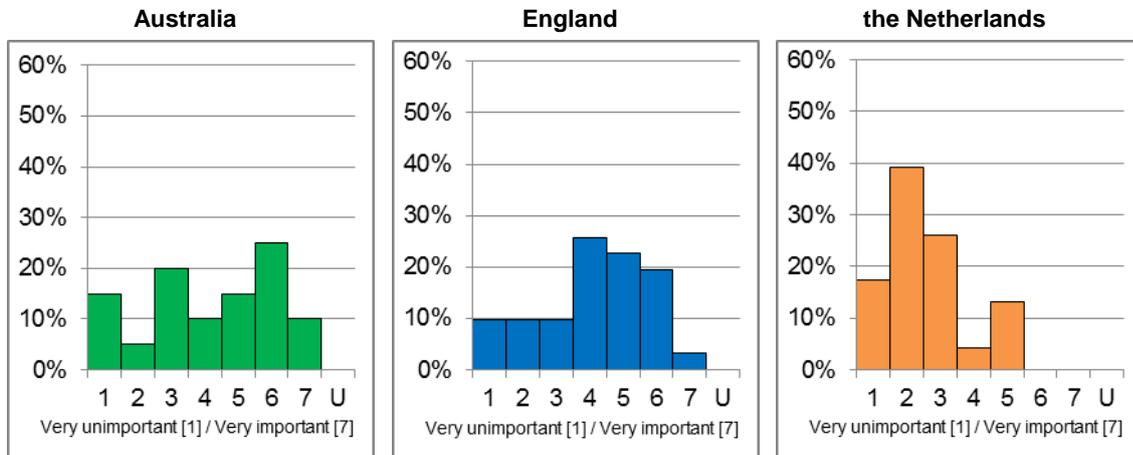
Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

'Diversification into new housing products and services' could involve the development of sub-market 'affordable rental' properties. In a significant shift away from the recent past, the vast majority of Australian and English respondents anticipated involvement in this area in the next three years (detailed results not shown).

Beyond involvement in 'affordable rental', diversification into new housing products and services could include the development of homes for market rent or sale. As shown in

Figure 19, market rental provision was rated an important future area of activity by around half of respondents in both Australia and England, although by only a small proportion in the Netherlands.

**Figure 19: Expected future importance (over next three years) of developing market rental housing**

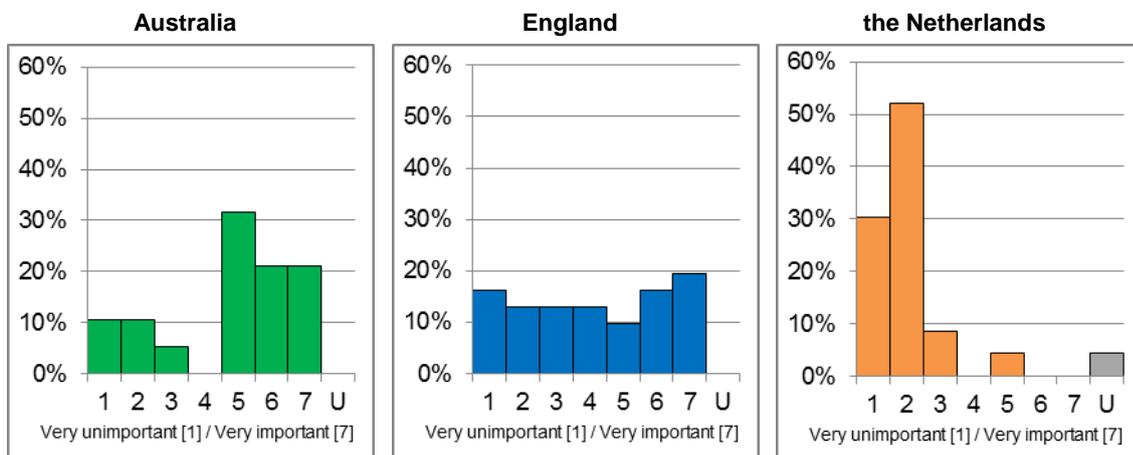


Note: 'U' indicates uncertainty.

Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

Particularly in Australia, a large proportion of respondents also anticipated moving into build for (market) sale in the next three years (see Figure 20). In both the former two countries, responses shifted significantly towards this path, comparing views on the past three years with the next three years (detailed results not shown).

**Figure 20: Expected future importance (over next three years) of developing housing for sale in the unsubsidised market**

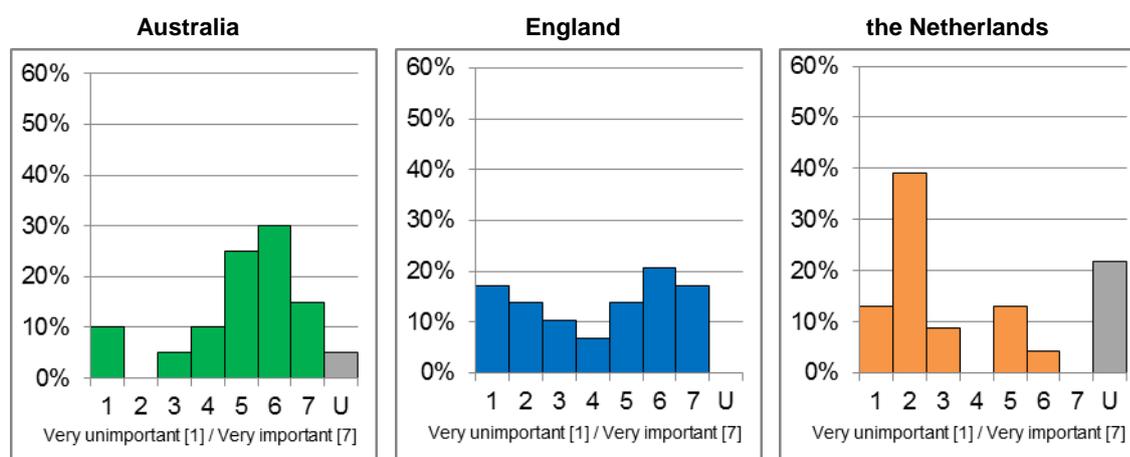


Note: 'U' indicates uncertainty.

Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

Aside from incremental expansion through housing development or acquisition, another growth strategy involves organisational merger. As shown in Figure 21, merger expectations appeared more widespread among Australian respondents than in England and especially the Netherlands. Only 15 per cent of Australian respondents ruled out the merger option, whereas the equivalent proportion for England was about 40 per cent and for the Netherlands, where mergers have been prevalent over many years, 60 per cent.

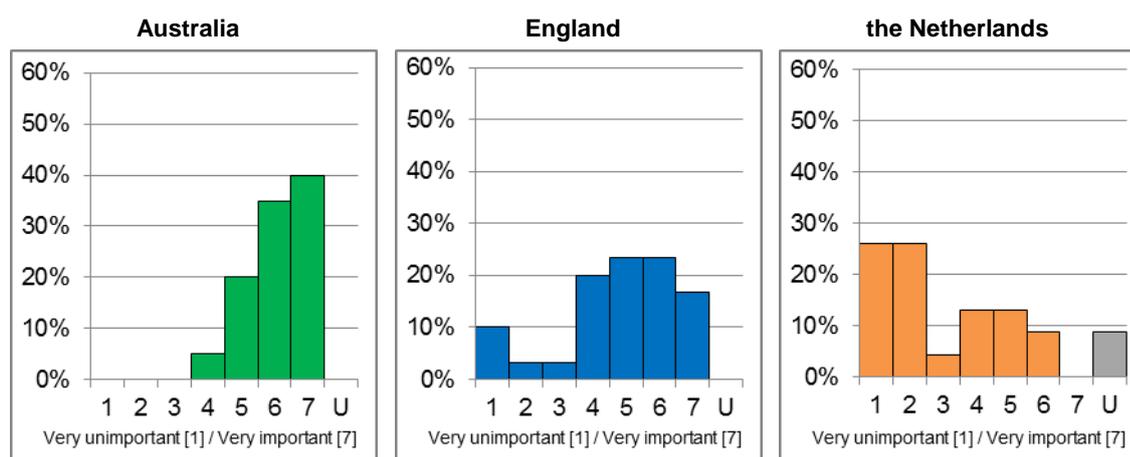
**Figure 21: Expected future importance (over next three years) of merger with another housing organisation**



Note: 'U' indicates uncertainty.

Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands

**Figure 22: Expected future importance (over next three years) of involvement in joint ventures with private sector partners**



Note: 'U' indicates uncertainty.

Source: 2013 surveys of sampled organisations in Australia, England and the Netherlands.

Expectations of involvement in joint ventures were virtually universal across the Australian panel, somewhat in contrast to the pattern of English responses and diametrically different to the Dutch panel (Figure 22). In part, the Australian results may be connected with NFP involvement in NRAS projects and moves into mixed tenure developments, as discussed in Section 4.2.

## 6.6 Chapter overview

In their tendency to align themselves with 'private sector values', Australia's CHOs identified themselves somewhat differently from their English and Dutch counterparts, albeit that a 'socially minded' provider self-image was equally prevalent across the three panels.

In many other respects, despite their very different scales, stage of development and policy context, Australia's leading NFPs appeared to be moving along a similar trajectory to their English counterparts. However, especially in regard to drivers of organisational direction, and anticipated future strategies, panel responses for both England and Australia tended to contrast strongly with those voiced by Dutch HAs. One reading of these observations might be

that (however consciously) Australian CHOs have 'chosen' to follow the path of their counterparts in England rather than that of those in the Netherlands. Certainly, the Australian sector is influenced through strong ongoing links with the English sector, with senior staff transfers a significant factor. An alternative interpretation would be that the pattern results more from the Dutch sector being 'odd man out' due to a particular sequence of problems and retreats resulting from hybridising forces getting out of balance.

In terms of strategic positioning, and in common with England's HAs, Australia's CHOs tended to see themselves as moving towards a more diverse client base and towards a focus on neighbourhood liveability (rather than concentrating exclusively on a low-income clientele and on the quality of homes). In both these respects this generally contrasted with the position reported by Dutch HAs, which have been trying to redress tensions with government concerning the primacy of their social housing function.

Again in similarity with England but in contrast with the Netherlands, perceived scope for cross-subsidising social housing from other activities has been growing among Australian providers. Similarly, the Australian tendency to cite recently growing scope for resident/tenant influence as a driver of organisational direction was also seen in English panel responses. However, with a large majority of Australian respondents identifying recent regulatory changes as an important driver of organisational direction there was some contrast with the English panel where such a view was less prevalent. This was possibly because regulation of English HAs, though subject to recent change, was already deeply ingrained.

With the vast majority of Australian respondents anticipating expanded activity in respect of 'new housing products and services' there was again more similarity with England than with the Netherlands. More specifically, this pattern was seen in terms of diversification into both market renting and development for market sale. However, since few (if any) Australian providers have yet engaged in such activities at any scale (in marked contrast to many of their English and Dutch counterparts), the feasibility of such aspirations has yet to be proven.

In all this, it is essential to bear in mind that—given the sector's very much less mature status—recent and future changes reported by Australian providers are starting from a very different baseline position than that of their much larger English and Dutch counterparts.

## 7 FINDINGS, BROADER OUTLOOK AND POLICY IMPLICATIONS

Addressing the final research question, this chapter considers what the research findings suggest for policy-making and future industry development relevant to housing NFPs in Australia. To put that discussion in the context of the research we begin the chapter with an overview of the main research findings, focusing on the maturity of the leading organisations in the Australian NFP housing industry which, in some aspects, can be compared to the past and present situation of international counterparts. Next, we discuss the key issues and options facing the sector in the medium term future. We then present the implications of our findings for policy-making purposes. This is followed by some brief observations about the evolving characteristics of the NFP model of housing provision in Australia drawing on our research findings and the emerging literature on the potential of such hybrid organisations to achieve public policy goals. We conclude by nominating some directions for further research on this growing sector.

### 7.1 Summary of research findings

By using the self-assessments of a panel of organisational CEOs supplemented by documentary evidence, this and our previous Delphi study have traced decision-making by, and strategic positioning of, a major cohort of Australia's leading NFP housing providers over an eight-year time frame (2008–16). Below we set out two groups of findings respectively concerned with business and organisational developments.

#### 7.1.1 *Business strategies of Australian NFPs*

Since the Wave 1 survey, business strategies of leading Australian NFPs have continued to develop largely in keeping with the directions identified in our previous research (Section 1.1). Below we summarise the main attributes of organisational business development, both continuing and new, and note where appropriate how these compare with those of companion organisations in the Dutch and English sectors.

#### **Diversifying client and product mix**

By 2013 all but a small number of the sampled Australian organisations were offering two core rent products—social housing for eligible high need households and affordable rental housing for a wider group of lower income households. Affordable housing (underpinned by NRAS) had expanded to 10–30 per cent of total housing being managed. Nevertheless, while client bases had broadened somewhat, most panel members continued to assert the primacy of a mission to expand assistance to those on the lowest incomes and the homeless.

Diversification of rent products was, therefore, generally being positioned as providing the means of business growth and for generating cross subsidy, to offset declining government support. In pursuing such strategies, Australian NFPs were venturing along the well-developed paths of housing associations in England and the Netherlands, where housing product mix is an established part of housing association business models, alongside, for many, provision of non-housing activities. However, many in the local sector emphasised that significantly expanding provision accessible to the poorest and most vulnerable households would be very hard to achieve without ongoing targeted government funding.

#### **Housing development**

Most Australian organisations represented had retained a small housing development function although some had wound this back after the cessation of previous government-funded programs. Similarly, some who had borrowed heavily previously to meet government leverage targets, had exhausted their capacity to finance additional development. To help maintain some development capacity, more of the panel than in Wave 1 had tapped into funded

opportunities for delivering specialised supply (e.g. in the disability and aged sectors) and were hopeful of accessing further funding for this, especially under the NDIS (Section 3.2). However, planned housing projects and development pipelines in organisations were generally small and many doubted that this component of their business could be sustained, especially as uncertainty about the continuation of NRAS (a rent supply program) had intensified by the time of our panel interviews.

The situation of Australian NFPs in this regard is quite unlike that of their asset-rich European counterparts, many of whom have maintained large development programs over decades and, despite post-GFC setbacks in sourcing private and public funding, have generally continued to develop new housing, as discussed in Chapter 6.

### **Investment strategies**

Varying somewhat between organisations and jurisdictions, Australian NFP investment strategies generally involved cocktails of government funding (e.g. NRAS) and/or low cost provision of public land, private borrowing and internally sourced capital (from revenue surpluses or asset sales). Since Wave 1, however, more organisations had become involved in mixed tenure developments (sometimes in partnership with a private developer) as a means of securing development profit through selling market-price housing.

In keeping with the evolution of a more commercially-oriented stance among Boards and senior executives and a search for growth funding, several organisations had also pursued revenue-seeking activities that had synergies with their core housing business—especially fee-for-service real estate services (e.g. private rental management, strata management and facilities management).

Bank finance continued to be the main private financing source, supplemented by some investment from retail ('mum and dad') investors that had been stimulated by NRAS. In the absence of a structured financing mechanism to channel lower cost funds to the sector, efficiency and cost issues remained as significant constraints on increasing private financing. While the industry was looking to emulate recent international success in tapping into institutional funding sources, this had yet to occur and, by the time of our research interviews, such prospects were receding because of uncertainty about the future of NRAS. A clear difference to the situation of the English and Dutch HAs in this regard is the absence of government-backed guarantees and specialised fundraising intermediaries (for detailed discussion see Lawson et al. 2014; Lawson 2013).

### **Widening geographical coverage**

The previously identified trend to expansion into new markets had continued with all but three panellist organisations having established operations in multiple locations in 2013. Ten organisations were operating across state boundaries or were poised to do so, a development that was being assisted by the 2013–14 adoption by most jurisdictions of a standardised regulatory model. Exploitation of new business opportunities continued to be the primary motivation for this strategy. As detailed in Chapter 6, even the largest Australian NFPs remain small by comparison with their international counterparts and operate in a much smaller and more dispersed market place.

### **Assessing public housing transfer opportunities**

The search for social housing growth opportunities for Australian organisations has been increasingly focused on public housing transfers. Recent transfers and outstanding tenders have offered recipient NFP landlords quite different business prospects. While some have been largely limited to outsourced property and tenancy management, others have explicitly included the 'place management' of surrounding neighbourhoods. Some, meanwhile, have called for substantial property upgrading and redevelopment or have included sites for additional house building. Also varying has been the extent to which transfers have

incorporated asset handovers and government requirements for leveraging such assets (Pawson et al. 2013). The specific terms of transfer, therefore, directly shape the subsequent business activities of recipient NFPs.

Faced with these possibilities and risks, organisations held quite different positions on their likely responses. For some, the prospect of large scale transfers presented opportunities to grow their social housing management business and to demonstrate an ability to enhance the outcomes for tenants and local communities concerned. For others, interest was more centred on the extent to which they would be able to modernise and redevelop these assets, consistent with the Dutch and English transfer experience over several decades. However, in the current Australian policy and funding context, several panellists remained sceptical about current offer terms and the possible business risks entailed in accommodating large scale transfers of run down public housing stock and high dependency clients.

### **Tenant support activities**

One area of expanding business activity identified across the Wave 2 Australian panel concerned the development of a broader range of tenant services. Typically being funded from organisational reserves or philanthropic sources, such activity was broadly aimed at more holistic responses to tenant support needs and assisting them to become more economically independent. Specific types of activities mentioned included: mentoring and personal development; connecting tenants to education, training and jobs; employment planning; well-being initiatives; place and home-making services; and tenant enterprise initiatives. While present activity levels were limited, panellists were keen to scale up such initiatives, subject to sourcing adequate funding. Therefore, achieving further scale economies and associated efficiency gains were identified as key to this ambition. From similarly small beginnings, investment in community and neighbourhood development had become a major business component in the English and Dutch HA sectors over two decades, generating it seems both financial benefits to organisations and better social outcomes, as discussed in Chapter 6.

Overall, the Australian Wave 2 organisations had more diversified businesses than in 2011. Leading providers have been resourceful and innovative in the face of retraction of government programs and less policy certainty. Nevertheless, core business remained housing-centred with social housing, affordable rentals and mixed tenure being the main products. Business diversification has prioritised achieving scale economies, enhancing capacity for cross-subsidising core services and reducing reliance on limited sources of government funding. However, as revealed by the longitudinal analysis (Chapter 5), 2011 aspirations by several organisations to enter into a wider range of service realms (e.g. home ownership assistance), attract new sources of private finance and expand commercial pursuits had generally remained unfulfilled. Consideration of the trajectories of similar organisations internationally, suggests that such aspirations remain constrained by small scale operations and balance sheets. Another factor appears to be the highly fragmented and ad hoc approach being taken to local industry development by both government partners and the sector itself.

#### *7.1.2 Organisational adaptations*

For the Australian housing panel, the period since the Wave 1 survey (2011) has seen a general slowdown in business growth (following cessation of several government funding initiatives). This change of pace had provided an opportunity for organisations to consolidate their operations. Responding to this changed environment, new regulatory requirements and the aftermath of rapid organisational growth, management focus had clearly shifted to building corporate capacity and business systems as a platform for improving performance and future growth.

In Wave 1 the organisation-building strategies identified by panellists as most important centred on: enhancing governance and executive capacity; developing organisational competencies and risk management skills and procedures, especially those associated with

new financing and development tasks; and managing cultural change arising from both expansion of existing functions and new business directions (Section 1.1).

While such strategies continued to be important in Wave 2 (Chapter 3, Table 8), a number of further major business adaptations have emerged across the organisations represented in the study.<sup>31</sup> These have involved:

- *Internal business systems development and application.* Among recent business development priorities highlighted by panellists, increased investment in IT stood out. All organisations had updated and enhanced their IT systems to improve business knowledge and efficiency and to position for greater operational scale. Enabled by better integrated software, asset assessment and forward planning had also come more to the forefront of organisational priorities.
- *Separation of commercial activities.* Alongside business diversification (discussed above), there was a growing trend to separate commercial business activities into discrete divisions ('commercial arms') with specialist staff and, beyond that, to establish subsidiary governance structures over these. These strategies were aimed at developing specialist expertise, containing risk and meeting compliance requirements for transparency for publicly-supported business and charitable activities (Section 3.3).
- *Building inter- and intra-sectoral relationships.* In their search for alternative business opportunities and non-government funding, organisations had become much more active in collaboration, partnering and alliance-building within their own industry, across the broader NFP sector, and with the private sector. Not-for-profit cross-sector alliances were in the main concerned with provision of tenant services (e.g. care and support, personal development). For-profit partnerships typically involved jointly-funded housing developments. Increased requirements for competitive tendering within the housing NFP sector itself had promoted new alliances or, in some cases, mergers with a view to skills sharing and boosting competitive advantage (e.g. by linking interstate and local players). Alliances with Indigenous housing organisations had also been forged by some organisations.

Concluding this overview of the recent business adaptations of Australia's leading housing NFPs, the evidence suggests overall that, over the past three years, participating organisations had significantly enhanced their independence, capacities, experience and skills. Thus, they were well-positioned for future growth. Partly reflecting our larger Wave 2 sample, but also state differences and a general tendency for third sector diversity, considerable organisational variety remained within our sample in terms of the origins, self-identity and business models of the leading players, as discussed in Chapter 2.

### *7.1.3 Future challenges and opportunities*

What do our research findings mean for the future of the sector? Recognising major uncertainties about their organisation's future business environment, many panellists saw their organisation facing difficult choices and challenges ahead. The research findings show that crucial among these will be the terms under which organisations participate in public housing transfers; how much additional affordable housing supply can be achieved; whether future revenue streams are secure and optimisation of organisational potential.

#### **Engaging in public housing transfers**

While large scale transfers were by far the most likely medium-term growth option, organisational take-up was considered to have major financial and cultural implications, especially:

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<sup>31</sup> Note that the types of business developments described in this section cannot readily be compared to adaptations in the international NFPs studied because those organisations are much more established.

- Whether there would be sufficient control of transfer portfolios to facilitate their efficient and effective operation.
- How they would manage transfers of large numbers of former public housing tenants and staff.

Panellists were generally confident about their organisations' abilities to achieve higher service quality and asset management standards than evident in public housing. They were also mindful of the need to respond positively to government aspirations for transfers. Equally, however, they were bound by corporate governance rules and regulatory requirements to fulfil fiduciary responsibilities and to act with due diligence. Juggling such tensions between social purpose and values, political obligation and commercial viability elucidates a key challenge for contemporary third sector organisations.

### **Supplying additional affordable housing**

A second key issue facing the housing third sector is how to expand Australia's affordable housing stock, in the absence of any ongoing public funding program dedicated to supporting this. Given existing policy settings, larger scale public housing transfers could enable substantial leveraging of additional social/affordable housing dwellings, only if accompanied by additional funding or other incentives—such as planning benefits and discounted land (for analyses of this issue see Pawson et al. 2013; Sphere Consultants 2013, 2010).

Facing an austere public funding environment and strong demand for their services, several organisations were being drawn to pursue a more vigorous social enterprise approach (i.e. seeking additional surpluses to cross-subsidise core business growth).<sup>32</sup> Positioning for this was evident in the creation of new commercial subsidiaries, geographic expansion and business diversification, as discussed above. Assessing the scope for and feasibility of such anticipated profit-making strategies is beyond the scope of this research. However, the recent Dutch HA forced retreat from commercial activities brought about by a combination of a high profile case of financial fraud and subsequent financial loss, reputational damage attributed partly to too much mission creep in the sector, government-imposed tax increases and post-GFC housing market collapse (see Section 6.1.3) evokes a cautionary tale that overreliance on an entrepreneurial model with low government engagement and weak or ineffective regulatory oversight is fraught with political, financial and market risk.

### **Securing revenue streams**

A third looming challenge is the future security of CHO revenue streams. The financial viability of Australian CHOs serving low-income clients is contingent on a government subsidy paid to eligible tenants (Rent Assistance) that compensates CHOs for the low rents otherwise affordable by this client group so they can meet operating costs, maintain assets and service debt. Final plans for 'welfare reform' under the Australian Government have not been disclosed and thus business implications of possible reforms for CHOs are not as yet known. However, there was considerable concern among panellists that resulting changes could undermine business viability (as explained in Section 3.2.1). As noted in Chapter 6, the consequences of similarly conceived post-2010 UK welfare reforms have been forcing major adjustments in the English HA sector with organisations taking a variety of positions (on both activist and operational fronts) in response (see Mullins & Jones 2014). In hybridity terms, this situation has drawn attention to the limits to independence from government that these agencies can achieve and underscored the embedded but fluid nature of their relationship with the state.

### **Optimising the third sector's potential**

While leading Australian CHOs have proved robust and successful to date, and report that they have sustainable businesses going forward, they are not operating at anywhere near optimal

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<sup>32</sup> Although social enterprise terminology was not necessarily used, as discussed in Section 2.3.

scale and have underutilised capacity. This is a challenge for both organisations and policy-makers.

Even the largest Australian NFPs remain small-scale; they lack the historically-derived financial capacity, asset base or market exposure of comparable organisations in countries such as England and the Netherlands; and their experience with a business approach is much more nascent. Hence, hybrid organisational forms and a nuanced approach to social enterprise are only partly developed in the Australian housing third sector.

Our research findings point to specific challenges that need to be addressed in the realms of cost structures and operational efficiencies; development volumes and pipelines; and leverage potential, as expanded on in Table 11 below.

The challenges and opportunities identified above provide the backdrop for the discussion of implications for policy-makers in the next section.

**Table 11: Specific challenges facing the Australian NFP sector and possible responses**

<b>Issues</b>	<b>Underlying drivers</b>	<b>Possible policy and industry responses</b>
Rising costs and inefficiencies	Economies of scale not yet fully achieved No industry cost guidance Lack of organisational control over assets Inefficient processes adding to costs, such as competitive tendering, fragmented fund raising, governments often unresponsive to innovative proposals	Develop industry strategic growth plan Organisational mergers Shared service strategies to reduce costs Develop and publish cost benchmarks to drive industry best practice Enable/encourage more active asset trading/restructuring Investigate alternatives to competitive tendering—e.g. intelligent commissioning <sup>33</sup>
Shallow development pipelines	Most organisations have small balance sheets and limited working capital No dedicated/predictable funding stream to support development High cost of land Initiation of projects ad hoc and complex	Restore a form of government supply side subsidy for affordable housing Support larger NFPs with working capital (revolving fund) Utilise planning system to provide NFP access to a supply of well-located sites for affordable housing development in jurisdictions where this does not apply
Low rates of leverage	Profitability too low to generate much growth Asset base insufficient to provide security for borrowings	Rent and subsidy reform Government guarantee of private financing to reduce its cost. Establish specialised intermediary agency to raise funds at scale. Transfer asset ownership to well performing CHOs

Source: authors based on research findings.

<sup>33</sup> 'Intelligent commissioning' is an alternative form of procurement to lowest cost competitive tendering. While different models operate, the approach is broadly based on commissioning services by engaging local stakeholders in the service specification and procurement process and through commissioning bodies giving consideration to the full value of service offers and their suitability to the people that use them. By matching the skills and expertise of a service provider to local needs, government requirements and desired long-term outcomes, the approach aims to build trust-based and flexible relationships for planning, delivering and evaluating services (Mullins & Acheson 2013; Reshenia Consulting 2010).

## 7.2 Policy implications

Our previous companion study (Milligan et al. 2013a, Section 7.3) outlined a high level proposal for how Australian governments could approach the development of Australia's housing third sector to achieve their housing policy objectives and to help ensure that potential benefits of housing assistance through more diversified and innovative delivery models are realised.

Table 12 below gives an overview of the eight key strategies that we proposed previously to promote an enhanced NFP-delivered social and affordable housing model in Australia and offers a researcher assessment of progress in achieving these (Column 3). Some building blocks for industry development have subsequently been put in place, notably a national regulatory system for CHOs and a national framework for industry capacity building. Overall, however, governments have made little progress in establishing a robust policy and funding framework to underpin the development of a larger and more sustainable housing third sector positioned to support government policy objectives. As discussed in Chapters 3 and 4, while leading industry players have developed their businesses and organisations and continued to demonstrate their potential, they continue to face considerable uncertainty about the future growth path for their organisations. Current operating levels of even the largest organisations are well below optimum and rates of return are too low to leverage satisfactory levels of new business growth and the search for alternative funding (to government) has met with only limited success to date. Further investment in capacity building and business systems cannot be justified to Boards and expected to continue without a firm plan for growth and development of the industry as a whole.

**Table 12: Review of proposed 2013 framework for housing third sector development**

Framework element	Key proposal	Progress 2014
A 10 year co-funding strategy	Australian and state/territory partnership agreement or similar to co-fund affordable housing supply growth and modernisation over 10 years to stimulate private investment and give certainty to NFP business development.	Current national funding arrangements under review. Around 10 000 NRAS rental supply investment incentives cut 2014. Future public funding uncertain. Some specific growth opportunities identified (e.g. NDIS, public housing transfer tenders).
Reform of RA to support private financing	Reform of RA, especially by increasing maximum payment levels. Aimed at assisting access to affordable housing by lowest income households and helping meet costs of private finance.	No changes to RA. RA reform recommended to Australian Government as part of welfare reform agenda (see Section 3.2.1). Reform direction needs to recognise role of RA in NFP sector growth and sustainability.
Enhancing government skills and capacity	Ensuring government agencies understand new NFP delivery models and have capacity to enable steer and regulate industry development.	2013 establishment of national regulatory framework for community housing (NRSCH) (see Section 3.2.2). Some loss of specialist capacity in government through restructuring/dissolution of housing agencies. Absence of dedicated Housing Minister in several jurisdictions to lead policy development. 2013 abolition of intergovernmental coordinating mechanisms (Housing Ministers Conference and Housing Ministers Advisory Council) could hinder national approach.
Joint policy deliberations	Formalise an Industry Government policy advisory body	No formal mechanism. Informal/ad hoc arrangements apply in some jurisdictions.
Developing regional housing plans	Devolved planning process to promote coordination of service planning across multi-provider system, address local needs and access local funding opportunities	No formal method developed
A framework for sector development	A joint government/industry development framework to guide investment in sector/organisational capacity building.	2014 release of <i>National Industry Development Framework for community housing</i> (NRSCH 2014). Intended to underpin the objectives of the NRSCH and to promote industry development in five key areas—governance, risk management and strategic planning; construction and development; finance; regulation; and workforce development. Next step is development of jurisdictional strategies and plans in accord with this framework. NSW framework released (Housing NSW 2014).
Improved information and evaluation	Review of data collection to align with industry directions and to support research, performance monitoring and evaluation.	New performance framework and associated performance indicators for NRSCH introduced 2014 but little information publically available. Scope for future progress impeded by NRSCH non-participation of two major jurisdictions. Other data collections (e.g. via AIHW) not revised. Outcomes monitoring via COAG Reform Council abolished. AHURI research on cost effectiveness of social landlords in progress (see Pawson et al. 2014).

Source: summarised from Milligan et al. 2013a, pp.91–95; Assessment (column 3) by authors.

In broad terms, we consider that policy framing for the industry's future should remain as previously recommended, with emphasis on the need for an integrated medium-term public policy and funding strategy designed to leverage higher levels of private investment and to stimulate appropriate forms of social entrepreneurship while retaining an emphasis on assisting low-income households.

To move this agenda forward we suggest four crucial areas for policy attention:

- Providing financial and planning incentives to support continuity of affordable housing development by large and well-performing NFPs at an agreed scale.
- Developing viable models of public housing asset transfers to NFPs.
- Designing a fit-for-purpose rent regime whereby rent setting and rent subsidies achieve affordability and quality objectives and cover reasonable provider operating and financing costs.
- Facilitating larger scale, lower cost private fund raising for the industry at a national level (e.g. along the lines discussed in Lawson et al. 2014, 2012).

Continuing appropriate and responsive regulation will assist in ensuring proper public accountability, developing performance standards, monitoring financial viability and giving assurance to private investors. Joint government and industry investment in further development of leadership and governance capacities in the sector would also be valuable to support its future performance. Finally, given recent policy volatility, we also consider it highly desirable that specialised legislation is put in place to define clear policy goals; to promote industry visibility and continuity; to ensure there is appropriate transparency and accountability for the future use of public subsidies and assets; and to signal openly to private investor and developer partners the scope and solidity of ongoing government support for the industry.

### **7.3 Evolution of organisational hybridity and social enterprise**

In this penultimate section we return to the concepts of hybridity and social enterprise (introduced in Section 1.3) to make some brief observations about how recent strategic-positioning, decision-making and behaviour in leading Australian NFPs is informed by these ideas and could assist policy development. Here we once again reference the organisational hybridity literature which casts NFP organisations as influenced in some measure by the three poles of 'state', 'market' and 'community' (Billis 2010; Mullins & Acheson 2013).

Applying notions of hybridity and social enterprise to the operation of third sector housing providers evokes a picture of their performance as subject to the influence of a volatile mix of state, market and community drivers. Understanding this is not only crucial to leaders and decision-makers in the organisations themselves but to policy-makers, funders and regulators who play a key part in shaping (or limiting) the future of these organisations.

#### **State versus market?**

The period of organisational development and change spanned by our research (2008–16, including prospective actions) has been shaped so far by rapid business expansion and by significant organisational adaptation and capacity building. At the time of the Wave 1 fieldwork, growth rates among the largest organisations were heavily driven by government funding and by public housing management transfers being directed to selected providers. By the time of the Wave 2 fieldwork, while growth had slowed, the beneficiary organisations had begun generating some of their own expansion by utilising their (limited) assets, revenue surpluses, private finance and the proceeds of various business arrangements forged with a wider mix of government, non-government and market players.

The above trajectory points to a dynamic process of hybridisation similar to that seen in research on housing agencies in countries such as the UK and USA (e.g. Mullins & Jones 2014; Rhodes & Donnelly-Cox 2014; Bratt 2012; Nguyen et al. 2012). Australian players are

being pushed (through retraction of government investment) towards generating new business ventures and the kinds of creative solutions associated with social enterprise models (Mullins et al. 2014). Such a shift also signals the risk that the corporate priority on assisting those most in need could be gradually eroded by the new financial and market imperatives that organisations face.

Yet, the implied CHO transition from 'state directed' to 'market influenced' agencies is in fact a more nuanced process since, alongside the trends described above, organisations have been increasingly under the sway of formal regulation (see Section 3.2.2).

### **'Community' influences**

Beyond state and market drivers, the third pillar argued to shape NFP organisational positioning is the influence of the values and institutions of civil society or 'community drivers' (Billis 2010). Australia's leading housing NFPs have diverse origins and ownership, being formed variously by governments, private sector players, community institutions or parent NFP entities (Gilmour & Milligan 2012). Accordingly, as discussed in Section 2.3, panellists identified their organisations in different ways—aligned with the community housing sector, the larger welfare or NFP sectors, the charitable sector, the housing or real estate industry, as a social profit business or otherwise.

Community engagement and accountability mechanisms also appeared diverse. Some panellist organisations had a large and open membership (some including residents). For most, however, the custodian of organisational values and social purpose was the Board and/or a small group of individual and/or organisational members or shareholders. Some small-scale community investment programs were emerging. But, in general, cultivating community ties and fostering community input had not featured strongly in recent decision-making and behaviour of panellist organisations. Also potentially influential here was the trend away from historic ties to specific localities in the search for growth and scale.

Being more responsive to 'community' is arguably the ultimate rationale for embracing a third sector model of provision. Unless community connections are maintained and nurtured, there is a danger that hybrid organisations may become more dominated by the influence of commercial considerations or prevailing government priorities, tipping the balance away from the influence of community needs and expectations and weakening the influence of community values in the long run.

## **7.4 Further research**

As the importance of Australia's housing third sector evolves, there is a strong case for continuing research into its roles, performance and impacts. Among other benefits, this will assist in keeping policy-makers informed about the development of this arms' length model of housing provision and support their ongoing strategic roles in enabling and regulating the industry.

A particular benefit of the Delphi methodology used in this and our previous research has been the prominence it has given to an 'insider' perspective on the development of this industry and its modus operandi, complementing policy-maker perspectives. The opportunity to apply a common methodology across countries has also extended the value of our initial research, especially by enriching the evidence on the scope for innovation in, and the contemporary challenges being faced by, these kinds of hybrid organisations.

However, as discussed more fully in our first report (Milligan et al. 2013a, p.95), the Delphi methodology also has limitations, especially potential bias arising from over-reliance on the perspectives of panel members. In this study we have attempted to overcome this in a number of ways not previously applied. This included tracking decisions taken against anticipated decisions over time (via the strategic diary entries made by panel members); inquiring specifically into organisational activities in interviews; and through closely scrutinising relevant

documentary evidence to corroborate panel member claims. Having longitudinal data—that is scores on standard survey items taken at two points in time—has also assisted in determining the reliability of panel member assessments.

Going beyond the Delphi approach, there is a case for other forms of research to seek out and build additional evidence on this model, ideally in comparison with other means of delivering social housing, as well as tracking the effects on the sector of changes in government policies and market conditions. Some specific research topics that emerge from the research include: examining the nature of business models, business partnerships, collaborations for neighbourhood renewal, and financing models; measuring public housing transfer outcomes; measuring the costs and benefits of a social enterprise approach; scoping community investment activities and their impacts; and investigating the community connections of housing NFPs. Further research into the industry would be greatly assisted by independent researchers having greater access to information obtained through the regulatory system.

There is also a case for continuing to monitor the kind of matters covered by the now established Delphi survey tool and, by continuing this type of research, maintaining the valuable relationships that have been established with leading NFP CEOs. This could be achieved through having industry funding for a two (or three) year cycle of Delphi surveys (perhaps in abbreviated form to reduce the extent of analysis required) and follow-up interviews. Using the methodology to obtain the perspective of Board Chairs could also be valuable.

While formal monitoring of the sector can be expected to improve through the introduction of the system of national regulation (including the adoption of national evidence guidelines, measures and definitions), wider use of evaluation type research would also be desirable, especially to promote knowledge about diverse and innovative approaches to meeting affordable housing needs that are being generated by the industry and their impacts. (See Milligan et al. 2007 for further discussion of possible approaches to evaluation.)

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# APPENDICES

## Appendix 1: Research methods

Section 1.4 of the report of the Wave 1 study (Milligan et al. 2013a, pp.9–14) provides a detailed account of the research methods underpinning the Australian studies. For the Wave 2 study, variations and adjustments to the methodology reported previously are explained below. These concern changes to membership of the reference group, expansion of the panel of experts, the specific conduct and analysis of the Wave 2 surveys and interviews, and the use of strategic decision diaries.

### *Reference group*

The project reference group formed for the Wave 1 study (see Milligan et al. 2013a, p.14) was retained for Wave 2 to help secure ongoing advice to the research team from stakeholders who were well-informed about the research design and purpose, the changing context for the research and wider developments in the third sector. Following the retirement of the inaugural chair, Professor Peter Shergold (Centre for Social Impact (CSI), UNSW), Les Hems (formerly at CSI), a member of the original group, took over as chair, and Professor Kristy Muir joined the group to continue representation from our research partner, CSI. Other continuing representation included the Community Housing Federation of Australia, PowerHousing Australia, the Australian Government (Department of Social Services), AHURI Limited and Housing NSW (Department of Families and Community Services). Carrie Hamilton, a consultant to the NFP housing sector and an acknowledged expert in housing finance and business models, joined the group replacing Professor Hal Pawson who had moved into the research team for the Wave 2 study.

Reference group members met in February 2014 to consider preliminary findings of the Wave 2 survey and to advise the research team about appropriate themes from their perspective for the follow-up interviews with panel members. They subsequently reviewed the draft Final Report.

### *Expansion of the panel of experts*

Organisations considered for selection in the Australian Delphi studies had to be of sufficient scale (preferably owning and/or managing at least 400 dwellings) and be directly involved in holding assets and financing housing development (i.e. they were not operating solely or largely as tenancy managers, the traditional model in the Australian sector). They also had to be registered housing providers under state/territory housing regulatory systems and, where regulatory tiers existed, organisations had to be registered at the higher levels, reflecting degree of risk. Final selection among suitable participants also took into account a desire to achieve national coverage in the sample.

Creation of a sampling frame and recruitment of original panel members is described in Milligan et al. (2013a, p.12). From the list of organisations obtained through this process, 14 organisations were originally approached to nominate panel members to participate in the study. Consistent with the standard Delphi methodology, the prime selection criterion for panel members was expertise and a position enabling them to be a 'change maker' within an organisation. In the Australian context where organisational profiles were relatively undeveloped, this meant giving preference to an organisation's CEO. CEOs from all organisations first approached in 2011 agreed to join the panel.<sup>34</sup>

At the time of the Wave 1 interviews, the original panel members were asked whether they were willing to continue to participate in the planned follow-up research. Again, all 14 agreed.

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<sup>34</sup> The number of organisations that could be included in each study was based on funding levels for the research.

By the commencement of Wave 2 in 2013, three panel members had left their positions and their successors at the participating organisations were recruited to join the panel.

Recruitment of six additional expert panel members followed the procedure used in the previous study. The core criteria for selecting the additional organisations were the same as for the original recruitment process, but the sampling frame was updated to include organisations that were not functioning at the scale and level of autonomy required in 2011.

Organisations needed to have a perspective of at least three years to be included in either study. For 2013, there were very few new emerging organisations (post-2008) that met the selection criteria. This is probably because, as described in Chapter 3, government-led growth opportunities for housing providers became less certain and more intermittent from 2010 onwards. Therefore, the list of possible additional participants mainly involved previously established organisations that had recently expanded and diversified.

In selecting from the sampling list of organisations that met the core selection criteria, emphasis was placed on extending the national spread of organisations and on reflecting the greatest possible diversity of business models. Important to note in this context is that, while several specialist NFP aged-care organisations and financial intermediaries with a housing function were identified through the process, a decision was made not to select them for the study because the survey topics do not sufficiently align with their specialised business models.

While it would have been desirable to incorporate one or more Indigenous housing organisations in the study, none of the registered Indigenous-run organisations or those identified to us through our extensive enquiries met the base criteria for inclusion, especially in regard to their scale of operations, functional diversity and risk profile. This made the study inappropriate to their situation at this time.

The second step involved recruiting individual participants. This resulted in the successful appointment of six additional panel members, all organisational CEOs, from across five jurisdictions. Each of the new panellists was interviewed in 2013 to obtain baseline information about their organisation, covering organisational history, pathway and mission; governance structure and capacity; business remit and metrics; involvement with NRAS; financing and CEO perceived key business risks and directions. Information on the career background of each new panellist was also requested.

### *The Wave 2 survey*

The Wave 2 survey maintained the scope and structure of that used in Wave 1 (see Milligan et al. 2013a, Appendix 1). The instrument was developed at that time from previous surveys used in England (2003) and the Netherlands (2010) and was adapted to the Australian context using the research team's local knowledge, a review by the reference group and the results of pilot testing with housing NFP CEOs who were not participants in the Wave 1 panel.

A small number of additional questions was added to the Wave 2 instrument. Some additions were designed to increase comparability with the 2013 international survey instruments (see Chapter 6), others reflected what we identified as emerging issues in the domestic context. To maintain a similarly sized survey, some questions that were not analysed in Wave 1 were deleted. To facilitate longitudinal analysis, commonality between the Wave 1 and Wave 2 instruments was optimised and a significant degree of commonality across the 2013 instruments of the four countries conducting surveys was sought to support comparative analysis. The Wave 2 survey is replicated at <http://www.ahuri.edu.au/publications/projects/p71006>.

The online survey was sent to the 20 new and continuing participants on 25 November 2013. By mid-January 2014 responses had been received from all panel members.

### *Analyses of survey results*

Once all panel members had completed the survey, responses were collated and analysed. To address the aims of the study (Section 1.2), three main types of quantitative analyses were undertaken. Each of these involved using the seven-point Likert type survey items that made up the vast majority of the survey elements. Generally, these items measured the relative importance or unimportance of specified strategic actions and change factors, three years ago and now and, in the case of strategic positioning only, three years into the future.

First, the pattern of responses on each scaled item was analysed statistically to show central tendency (median scores) and the distribution of responses (frequencies across the scale), to accord with statistical techniques appropriate to the analysis of Likert data (Boone & Boone 2012). Subsequent qualitative analysis involved examining the degree of importance given to specific items by considering which items were most significant for the panel as a whole. Significance was calculated by combining a count of panellists choosing the two most extreme scores on the importance scale (i.e. representing important or very important). All strategies (survey sections 2 and 4) and change factors (survey section 3) were then ranked according to those which attracted the most panellists to rate them highly. By this method, and in consultation with the study reference group, the highest rated strategic directions and the most important change factors seen to be driving decision-making by the panel as a whole (those nominated by 70 per cent or more of the panel) were isolated. This smaller group of items became the focus of follow-up interviews (see below). In keeping with the Delphi methodology which allows respondents to change their scores having seen the responses of their peers, the analysis was repeated following the interviews using the adjusted scores. The analyses of the 2013 survey findings that are presented in Chapters 2 to 6 are based on these adjusted scores.

Second, to explore change, all scaled survey items common to the Wave 1 and Wave 2 surveys (72% of items) were considered for longitudinal analysis as reported in Chapter 5.

Third, for each of those survey items that were common to one or more international surveys<sup>35</sup> the pattern of responses for the national panels was compared initially by again using a measure of central tendency and graphs of the distribution of scores. That analysis forms the quantitative basis for the findings presented in Chapter 6. Each national research team was then asked to provide commentary on similarities and differences between countries and to postulate reasons for these.

The final section of the survey yielded qualitative information on (up to three) significant decisions that CEOs anticipated being faced with in the next five years—this information is discussed in Section 4.3.

### *Wave 2 follow-up interviews with panel members*

Post-survey interviews with panel members comprise the main qualitative component of the Delphi research methodology. In the second study, 19 follow-up interviews with panel members were conducted by members of the research team between March and May 2014.<sup>36</sup> Interviews lasted for between 1 and 1½ hours and were recorded. Reports of the interviews were written up by the interviewer using their hand-written notes supplemented by the electronic record. This included records of the verbatim quotes that are cited in the body of the report. The topic guide used for the interviews (see Appendix 2) was circulated to interviewees about one week prior to their scheduled interview. The broad purpose of the interviews was to discuss, in the light of the survey results that were also sent to respondents prior to interview,

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<sup>35</sup> There were 69 items common across two or more surveys and 45 were common across all four surveys.

<sup>36</sup> One panel member left the industry in between the survey and interview periods. Seventeen interviews were conducted in person. Two interviews were conducted by telephone due to availability of those panel members at the scheduled time.

the collective view that had emerged from the panel and panellists' individual responses, particularly where these differed from the group as a whole. Panel members were also given the opportunity to adjust their scores having seen the initial results of the survey across the whole panel. Half the panel opted to change some of their scores. The adjusted scores formed the basis for the quantitative analysis presented in this report. As explained in Section 1.4, panellists were asked to explain their positioning on key themes that emerged from the quantitative analysis to give views on the broader outlook for their organisation and the industry as a whole (see questions 15 to 18, Appendix 2). Information to supplement that obtained from documentary analysis (see Chapter 2) was also requested.

### *Strategic diaries*

Since the completion of the 2011–12 field work, we have been monitoring three anticipated strategic decisions facing each of the original 14 participating organisations that were nominated at that time by panel members. This has been done through panellists' completion of diary entries in 2012 and 2013 that tracked changes to the nominated strategic decisions and the reasons that were cited (enablers or barriers) for those changes. The diary results have added another qualitative layer to the research findings about what drove or prevented decision-making and change in participating organisations, as discussed in the body of the report. They also assisted in updating the research team prior to Wave 2 interviews about key developments in each of the original organisations since 2011.

## Appendix 2: Interview Topic Guide

Thank you for participating in this 'post survey' interview.

The purpose of the interview is to discuss in the light of the survey results:

- Your responses—particularly where these differ from the group as a whole
- The collective view that has emerged from the panel.

### 1. Adjusting your responses—second round of Delphi

It is part of the Delphi technique that panellists can adjust their responses based on the views of the panel.

Having reviewed the survey findings (graphs), are there any responses you wish to change?

**Q1** If so, can you please advise us of changes you wish to make and we will adjust your responses (please give details of the question and the new response).

**Q2** For questions where your response still differs substantially from the panel, can you explain why you have expressed this view?

### 2. Discussion of survey findings

#### 2a) Drivers of change

The survey results indicate the 13 most important drivers of change which are both external and internal to the organisations (Table presented).

Looking at these 13 drivers of change and thinking about your organisation:

**Q3** Choose up to three of these *external* drivers that are the most important to your organisation and explain how each has driven change in your organisation.

**Q4** Choose up to three of these *internal* drivers that are most important to your organisation and explain how each has driven change in your organisation.

#### 2b) Adaptation to changes (practical examples)

The survey found broad agreement among panellists about organisational adaptation to changes. 16 strategies were identified which at least 70 per cent of the panel consider are going to be of high or very high importance in the next three years (Table presented). These have been grouped as 'developing products and services'; financial strategies; and organisational processes/relationships.

Looking at the 16 strategies identified as most important by the panel overall:

**Q5** Please select up to three adaptations involving *developing products and services* (highlighted in green) and give examples of what your organisation is doing or planning to do.

**Q6** Please select up to three adaptations involving *financial strategies* (highlighted in blue) and give examples of what your organisation is doing or planning to do.

**Q7** Please select up to three adaptations involving *organisational processes/relationships* (highlighted in pink) and give examples of what your organisation is doing or planning to do.

**Q8** Which of these adaptations do you think will be most important to the success of the sector as a *whole* (up to three)?

### 3. Updates on your organisation

The next set of questions are designed to obtain a picture of current changes that will flow through into the next three years.

**Q9** How have external changes in the last three years affected your organisation's ability to retain staff?

**Q10** Has your organisation undergone an organisational restructure in the last two years or are you currently planning or implementing such a restructure? What drove or is driving this and what are the main changes?

**Q11** Is any consideration being given to mergers/acquisitions—and if so, why?

**Q12** How significant is NRAS to your current business model and what plans does your organisation have for the end of NRAS subsidies after 10 years—(where relevant)?

**Q13** What is the scale of new housing projects in the pipeline? How many projects (and dwellings nos for each) are currently being developed by your organisation? How many are being purchased? How many projects (and dwelling nos) are approved by the Board but not commenced? Under what main program or funding source is each of these projects being developed?

**Q14** Are there any other significant changes that were not reported in your 2013 Annual Report, e.g. change in relationship with parent organisation, success in stock transfer tenders, new services or products, new NRAS incentives, change in private financing, etc.

### 4. Broader outlook

The next questions ask you to reflect more broadly on not-for-profit housing:

**Q15** What sector is your organisation part of (e.g. housing not-for-profit sector; broader not-for-profit sector, church sector, welfare sector, cooperative sector, housing development sector, other)? In answering this question, we are interested in primary and other affiliations.

**Q16** What do you understand by *social enterprise*? Do you see your organisation as a social enterprise? What have you done as a social enterprise? If not a social enterprise, how would you categorise your organisation?

**Q17** What does your organisation need to put in place to ensure a sustainable business for the longer term (5+years)?

**Q18** What do you see as the main barriers for the sector in achieving a sustainable business in the longer term?

### 5. Missing information

**Q19** Note this will be customised for your organisation and will include the following if not already known:

- Number and type of members/shareholders
- Process for nomination or election of Directors
- Remuneration for Directors
- CEO a Director on the Board or CEO Board Chair
- Tenant Director/s
- Other queries

### Appendix 3: Key state level policies shaping developments in the not-for-profit housing sector, 2012–14

Jurisdiction	Policy direction	Status
New South Wales	<p>NSW achieved the broad growth targets in its 2007–2012 strategy <i>NSW Planning for the Future: Community Housing</i> but no further targets have been set.</p> <p>Some planning benefits for the supply of affordable housing were suspended in 2011 pending reform of the state’s planning laws.</p> <p>Asset transfers to NFPs (to enable leverage of additional supply) committed under the SHI were also delayed by two years, following a change of government, but have now proceeded.</p> <p>Homelessness sector reforms (‘Going home staying home’) are designed to shift homeless service provision to a needs-based model (moving away from historic resource allocations) over three years from July 2014.</p> <p>In November 2014 under the ‘Premiers Innovation Initiative’ the NSW Government invited NFPs and the private sector to bring forward new financial models and tailored solutions to support the development and modernisation of social housing (<a href="https://www.nsw.gov.au/innovate">https://www.nsw.gov.au/innovate</a>)</p>	<p>A social housing strategy discussion paper released in November 2014 (NSW Government 2014).</p> <p>2013 draft planning provisions wind back affordable housing provisions.</p> <p>Pre-committed asset transfers for selected NFPs proceed from 2013.</p> <p>Significant restructuring of the homelessness service sector being implemented <a href="http://www.housing.nsw.gov.au/Help+with+Housing/Homelessness/Going+Home+Staying+Home/New+initiatives+to+address+homelessness+in+NSW.htm">http://www.housing.nsw.gov.au/Help+with+Housing/Homelessness/Going+Home+Staying+Home/New+initiatives+to+address+homelessness+in+NSW.htm</a></p>
Victoria	<p>In April 2012 the Victorian Government released two discussion papers concerning the future of the social housing system and options for financing social housing supply with significant implications for the future role of third sector housing organisations (Victorian Government 2012; KPMG 2012b).</p>	<p>A new social housing policy framework announced in 2014, included giving consideration to the transfer of ownership of up to 12 000 public housing tenancies to CHOs (Victorian Government 2014).</p>
Queensland	<p><i>Housing 2020</i> strategy released in 2013 (Queensland Government 2013) included aims for up to 90 per cent of social housing dwellings to be managed by community housing providers; facilitation of 8 to 10 major NFP providers in Queensland (supported by smaller providers); and a target of 12 000 additional social and affordable dwellings to be supplied by NFPs and private providers.</p>	<p>Rolling implementation. Two transfers involving nearly 5000 homes announced.</p>
Western Australia	<p>The 2010–2020 Affordable Housing Strategy, <i>Opening Doors to Affordable Housing</i> (Government of WA 2010) aims to deliver an additional 20 000 dwellings for low and moderate-income earners with an increased role for larger community housing providers.</p>	<p>Initial targets for CHO growth achieved. CHOs providing 20 per cent of social housing in 2014 <a href="http://www.housing.wa.gov.au/strategicplan2020/Pages/default.aspx#modal">http://www.housing.wa.gov.au/strategicplan2020/Pages/default.aspx#modal</a></p>

<b>Jurisdiction</b>	<b>Policy direction</b>	<b>Status</b>
South Australia	The Housing Strategy for SA 2013–2018 (Government of SA 2013) builds on previous directions in planning and housing policy developed since 2005 (see Milligan et al. 2009). It has a target to increase community housing's share of social housing from 13 per cent to 27 per cent through new supply (via future take up of NRAS and state stimulus investment) and public housing management transfers. There is an emphasis on supporting the capacity and growth of larger NFP providers and a proposal to establish a specialist disability housing services provider.	First tenders for 1000 public housing transfers active.
Tasmania	The Better Housing Futures strategy 2012 centred on transfer of 3500 public housing dwellings to NFP management but also included development sites to be allocated to successful NFP organisations for additional housing supply (Government of Tasmania 2013).	Outcomes of tenders announced in 2013 and 2014 and dwelling transfers proceeding.
Northern Territory	The NT Government's four-year Real Housing for Growth Plan was announced in February 2013 <a href="http://www.housing.nt.gov.au/housing_choices">http://www.housing.nt.gov.au/housing_choices</a> . It supports development of 2000 affordable housing dwellings for rental and sale through private sector partnerships. A 2012-established NFP affordable housing company, Venture Housing, is a government-supported local vehicle for delivery of affordable housing. A specific issue in the NT concerns the future management of remote Indigenous housing with both Indigenous and mainstream NFP organisations potentially having a larger role.	Under implementation.
Australian Capital Territory	The ACT Government continues to implement its 2007 Affordable Housing Action Plan (ACT Government 2012; 2007). This supports the growth of the government-founded special purpose NFP company, CHC Affordable Housing Limited. The third phase of the Plan was released in 2012. Within an overall emphasis on increasing delivery of affordable rental housing, one action is to achieve further growth in the third sector through transfer of surplus government properties (other than public housing) or land to CHOs for development as affordable housing.	Ongoing.

## **Appendix 4: Additional data**

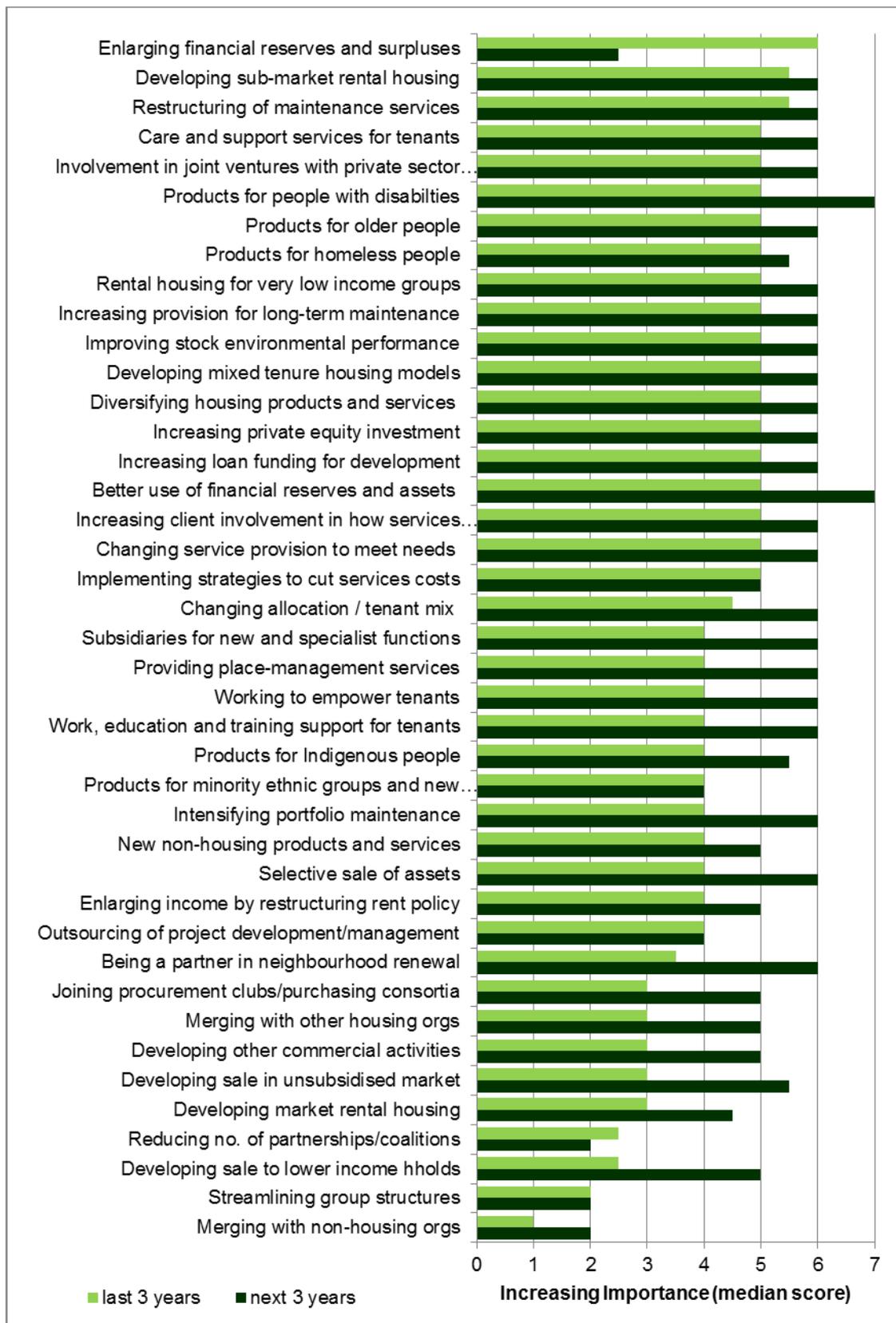
This appendix contains more detailed information related to some of the findings discussed in Chapters 4 and 5.

### *Additional data for Section 4.2: strategic positioning Wave 2*

Figure A1 below illustrates positioning on all 41 organisational strategies listed in the Wave 2 Australian panel survey. In that survey respondents were asked to score the importance to their organisations of each of these strategies firstly, as ways of adapting to changes they had experienced over the last three years and secondly, as anticipated responses to changes they were expecting in the next three years.

Reading down the figure, the results have been arrayed from those strategies considered across the panel as of most important (highest median scores) to those rated of least importance (lowest median score) in the previous three years at the time of the Wave 2 survey. Importance scores for the next three years are shown second alongside of each strategy.

**Figure A1: Importance of nominated strategies over the past three years and for the next three years (median scores)**



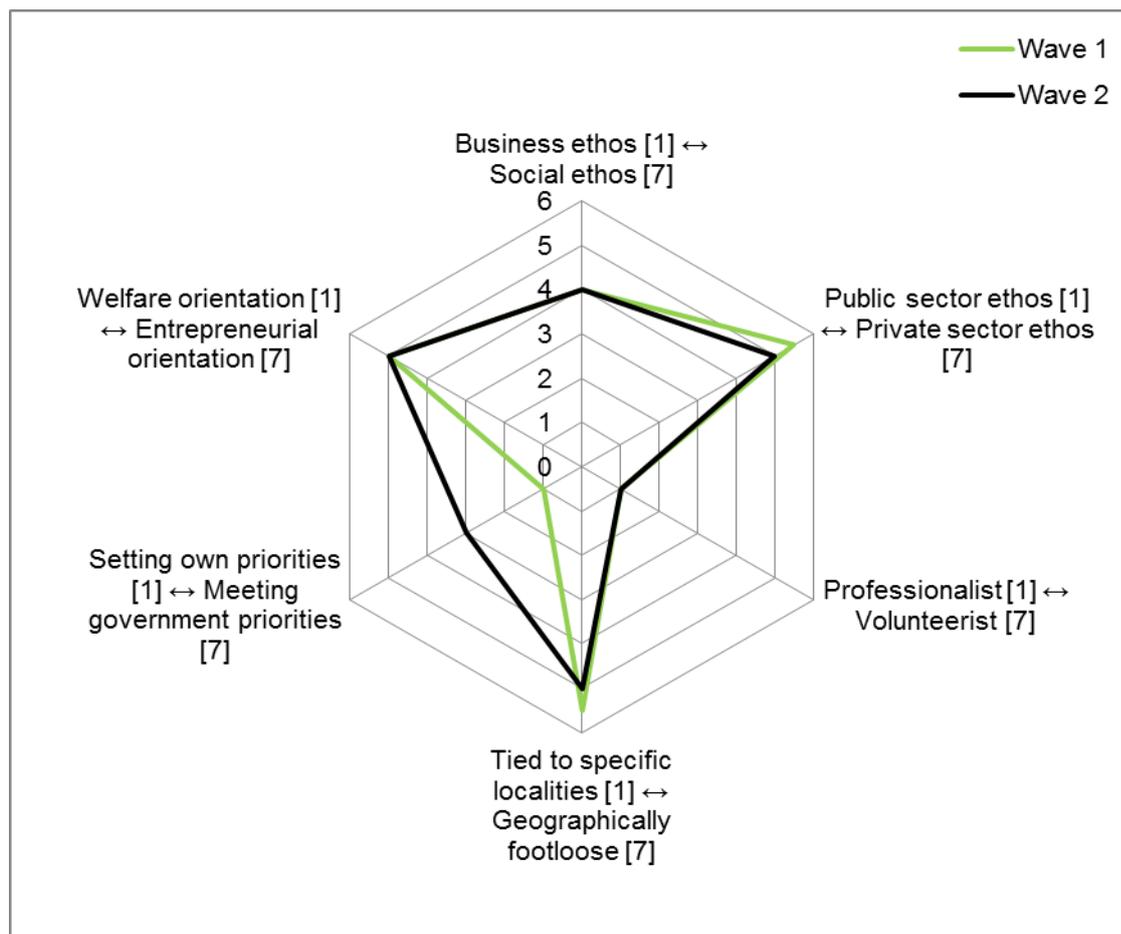
Source: 2013 Australian Panel Survey

*Additional data for Section 5.1: change in values Wave1–Wave 2*

Figure A2 presents median scores for the two survey waves with respect to the values of the organisation.

To interpret the figure presented, respondents were given pairs of values and were asked to evaluate, on a seven-point scale, ‘the extent to which one value is currently more central to the core values of your organisation than the other’. Lower scores indicate the value proposition shown on the left was more important, while higher scores indicate stronger identification with the value stance on the right. A score of four indicates that neither one nor other value prevailed.

**Figure A2: Median values scores between Waves 1 and 2**



Source: 2011 and 2013 Australian panel surveys

*Additional data for Section 5.2: change in strategic positioning Wave1–Wave 2*

In the strategic positioning section of the surveys, organisations reflected on their priorities in the past (three years ago), what they were *now*, and predicted what they would be in the *future* (in three years’ time). Thirteen matched pairs of strategies (Column 1 Table A1) were presented to respondents in both the Wave 1 and Wave 2 surveys. Table A1 indicates the extent to which Wave 1 predicted changes of priorities over the next three years were realised in terms of *actual* change experienced between the two surveys, a period of about two years.

**Table A1: Summary of predicted and actual changes in strategic positioning**

<b>Strategies</b>	<b>Predicted change next three years at time of Wave 1 survey</b>	<b>Actual change—Wave 2 current position</b>
Low income only vs. low and moderate income	Towards both low and moderate income	Towards low income only
Financial performance vs. social return	Slightly towards financial performance	Slightly towards social return
Accountability to regulators vs. accountability to other stakeholders	Towards regulators	Slightly towards regulators
Home quality vs. neighbourhood liveability	Towards neighbourhood liveability	Slightly towards home quality
Rental housing vs. home ownership	Towards home ownership	Effectively no change
Developing new products and services vs. improving existing products and services	Towards developing new products	Effectively no change
Housing activities vs. non-housing activities as well	Towards non-housing activities	Effectively no change
Using own assets vs. managing assets for another owner	Towards using own assets	Towards managing assets for another
Purchasing housing in the market vs. developing own housing	Effectively no change	Effectively no change
Focusing on specific localities vs. not limited to specific localities	Away from specific localities	Towards specific localities
Growing mainly through stock transfer vs. other processes	Slightly towards stock transfer	Towards stock transfer
Funding through private finance vs. public and philanthropic finance	Towards private finance	Effectively no change
Attracting specialist staff vs. outsourcing specialist advice	Effectively no change	Effectively no change

Source: 2011 and 2013 Australian panel surveys

### *Additional data for Section 5.3: change factors and their importance Wave 1–Wave 2*

In Section 3 of the surveys, organisations were asked to rate the change factors that could influence the ways in which their organisation fulfils their tasks. For each factor, respondents were asked: 1) How big a change (or increase or decrease) there was in the last three years (for the change factor in question); 2) How important was the factor as a driver for change in the way that the organisation fulfilled its tasks in the last three years.

As the survey scales used differed between the two Waves for the 'change' questions, direct quantitative comparisons were not possible.<sup>37</sup> Instead, we compared rankings of change factors in Waves 1 and 2, both in terms of the size of the change factor experienced by organisations over the last three years (see Table A2) and the importance of the change dimension for the organisation over the last three years (Table A3).

<sup>37</sup> The direction of change (whether there had been an increase or decrease in importance of a factor) was not asked in the Wave 1 survey and this proved to be a limitation for the subsequent analysis.

**Table A2: Size of increase/decrease in the change factor over the last three years: highest and lowest ranked change factors Waves 1 and 2**

<b>Wave 1: Six largest change factors</b>	<b>Wave 2: Six largest change factors</b>	<b>Wave 1: Six smallest change factors</b>	<b>Wave 2: Six smallest change factors</b>
<i>Influence of Federal Government</i>	Executive leadership	<i>Influence of local government</i>	<i>Taxation of the not-for-profit sector</i>
<i>Investment in IT</i>	<i>Investment in IT</i>	<i>Percentage of revenue from sale of homes</i>	<i>Percentage of revenue from sale of homes</i>
<i>Geographical area(s) of operation</i>	Influence of state government	<i>Taxation of the not-for-profit sector</i>	Planning benefits for affordable housing
Organisational structure	<i>Geographical area(s) of operation</i>	Availability of suitable land for project development	<i>Scope for resident/tenant influence</i>
<i>Rules about allocation of dwellings</i>	<i>Influence of Federal Government</i>	<i>Public attitudes towards housing developments</i>	<i>Public attitudes towards housing development</i>
Use of assets to develop business	<i>Rules about allocation of dwellings</i>	<i>Scope for resident/tenant influence</i>	<i>Influence of local government</i>

Note: *Italics*: change factor occurs in the list for both Waves.

For the purposes of this table—to highlight the smallest and largest factors—items were ranked by mean score from highest to lowest.<sup>38</sup>

Source: 2011 and 2013 Australian panel surveys

**Table A3: Importance of the change factor over the last three years: highest and lowest ranked change factors Waves 1 and 2**

<b>Wave 1: Six most important change factors</b>	<b>Wave 2: Six most important change factors</b>	<b>Wave 1: Six least important change factors</b>	<b>Wave 2: Six least important change factors</b>
<i>Financial competency</i>	Investment in IT	<i>Percentage of revenue from sale of homes</i>	<i>Percentage of revenue from sale of homes</i>
Influence of Federal Government	<i>Financial competency</i>	Taxation of the not-for-profit sector	<i>Influence of local government</i>
<i>Geographical area(s) of operation</i>	<i>Influence of state government</i>	<i>Influence of local government</i>	<i>Building cost level</i>
Board priorities	Rules about allocation of dwellings	<i>Building cost level</i>	Public attitudes towards housing developments
<i>Influence of state government</i>	Qualitative housing demand	Qualitative housing demand	Collaboration among not-for-profit housing providers
Use of assets to develop business	Executive leadership	Scope for resident/tenant influence	Competition among not-for-profit housing providers

Note: *Italics*: factor occurs in the list for both Waves

For the purposes of this table—to highlight the most and least important change factors—items were ranked by mean value from highest to lowest.

Source: 2011 and 2013 Australian panel surveys.

<sup>38</sup> Use of the median as a measure of central tendency resulted in a large number of survey items having similar median scores. For Tables A2 to A4 a mean was calculated to further differentiate between these items. While this is not a robust measure of central tendency for Likert scale data (Boone & Boone 2012), it can be taken as a rough guide to inform further interrogation of the results.

*Additional data for Section 5.4: adapting to change Wave 1–Wave 2*

In Section 4 of the surveys, strategies were presented to respondents for review with respect to whether they may or may not have enabled the organisation in question to adapt to recent changes. For each strategy listed, the respondent CEO was asked to rate the importance of the strategy in their organisation’s ability to adapt to changed circumstances in both the last three years and the next three years.

Table A4 compares the eight most important strategies for the next three years at the time of each of the Wave 1 and Wave 2 surveys.

**Table A4: The eight most important strategies in the next three years—Wave 1 and Wave 2 compared**

	Wave 1	Wave 2
Being involved in a larger number of partnerships and coalitions concerning care and support services for tenants	✓	✓
Increasing private equity investment	✓	✓
Involvement in joint ventures with private sector partners	✓	✓
Making greater use of financial reserves and assets	✓	✓
Developing and adapting products and services to meet the needs of specific population groups <sup>1</sup>	✓	
Developing successful models of mixed tenure housing	✓	
Increasing loan funding for housing development/redevelopment	✓	
Seeking assets and/or revenue to secure further housing development	✓	
Developing sub-market rental housing		✓
Developing and adapting products and services to meet the needs of people with disabilities		✓
Enlarging financial reserves and surpluses		✓
Providing place-management services		✓

<sup>1</sup> In Wave 2, this question was split into four questions to differentiate the special needs groups of minority ethnic groups and new migrants, homeless people, older people, and people with disabilities. In Wave 2, developing and adapting products and services to meet the needs of people with disabilities emerged among the strategies of highest importance, as shown.

Source: 2011 and 2013 Australian panel surveys

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